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Issue Brief
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# For the Health of Kids and the Economy
## Economic Impacts of the Healthy Kids Plan

by Richard Sims[1], Janet Bauer and Charles Sheketoff

The new federal funds that would flow to Oregon as a result of the proposed Healthy Kids Plan would significantly boost the state's economy and would increase personal incomes.

Over the next four years, the influx of new federal funds would create an estimated 2,000 new jobs, increase Gross State Product by $272.6 million, and increase personal income by $284.3 million (Table 1). The health care industry sector is expected to experience the largest increase in jobs.

Economic activity from the new federal funds will also result in a small increase in state and local tax revenues. State and local revenues will increase by $22.6 million over the next four years.

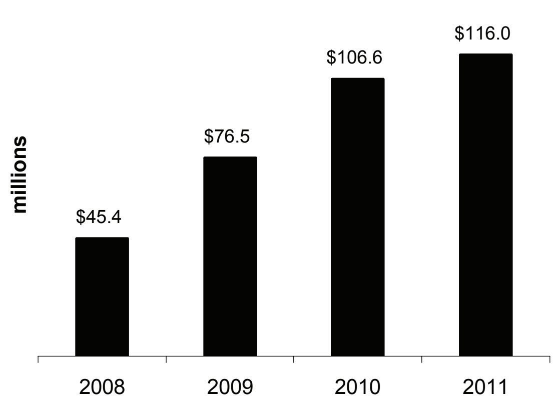
**Table 1: Summary of the major economic impacts for Oregon of enacting the Healthy Kids Plan**

| | 2008 | 2009 | 2010 | 2011 | Four-year total |
|---|---|---|---|---|---|
| New jobs | 800 | 1,400 | 1,900 | 2,000 | 2,000 |
| GSP growth (millions) | $36.4 | $60.4 | $84.3 | $91.5 | $272.6 |
| Personal income gains (millions) | $34.7 | $61.1 | $88.3 | $100.2 | $284.3 |

Source: Oregon Center for Public Policy

## The Healthy Kids Plan would leverage more federal funds

**Figure 1: The Healthy Kids Plan would attract millions of new federal dollars to Oregon**




Source: Oregon Dept. of Human Services

The Healthy Kids Plan proposed by Governor Ted Kulongoski and under consideration by the Oregon Legislature would offer health coverage to all of Oregon's 116,000 uninsured children. The Plan would use state dollars to leverage federal funds to expand participation by children in the state's Medicaid and State Children's Health Insurance Program (SCHIP) for families with incomes up to 200 percent of the federal poverty level, and to expand school-based health centers.[2] In addition, families with incomes above 200 percent of the federal poverty level would be able to buy into a private insurance plan on a sliding scale.

Over the next two biennia, the Healthy Kids Plan would attract substantial new dollars to Oregon. According to the Governor's proposed budget, the Oregon Department of Human Services anticipates total new federal Medicaid funds totaling $45.4 million for 2008; $76.5 million for 2009; $106.6 million for 2010; and $116.0 million for 2011 (Figure 1).[3]

**Study Methodology**

The focus of this analysis is on the economic impacts arising from the influx of new federal dollars over the next two biennia. This analysis does not measure the effects resulting from increased state health care spending and assumes that the increase in state support, regardless of whether it is created by an increase in tobacco revenues or some other revenue source, provides no *net* economic impact directly since the state funds would either be spent elsewhere by taxpayers or by the state. The new federal matching funds that would be generated by the Healthy Kids Plan, however, represent new dollars coming into Oregon's economy. It is expected that the new federal funds will be spent in a pattern similar to current child health funding.

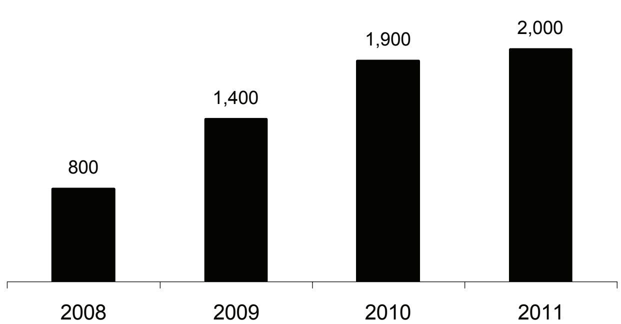
The new federal funds expected to be generated as a result of the Healthy Kids Plan were entered into an econometric model created by Regional Economic Models, Inc. (REMI). The REMI model determines the overall effects of health care funding on Oregon's economy. These include the direct effects related to the health care industry, the indirect effects on suppliers and service providers, and the more general effects that result from the expanded levels of income and employment in the state.

The econometric model takes into account wage and industry sector dynamics. For instance, an increase in demand for health care pushes up wages in that sector attracting more workers and resources to that activity. Some non-health care-related industries will benefit as the new health dollars add to the demand for their own business and products. At the same time, other industries will experience some negative consequences as wage pressures rise and demand for resources they rely on goes up as well.

The REMI model contains highly detailed data on the structure of the Oregon economy and the economic linkages between the various components that make up that economy. The REMI model is a computable general equilibrium model and is used by several states to analyze the impact of public policy measures, economic trends and developments, and the consequences of changes in federal legislation.[4]

## The influx of federal dollars would create jobs in Oregon

**Figure 2: The Healthy Kids Plan would produce 2,000 new jobs in Oregon by 2011**




Source: Oregon Center for Public Policy

As a result of expanded federal funding stemming from the Healthy Kids Plan, employment in Oregon would increase by 800 jobs in 2008 – the first full year of the program. In the second year of implementation, employment would rise by 1,400 jobs over the level otherwise expected that year. In 2010, the additional Healthy Kids funding would produce 1,900 new jobs. In 2011, the final year covered by the analysis, there would be 2,000 new jobs in the state as a result of the program (Figure 2). These figures reflect the annual employment levels above the level that would have occurred without the new program funding in place for a given year.

| Table 2: Employment gains in the health care sector | | | | |
|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2011** |
| Offices of health practitioners | 170 | 283 | 391 | 425 |
| Nursing and personal care facilities | 65 | 106 | 145 | 157 |
| Hospitals | 117 | 192 | 260 | 279 |
| Other health services | 39 | 66 | 92 | 102 |
| **Total – health care sector** | **391** | **646** | **888** | **962** |

Source: Oregon Center for Public Policy

As would be expected from a program that expands health coverage, the major employment impacts would be found in the health care industry, which would see a gain of 962 jobs by the end of the fourth year. The offices of health practitioners would see the largest single employment gains, followed by hospitals, nursing and personal care facilities, and finally other health services (Table 2).

To put these Healthy Kids-related job figures in the context of the broader economy, only ten private companies in Oregon (with the exception of hospitals and universities) employ 2,000 or more workers, according to a recent survey.[5] Viewed in this light, the employment impact of the Healthy Kids funding is indeed significant.

Of the major health care occupations, health practitioners engaged in diagnosing patients would be the largest beneficiaries, followed by health care support occupations, and then by other health professionals and technicians (Table 3).

| Table 3: Employment gains in major health care occupations | | | | |
|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2011** |
| Diagnosing and treating practitioners | 104 | 171 | 236 | 256 |
| Other health professionals and techs | 62 | 102 | 141 | 153 |
| Health care support occupations | 87 | 144 | 199 | 217 |
| Total – major health care occupations | **252** | **418** | **576** | **626** |

Source: Oregon Center for Public Policy

The health care sector is not the only sector that would experience a significant employment impact. In fact, the 962 new jobs in the health sector in 2011 account for less than half of the 2,000 total new jobs in the state that would be created because of the expanded program. Other sectors that would see an expansion in employment due to the new health funding include non-health care-related business and professional services, with 221 new jobs in 2011, and the education, non-profit and government sectors, with 129 new jobs that year (Table 4). The remaining job gains are spread throughout the Oregon economy.

| Table 4: Employment gains in selected non-health care business and professional services | | | | |
|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2011** |
| Advertising | 2 | 3 | 4 | 4 |
| Services to buildings | 4 | 6 | 9 | 9 |
| Misc. equipment rental and leasing | 2 | 3 | 5 | 5 |
| Personnel supply services | 27 | 44 | 61 | 66 |
| Computer and data processing services | 14 | 23 | 32 | 35 |
| Miscellaneous business services | 13 | 21 | 28 | 31 |
| Legal services | 7 | 11 | 16 | 17 |
| Engineering and architectural services | 6 | 10 | 14 | 15 |
| Research and testing services | 3 | 5 | 6 | 7 |
| Management and public relations | 8 | 13 | 18 | 19 |
| Accounting, auditing, and other services | 7 | 11 | 15 | 16 |
| **Total** | **90** | **147** | **203** | **221** |

Source: Oregon Center for Public Policy

The 129 new jobs in the education, non-profit, and state and local government sectors in 2011 will result from a variety of factors. Some of the new jobs will result from increased demands directly related to supporting an expanded health care sector such as the increased need for health care education and training services provided by universities and community colleges, and for child care services for parents gaining new employment. Some of the new jobs would be filled by workers moving to the state who would create new demand for services provided by primary and secondary education systems and by a variety of non-profit organizations and government agencies. More detail on the job impact of Healthy Kids on these sectors appears in Table 5.

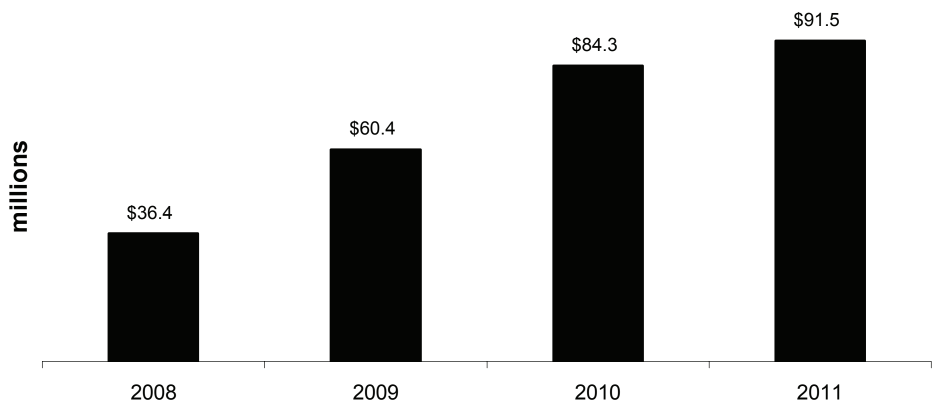
| Table 5: Employment gains in education, non-profit organizations, and government | | | | |
|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2011** |
| Educational services | 12 | 19 | 26 | 28 |
| | | | | |
| Individual and misc. social services | 3 | 6 | 8 | 8 |
| Job training and related services | 2 | 4 | 5 | 6 |
| Child day care services | 3 | 5 | 7 | 7 |
| Residential care | 5 | 9 | 12 | 13 |
| Museums, botanical, and zoo | 0 | 0 | 0 | 0 |
| Membership organizations | 7 | 11 | 15 | 17 |
| | | | | |
| State and local government, non-educational | 11 | 26 | 41 | 49 |
| **Total** | **44** | **80** | **116** | **129** |

Source: Oregon Center for Public Policy

## Gross State Product would grow as a result of the new funds

Gross State Product (GSP) – a measure of the value of all goods and services produced in the state – is a common and useful way of gauging the state economy. With the new funding in place, Oregon's GSP would increase by $36.4 million in 2008, with the increase rising to $60.4 million in 2009, then to $84.3 million in 2010, and finally to $91.5 million in 2011 (Figure 3). Oregon's Gross State Product is estimated to increase over the four-year period by $272.5 million.

**Figure 3: The Healthy Kids Plan would produce substantial gains in Oregon's Gross State Product**

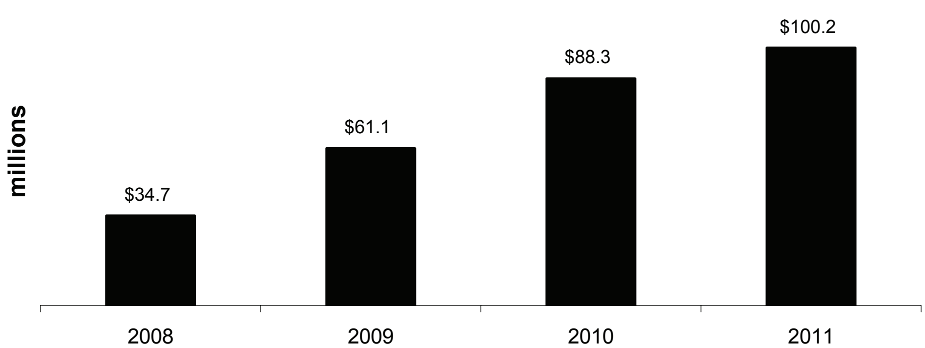



Source: Oregon Center for Public Policy

## Oregonians would see gains in personal income

The overall personal income of Oregonians would be higher as a result of the new funding. Personal income would rise in 2008 by $34.7 million. For 2009, the increase above the current baseline would be $61.1 million. In 2010, the added personal income would be $88.3 million. And in 2011, personal income would be higher by $100.2 million (Figure 4). Personal income of Oregonians over the full four-year period would be $284.3 higher than it would be without the additional federal dollars.

**Figure 4: Oregonians would also have more personal income under the Healthy Kids Plan**




Source: Oregon Center for Public Policy

The vast majority of the impact on personal income would come from gains in wage and salary distributions. The new policy would cause wages and salaries to be higher by $33.2 million in 2008, by $57.4 million in 2009, by $82.2 million in 2010, and by $92.6 million in 2011 (Table 6).

Proprietor's earnings and other non-wage income also would experience significant gains. Those non-wage and salary gains are equal to about one-quarter of the total wage and salary increases. Taken together, total labor and proprietor's income would be higher by $113.9 million in 2011 as a result of the added health care funding, and by $326.8 million over the 2008–2011 period.

The expanded employment and earnings that would occur as a result of the new funding under the program would cause Social Security contributions by Oregon residents to increase. On the other hand, transfer payments, including unemployment benefits and other social assistance received by Oregonians, would go down as a result of the increase in employment and earnings.

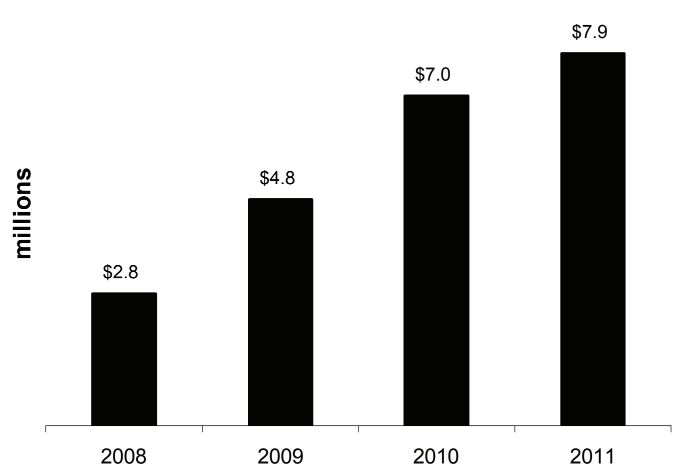
**Table 6: Impact on Oregonians' personal income, in millions of nominal dollars**

| | 2008 | 2009 | 2010 | 2011 | Four-year total |
|---|---|---|---|---|---|
| Wage and salary distribution + | 33.2 | 57.4 | 82.2 | 92.6 | 265.4 |
| Proprietor and other labor income = | 7.8 | 13.3 | 19.0 | 21.3 | 61.4 |
| **Total labor and proprietor income** | **41.0** | **70.7** | **101.2** | **113.9** | **326.8** |
| *Other effects on income:* | | | | | |
| Social insurance contributions | 2.5 | 4.4 | 6.2 | 7.0 | 20.1 |
| Net residents adjustments | -2.0 | -3.4 | -4.9 | -5.5 | -15.7 |
| Dividends, interest, and rent | 0.8 | 2.0 | 3.3 | 4.1 | 10.2 |
| Transfer payments | -2.6 | -3.8 | -5.1 | -5.4 | -16.9 |
| **Net change in personal income** | **34.7** | **61.1** | **88.3** | **100.2** | **284.3** |

Source: Oregon Center for Public Policy

## State and local governments would see modest revenue increases

**Figure 5: State and local governments would see modest revenue gains from Healthy Kids**




Source: Oregon Center for Public Policy

The new income earned by Oregon residents leads to an increase in tax collections on that income. According to data from the Institute on Taxation and Economic Policy, the average effective rate for all state and local taxes on middle-income Oregonians is 8.5 percent.[6] Based on the increase in total personal income indicated above, the new tax revenue will be $2.8 million in 2008, $4.8 million in 2009, $7.0 million in 2010 and $7.9 million in 2011 (Figure 5). The total amount of increased revenue over the four-year period for state and local governments would be $22.6 million.

## Rural communities would likely disproportionately benefit

The employment, output and income figures in this report are calculated at the state level. While the new jobs and income associated with health care funding is significant to the State of Oregon as a whole, the impacts are likely to be comparatively even more significant to rural communities where employment opportunities are fewer and average wages for available jobs are generally lower. While health care workers may be paid somewhat less in rural communities than in more affluent urban areas, health care jobs are often are among the better jobs available in many remote or relatively poor counties and regions.

In general, new jobs tend to go to the few choice locations with high-quality infrastructure, a large workforce, and other resource requirements. Publicly supported health care, on the other hand, does not require interstate highways, airports, or waterways, or to be near supplies, resources, or a major communications network to survive. It is one of the few industries that can be successful and thrive in rural, less-developed areas of the state. At the same time, health care can employ people from these communities who would otherwise have to migrate to urban areas. This puts added pressure on services in the cities and leaves rural areas with fewer people to support their fixed existing costs. A recent University of Kentucky study found strong linkages between health care spending and the local economy in rural areas.[7]

The funding of programs such as Healthy Kids can provide the basic support necessary for other health care activities to survive in the more remote parts of the state. Without that support, those services might not be viable in many communities. These other health services, in turn, become a magnet to attract other private sector businesses for whom the availability of community-based health care is a necessary requirement for business relocation or expansion.

### Endnotes:

[1] Richard Sims, PhD, is CEO and Chief Economist of the Sierra Institute on Applied Economics.

[2] The federal poverty level is based on family size and is adjusted each year for inflation. In 2007, the federal poverty level for a four-person family is $20,650 a year, or $1,721 a month. The poverty level for other family sizes is available at http://www.ocpp.org/cgi-bin/display.cgi?page=poverty.

[3] Email from Lynn Read, Division of Medical Assistance Programs, Oregon Department of Human Services, to Charles Sheketoff, Oregon Center for Public Policy, dated March 2, 2007.

[4] For detailed information on the Regional Economic Model, see www.remi.com.

[5] Oregon: 50 Largest Employers, InfoUSA, 2005.

[6] "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 2nd Edition," Institute on Taxation and Economic Policy, Washington D.C., 2003.

[7] Scorsone, Eric, "The Economic Impact of the Local Health Care System on the Clay County Economy," *KY Rural Health Works*, Cooperative Extension Service, University of Kentucky, 2003.

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