

**THE ECONOMIC IMPACT OF  
ELKHART GENERAL HOSPITAL**

*A Report*

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## TABLE OF CONTENTS

<i>Section I.</i>	<i>Introduction and Summary</i>	1
	What is Economic Impact?	1
	Elkhart General's Economic Development Impact	2
<i>Section II.</i>	<i>The Health Care Industry – Dimensions and Trends</i>	3
	National and State Dimensions of the Health Care Industry	3
	The Elkhart County, Indiana Area	3
	Elkhart County Hospital	3
<i>Section III.</i>	<i>Study Methodology</i>	4
	Outside Income – A Flow of Dollars from Outside	4
	Saved Income – Capturing Dollars Previously	
	Spent Outside the Community	5
	• Unique Services	5
	• Medical Specialists Attracted	5
	The Multiplier Effect	6
<i>Section IV.</i>	<i>Findings – Economic Development Impact</i>	6
	System Revenues	6
	Leakages	8
	Saved Income	8
	Multiplier Effects	9
	Total Economic Development Impact	10
	Impact of Construction, Renovation and Repair	11
<i>Section V.</i>	<i>Other Impacts</i>	12
	Government Sector Impact	12
	Tax Impact	13
	Community Contributions	14
<i>Section VI.</i>	<i>Conclusion</i>	14
	Summary Table - Summary of Economic Impacts	16
	<i>ENDNOTES</i>	17

# The Economic Impact of Elkhart General Hospital

## *A Report*

### **Section I. Introduction and Summary**

#### **What is Economic Impact?**

There are many dimensions to economic impact. Consider the case of Elkhart General Hospital (EGH) in Elkhart, Indiana. As in most communities, the local hospital is a key component of the local economy. First and foremost, of course, is recognition that a viable economy is synonymous with one served well in terms of health care – a factor known to affect not only the capability of workers and consumers, but also location decisions of both businesses and households. In this regard, Elkhart General is obviously of vital importance to the Elkhart County economy. In addition, Elkhart General provides stable jobs and compensation just under \$20 million to county residents for some 1,215 employees, helps support hundreds of local supplier firms, provides millions of dollars worth of charity care, and serves as a medical treatment center for 381 Elkhart County physicians. Total employment of 1,953 ranks the Hospital as one of the major employers in the whole of Elkhart County.

In analyzing Elkhart General's 2013 impact-related income, it will be shown in the pages to follow that another especially vital aspect of economic impact is at work in Elkhart General's operations. That is, nearly one-quarter of inpatient and outpatient revenues and Hospital jobs associated with these dollars are directly attributable to services delivered to patients who reside outside of Elkhart County. While still recognizing the large economic impact of the in-county revenues, labor income, and jobs, the emphasis here will be on the flow of that portion of revenues, labor income, and jobs from outside that makes Elkhart General a *principle contributor to the continuing economic development* of the area. Since it is not as easily recognized as the others, this latter impact requires some examination, and that is the main focus of this report.

The methodology used in the study, then, described in detail beginning on page 4, is based on the premise that the *driving force* in the *economic development* of a local economy is its *export sector* where, in this case, some goods and services produced within Elkhart County are sold to users from outside the County. Local firms that attract this outside income then funnel a portion of those dollars into the area through payroll expenditures and the purchases of local supplies and services that create more local income and jobs in a process referred to as a multiplier or economic “ripple” effect.

A number of studies provide evidence of the economic development impact of health care providers in large metropolitan areas. For example, it was found that academic based health centers in major U.S. cities like Boston, New York, Baltimore, Pittsburgh, Indianapolis, St. Louis, and Los Angeles channel a large stream of outside income into the community. The total income resulting from commuting patients amounted to over \$1 billion per community and, in the cases of New York and Boston, the figures exceeded \$4 and \$3.5 billion, respectively.<sup>1</sup> The impacts of smaller institutions like Elkhart General have gone largely unnoticed in the literature, but as will be seen in the pages to follow, the relative impact of Elkhart General Hospital to the local area is also very impressive.

### **Elkhart General’s Economic Development Impact**

The findings of this study of Elkhart General’s economic development impact are covered in considerable detail in Section IV of the report. In summary, however, the findings show that in part, and on the basis of operations in the year 2013, Elkhart General accounts for a yearly economic development impact in the Elkhart County area economy, considering both the multiplier effect and an average year of significant construction activity, of \$51.1 million in area income (or, \$119.3 million in revenues/sales) and the equivalent of 1,042 full-time local jobs. These are dollars and jobs that would not otherwise exist locally in the absence of Elkhart General Hospital.

## **Section II: The Health Care Industry – Dimensions and Trends<sup>2</sup>**

### **National and State Dimensions of the Health care Industry**

In viewing health care activity as an industrial component of the U.S. economy, it becomes evident that this industry is a major player. It employs 10.6 percent of all workers, accounts for some 7.9 percent of all business establishments, and produces 16.6 percent of the total dollar value of the nation's output, the Gross Domestic Product. Given changing demographics and great technological advances affecting the delivery of quality medical care, forecasters expect the industry to continue to be one of the most important contributors to the nation's economy.

The State of Indiana shares in this dynamic industry profile. Health care is the third largest employer in the State. 4 percent more workers are employed in health care as are employed in the hotel/motel and food service sector. In a state where manufacturing is dominant, 5.1 percent of Indiana's Gross State Product is accounted for by a combination of education and health care services.

### **The Elkhart County, Indiana Area**

As is the case in Indiana as a whole, health care is a major component of the Elkhart County local economy. The industry employs 6.2 percent of the County's workers, and is third in total only to the manufacturing and retail trade industries. And, both Elkhart County and the State of Indiana can expect to share in the continued growth of the health care industry that is predicted for the nation as a whole.

### **Elkhart General Hospital**

Employing a total of some 1,953 persons in 2013, Elkhart General Hospital, as cited in the preceding introduction, was one of Elkhart County's principal employers. Patient days served in 2013 totaled 51,574, and net revenues analyzed in this study<sup>3</sup> exceeded \$260.2 million in total.

For over 100 years, the highly skilled professionals of Elkhart General Hospital have been providing comprehensive medical care to Elkhart and surrounding communities. The hospital is a not-for-profit hospital with its main hospital campus

located in the City of Elkhart beside the beautiful St. Joseph River. Elkhart General's full-service, 325-bed main hospital is comprised of over 300 physicians representing more than 30 medical specialties, and, as noted above, nearly 2,000 employees serve in nursing, technical, administrative, and support capacities. The hospital prides itself as a patient-first health care organization whose ongoing mission is to help create healthier communities throughout Michiana.

### **Section III: Study Methodology**

The methodology employed in this study is an application of the *Export Base Model*<sup>4</sup> that is often used in economic impact analysis. Some basic elements of the model are as follows:

**Outside Income – A Flow of Dollars from Outside the Community.** Income resulting from the purchase of local goods and services that flows into the community from outside Elkhart County is referred to as *outside income*. This income fosters local economic development since the dollars that are retained locally support the creation of additional new dollars and jobs throughout the community.

Traditionally, area exports were associated with the shipment of manufactured goods to outlying areas. In recent years, however, after a century in which manufacturing was dominant, the nation has witnessed the emergence of services as the major source of metropolitan growth. On the other hand, not all services generate economic growth. In fact, few services give rise to outside income due to two basic economic considerations – access and cost. Understandably, consumers dislike spending time and money traveling long distances to make purchases. They prefer to have services as accessible as possible. In addition, most service activities do not enjoy substantial economies of scale and consequently do not benefit from large-scale operation. As a result, even relatively small communities have resident plumbers, barbers, and dry cleaners, to cite just a few. Such services rarely bring a community outside income since they are also available in nearly every neighboring community.

On the other hand, as will be shown in the paragraphs to follow, a select group of services that includes major health care providing institutions like Elkhart General act as

a source of outside income and employment to their communities and, therefore, are important contributors to local economic development.

**Saved Income – Capturing Dollars Previously Spent Outside the Community.** Early in a community’s existence, in the absence of broad-based service and goods-producing sectors, much outside income earned leaves a community for purchases of goods and services from outside the local area, which creates little or no additional area income. As the community prospers and grows, however, markets expand and firms that can supply needed goods and services find it profitable to locate and produce locally. The resulting substitution of outside purchases has the effect of *saving income* that had previously leaked out of the area, and therefore, fosters expanding local economic development. In Elkhart General’s case, with continuing economic growth of the area, it became feasible over time to locally offer a broader range of increasingly specialized medical services.

This study quantifies two important sources of saved income attributable to the operations of Elkhart General: The Hospital’s offering of unique services locally; and, the attraction of medical specialists to the area.

- **Unique Services.** Certain specialized service activities requiring large market areas not only provide local communities a source of outside income, but also allow residents to purchase locally what they could only obtain elsewhere before. A few examples of services associated with Elkhart General that are unique to Elkhart County include: open heart surgery, neo-natal intensive care, and neurosurgery.
- **Medical Specialists Attracted.** Through the years, the Hospital has been an attraction for physicians to Elkhart County in many fields including neurosurgery, cardiology and gastroenterology to cite but a few. The income that derives from the private practices of these specialists also captures dollars that would otherwise have flowed to outside areas.

**The Multiplier Effect.** As the community acquires new outside and saved income, a complementary *multiplier effect* takes place. That is, newly acquired dollars are now income for local producers who in turn spend a portion of their dollars locally in a second round of spending. Those expenditures generate still more income for other producers in successive additional but declining rounds of spending. By the time the effect has run its course, the original dollars and jobs have expanded by a multiple.

The Export Base Model provides a means of measuring all of these elements of the economic development impact covered in the study, and are addressed in Section IV as they relate to Elkhart General Hospital. For purposes of the study, the “local area” is defined as *Elkhart County*. Data from *calendar year 2013*, the last full year of available data, were used to compute estimates of yearly impact. In addition, the one-time economic impact derived from the Hospital’s yearly construction activity is covered in Section IV.

**Section IV: Findings – Economic Development Impact**

**Elkhart General’s Revenues**

As will be noted in Table 1, Elkhart General brought more than \$ 54 million of outside revenues into the area in 2013, an impressive amount by any standard, and a full 21 percent of total revenues. These outside revenues arise from a variety of sources. By far the largest share was derived from servicing inpatients and outpatients from outlying areas. 21.5 percent of inpatient and outpatient revenue credited to these two sources was outside income.

**Table 1  
Sources of Outside Revenues**

	Total	Outside (Non-Local)	Outside Percentage
Inpatient Revenues	\$141,513,558	\$29,436,957	20.8%
Outpatient Revenues	101,981,646	22,809,465	22.4%
Other Revenues*	15,648,625	2,027,426	13.0%

TOTAL                      \$259,143,829                      \$54,273,849                      21.0%

\*Other Revenues include those of Elkhart General Hospital’s medical groups..

In analyzing some *inpatient DRGs* (DRGs are individual diagnosis classifications that constitute a method of payment defined by Medicare), it is interesting to note the contribution that *outside revenue* makes to the Hospital’s total revenue. In the case of DRG 470 (Major Joint Replacement or Reattachment of Lower Extremity W/O MCC – Elkhart General’s largest revenue producing DRG), a total of 30% of revenue was derived from servicing outside residents – a full 9 percentage points greater than the inpatient percentage shown in Table 1.

DRG Description	Total Revenue	Outside %
0470 - MAJOR JOINT REPLACEMENT OR REATTACHMENT OF LOWER EXTREMITY W/O MCC	\$12,384,582	30.0%
0460 - SPINAL FUSION EXCEPT CERVICAL W/O MCC	\$6,664,547	16.7%
0871 - SEPTICEMIA OR SEVERE SEPSIS W/O MV 96 + HOURS W MCC	\$4,191,556	13.7%
0219 - CARDIAC VALVE & OTH MAJ CARDIOTHORACIC PROC W/O CARD CATH W MCC	\$3,536,415	22.2%
0775 - VAGINAL DELIVERY W/O COMPLICATING DIAGNOSES	\$3,502,792	17.1%
0945 - REHABILITATION W CC/MCC	\$3,422,242	26.5%
0234 - CORONARY BYPASS W CARDIAC CATH W/O MCC	\$3,185,123	18.5%
0247 - PERC CARDIOVASC PROC W DRUG-ELUTING STENT W/O MCC	\$2,818,096	16.5%
0003 - ECMO OR TRACH W MV 96+ HRS OR PDX EXC FACE, MOUTH & NECK W MAJ O.R.	\$2,074,213	22.6%
0292 - HEART FAILURE & SHOCK W CC	\$1,845,375	17.6%

Such procedures that could not be economically provided in smaller communities serve as major attractions for patients residing in outlying areas and, therefore, can provide a substantial flow of outside income to the Elkhart County area.

It is noted that still other indirect revenues that occur as a by-product of Elkhart General’s activities are important but *are not included in this study*. For example, out-of-area patients are often accompanied by relatives or friends who remain in the community for some days; and, vendors, salespersons, and other visitors call on the Hospital each

week. The expenditures made by these visitors for hotel rooms, transportation, meals, and other items also contribute significantly to the area economy.

**Leakages**

While Elkhart General was responsible for generating a total of \$54.3 in outside income during 2013, not all of these dollars remained in the local area. For example, 37.8 percent of the Hospital’s employees reside outside of Elkhart County, and a large share of their salaries was spent and saved in their resident communities. In addition, a large proportion of Elkhart General’s expenditures for specialized supplies, equipment, and services that cannot be obtained locally went to vendors located in other communities. Still other outside dollars went for federal and state payroll taxes, pension programs, discounts to some commercial payers, bad debts, depreciation, interest, and so forth. These leakages were lost to the local income stream. *The income and job multipliers that are employed in this report take into account the extent to which outside income earned leaks out of Elkhart County in the hospital and health care industries.*

**Saved Income**

As was indicated in the earlier description of saved income, the presence of Elkhart General Hospital has permitted virtually thousands of area residents over the years, who would have otherwise had to travel beyond Elkhart County to neighboring communities in order to avail themselves of certain medical services, to acquire this care without having to leave their own community. Six examples of saved income arising from *unique services*, where Elkhart General is the sole provider in Elkhart County, are listed in Table 2.

**Table 2  
Saved Income from Unique Services**

Service	Elkhart County Revenues
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Open Heart Cases	\$ 13,037,353
NICU Cases	\$ 1,982,978
Neurosurgery Cases	\$ 1,549,015
Center for Wound Healing	\$ 1,452,800
Anticoagulation Clinic	\$ 284,849
Heart Clinic Cases	\$ 474
Total from Unique Services	\$ 18,307,469

Again, Elkhart General is the only health care provider in Elkhart County delivering these services. Since the *outside revenue portion* of these services was included in Table 1’s computations, it is appropriate here to add back \$18,307,469 of revenues *originating from within Elkhart County* as dollars contributing to the local economy in 2013 before considering multiplier effects.

The second area of saved income, *the attraction of medical specialists*, contributes to the growth of income in Elkhart County in a similar manner. Using regional estimates of the amounts earned in the practices of area physicians<sup>5</sup>, it is estimated that the impact to the local community, before considering multiplier effects, was \$4,796,946 in 2013.

### **Multiplier Effects**

Each dollar of Elkhart General’s revenues shown in Tables 1 and 2 leads to about \$0.47 of labor income, thereby generating \$25.4 million of labor income from outside inpatient and outpatient revenues, \$8.6 million from saved unique services revenues, and \$3.1 from saved physicians’ income. In total, then, this combination of outside and saved income made a direct economic development contribution of \$37.1 million to the Elkhart County income stream in 2013. In addition 642 direct jobs were attributed to an infusion of that amount. As described previously, the *multiplier effect* magnifies the local impact of that income and of its resulting job creation.

Estimates of income and employment multipliers vary from place to place, where the size of the community, the value added (the amount of income created per employee in the sector), and the type of industry are important determinants of the size of the multipliers. Data associated with the income, revenue, and employment multipliers

exclusive to Elkhart County’s hospital and physician offices sectors were obtained from IMPLAN Group, LLC of Huntersville, NC.<sup>6</sup> Multipliers applicable to this study are as follows:

	<u>Income Multipliers</u>	<u>Revenue (Sales) Multipliers</u>	<u>Employment Multipliers</u>
Hospital Sector	1.32	1.45	1.54
Physician Office Sector	1.24	1.45	1.53

An income multiplier of 1.32 suggests that for each \$100 of direct income generated by the Hospital, an additional \$32 of indirect and induced income is produced by the multiplier effect throughout the broader local economy.<sup>7</sup> Similarly, an employment multiplier of 1.53 suggests that for each 100 direct jobs created by the practices of area physicians, the multiplier effect will generate another 53 indirect and induced jobs throughout the broader local economy.

### **Total Economic Development Impact**

After applying the appropriate income multipliers, the \$37.1 million of outside plus saved income added a total of \$48.7 million to the area’s income stream in 2013. Further, this infusion of income created a total equivalent of 989 new full-time jobs in the community, 326 of which were the result of the employment multiplier effect. It is important to note that these increases in income and employment represent dollars and jobs that would not otherwise exist locally in the absence of Elkhart General Hospital.

To more fully illustrate the breadth of this economic development impact, Table 3 provides estimates of a breakdown of additional expenditures that could be expected to result from an infusion of \$48.7 million. Then, by making some rough assumptions about per unit purchase costs, it is also possible to convert the dollar figures in Table 3 to quantity equivalents. These calculations reveal that various components of the total \$48.7 million expenditures went, for example, to pay for an estimated 232 thousand meals away from home, 174 rental apartment units, 48 new vehicle purchases, 751 thousand gallons of gasoline, 41 thousand entertainment fees and admissions, and 268 major appliance purchases.<sup>8</sup> While local firms such as pharmacies and home medical

providers are the most visible beneficiaries, the demand for virtually every consumer product and service provided by firms in the Elkhart County area is enhanced by Elkhart General's presence in the local community.

<b>Table 3</b>				
<b>Estimates of Consumer Expenditures Resulting from Elkhart General Hospital's Economic Development Impacts -2013</b>				
<b>Expenditure</b>			<b>Percent</b>	<b>Additional Expenditure</b>
<b>Total Expenditure</b>			100.00%	\$ 48,662,536
Food			12.67%	6,166,916
Food away from home			4.77%	2,322,535
Alcoholic beverages			0.84%	408,405
Housing			32.60%	15,865,461
Rented dwellings			4.30%	2,092,538
Major appliances			0.41%	200,978
Apparel and services			3.26%	1,584,182
Men and boys			0.73%	353,593
Women and girls			1.33%	649,149
Transportation			15.95%	7,761,845
Cars and trucks, new			2.15%	1,046,807
Gasoline and motor oil			4.66%	2,265,573
Health care			7.21%	3,509,059
Entertainment			5.63%	2,738,463
Fees and admissions			1.27%	616,907
Audio and visual equipment and services			2.01%	979,097
Personal care products and services			1.14%	556,721
Reading			0.22%	108,550
Education			2.55%	1,239,187
Tobacco products and smoking supplies			0.84%	409,480
Miscellaneous			1.71%	830,782
Cash contributions			3.51%	1,707,778
Personal insurance and pensions			11.86%	5,772,483

### **Impact of Construction, Renovation, and Repair**

When assessing the overall economic impact of Elkhart General Hospital, one should also consider the contribution made by periodic construction, renovation, and repair projects. These projects not only enhance Elkhart General's ability to better serve the health needs of the community, but they also provide many opportunities for economic interaction with the businesses of local contractors. Since the volume of such activity within the Hospital varies greatly from year to year, project expenses over the past four years were averaged to provide a "typical" yearly expenditure of \$5.1 million resulting in \$1.8 of labor income. After applying the appropriate income multipliers for the building industry, this expenditure created a total yearly income stream of \$2.5

million. These local dollars also provided income to create 53 additional FTE jobs yearly in construction and in the broader local economy after applying the building industry employment multiplier.

## **Section V: Other Impacts**

### **Government Sector Impact**

Previously discussed multiplier effects spill over into the government sector. Local government services include a variety of activities closely associated with consumer and business needs, such as police and fire protection and operation of the public schools, to mention a few. As economic development resulting from Elkhart General's income creating activities occurs, an inevitable increase in the demand for government services occurs as well. In short, new jobs are generated in the local government sector as well as in the local private sector.

In quantifying the government sector multiplier effect as it relates to Elkhart General's presence in the area, it was found that the ratio of population to employment in the area is 1.74. Consequently, the 989 additional jobs resulting from Elkhart General's economic impact added 1,722 persons to the area's population base. Many of these persons own property, pay property taxes, and hence support various local government services. Table 4 shows the impact on the demand for local government services like police, fire, parks, education, libraries, etc. resulting from Elkhart General's local presence.<sup>9</sup> In total, these 1,722 added individuals helped finance \$6.1 million of local government expenditures leading to 54 additional local government jobs in the community.<sup>10</sup>

<b>Table 4</b>				
<b>Local Area Government Goods Expenditures Supported by</b>				
<b>Elkhart General Hospital's Economic Development Impact</b>				
Expenditure Category			per capita Expenditures	Additional Expenditures Supported by Elkhart General's Impact
Direct general expenditure			\$ 3,529.23	\$ 6,193,532
Education			1493.39	2,620,784
Libraries			62.58	109,828
Public welfare			10.72	18,815
Hospitals			507.32	890,306
Health			57.21	100,406
Highways			91.78	161,073
Police protection			142.57	250,201
Fire Protection			102.42	179,745
Correction			53.45	93,799
Protective inspection and regulation			2.88	5,060
Natural resources			6.45	11,325
Parks and recreation			98.94	173,630
Housing and community development			66.63	116,924
Sewerage			183.23	321,551
Solid waste management			39.33	69,025
Financial administration			35.86	62,924
Other governmental administration			102.57	180,001
Interest on general debt			148.13	259,951
General expenditure, n.e.c.:			232.14	407,394
Insurance trust expenditure			16.58	29,104

### **Tax Impact**

As is apparent in the preceding section, a major hospital complex like Elkhart General also makes a significant contribution to the various tax bases that support government services for the entire community. Although most of Elkhart General's real property is tax exempt, the Hospital's for-profit operations account for significant local property tax obligations. Real estate taxes paid in 2013 totaled \$62,000, with an additional amount estimated to be \$44,640 that was included in the rental payments for the many properties occupied by Elkhart General in the local area. Most of the employees living in the area were also sources of individual real property tax revenue for

local government; and, over the year, the Hospital's employees paid nearly \$35 million in state, local, and federal taxes withheld.

### **Community Contributions**

Although the principal benefits are undoubtedly non-economic in nature, a number of education and community service related programs provided by Elkhart General produced economic benefits as well. While the economic impact of these programs is less tangible and, in some cases difficult to quantify, it is felt that in any analysis of the Hospital's impact, they deserve acknowledgment. Table 5 lists a number of these activities as well as some areas where monetary donations on the part of Elkhart General and its employees were involved in 2013.

**Table 5**  
**Partial List of Community Contributions**

Education & Community Service Programs

- Hispanic Latino health outreach program
- Outpatient Diabetes Education program
- Case Management services for low-income or uninsured ED patients
- Medications Assistance Program
- Abstinence education to middle school children

Charity Care & Other Contributions

Charity Care	\$ 4,341,000
Bad Debts	\$ 23,753,756
Various donations (System and employees)	\$408,210

**Section VI: Conclusion**

The process of economic development depends in large part upon those activities in the community that lead to: 1) the creation of outside income, that is, income flowing from outlying areas; and, 2) the local production and substitution of goods and services that were previously imported from outside. Both of these activities create still additional income and jobs in the local economy through a multiplier effect.

For the most part, outside income in a community is created by the manufacturing of goods that are shipped for sale outside of the area. As a rule, only a small portion of service-producing activity is exported and, therefore, is capable of providing the impetus for economic development. It is the finding of this study, however, that Elkhart General Hospital, a principal provider of health care services locally, is an exception to the rule.

The economic impact of Elkhart General has been shown in this study to include, in part, elements of both Elkhart General's ongoing contribution to the economic development of the community and the periodic one-time impact of construction activity associated with the physical development of the institution. The Summary Table on page 16 provides the findings that were reported in preceding paragraphs, and indicates that ***during 2013, Elkhart General was instrumental in producing a total \$51.1 million in new income (or, \$119.3 million in revenues/sales) and the equivalent of 1,042 new full-time jobs in the local area – income, sales, and jobs that would not otherwise exist locally in the absence of Elkhart General Hospital.*** This performance is very impressive and certainly exceeds the economic impact of the vast majority of businesses or governmental entities found in the local community and, from the standpoint of supporting economic development, is comparable to that of many manufacturers of like size.

Finally, underlying trends evident in this analysis suggest that both the health care industry overall and Elkhart General Hospital are *growing* economic forces in the area. These trends lead to the conclusion that the economic development impact of Elkhart General should continue to play an *increasing role* in the economic well-being of the Elkhart County, Indiana area.

**Table 6  
Summary of Economic Impacts: Elkhart General Hospital**

<b>Revenues (Sales)<sup>11</sup></b>			
Source	Direct Impact	Revenue Multiplier*	Total Impact
System Outside Revenues	\$54,273,849	1.45	\$78,792,440
Saved Revenues	18,307,469	1.45	26,577,996
Saved Income - Physicians	4,796,946	1.44	6,952,339
<b>Total Revenues</b>	<b>\$77,378,264</b>		<b>\$112,322,775</b>
<b>Labor Income</b>			
Source	Direct Impact	Income Multiplier*	Total Impact
Income from System Outside Revenues	\$25,400,161	1.32	\$33,528,213
Income from Saved Revenues	8,567,895	1.32	11,309,623
Saved Income - Physicians	3,084,436	1.24	3,824,701
<b>Total Labor Income</b>	<b>\$37,052,493</b>		<b>\$48,622,536</b>
<b>Employment</b>			
Source	Direct Impact (Jobs)	Employment Multiplier*	Total Impact (Jobs)
Employment from System Outside Revenues	450	1.54	694
Employment from Saved Revenues	152	1.54	234
Employment from Saved Income - Physicians	40	1.53	61
<b>Total Employment</b>	<b>642</b>		<b>989</b>
<b>Construction</b>			
Source	Direct Impact	Multiplier*	Total Impact
Construction Revenue	\$5,014,500	1.38	\$6,943,448
Construction Income	\$1,780,148	1.36	\$2,429,725
Construction Jobs	35	1.49	53
<b>Total Impact All Sources</b>			
Source	Direct Impact	Total Impact	
Revenue	\$77,378,264	<b>\$112,322,775</b>	
Labor Income	\$37,052,493	<b>\$48,622,536</b>	
Employment	642	<b>989</b>	
Construction Revenue	\$5,014,500	<b>\$6,943,448</b>	
Construction Labor Income	\$1,780,148	<b>\$2,429,725</b>	
Construction Jobs	35	<b>53</b>	

\* Because the multipliers have been rounded to two digits after the decimal point, the direct impact times the multiplier does not exactly match the Total Impact numbers in the table. For example, the actual computation for the System Outside Revenues is: (\$54,273,849) times (1.451757) = \$78,792,440.

Outside Revenues= revenues generated by patients residing outside of Elkhart County.  
 Saved Revenues = revenues from services that otherwise would be purchased outside of Elkhart County.  
 Saved Income Physicians = income generated by physicians recruited to Elkhart county by Elkhart General Hospital.  
 Construction = three year average of construction expenditures made by Elkhart General Hospital in Elkhart County.

## ENDNOTES

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<sup>1</sup> Contributing to the Community: The Economic Significance of Academic Health Centers and Their Role in Neighborhood Development, (The Commonwealth Fund, 1987, p. IV/11).

<sup>2</sup> Statistics cited in Section II are taken from: County Business Patterns (U.S. Census Bureau); Survey of Current Business (Bureau of Economic Analysis); and, Annual Reports (Beacon Health System).

<sup>3</sup> Revenues considered in this study are those of the System derived through such offerings as inpatient and outpatient services at Elkhart General Hospital, Elkhart General Hospital Medical Group, MedPoints, Community Health Alliance, cafeteria, educational programs, and so forth.

<sup>4</sup> In mathematical terms:  $\Delta \text{Regional Income} = (\Delta \text{Exports} + \Delta \text{Imports})(\text{Multiplier})$ . That is, changes in regional income derive from the sum of dollar increases in exports and decreases in imports (import substitution) times the multipliers applicable to Elkhart County. In this report, export income is referred to as “outside income” and import substitution is referred to as “saved income.”

<sup>5</sup> On the recommendation of client, data covering physician compensation were obtained in publications of the Medical Group Management Association. Where specialties cited in MGMA’s survey were broader than those reported by Elkhart General, conservative estimates were made. . In addition, two assumptions were made. First, it was assumed that an additional 25 percent of these revenues went to local labor income (receptionists, nurses, etc.). Second, it was assumed that the outside Elkhart county income of these doctors was the same average (21%) of all other Elkhart General Hospital activities.

<sup>6</sup> IMPLAN is a recognized source for these data that are producible for every county in the United States.

<sup>7</sup> *Direct effects* are changes associated with the institution’s activities – like an addition of new employees to the overall staff. *Indirect effects* are changes incurring in backward linking industries – like additional purchases from vendors that are required to produce additional output. *Induced effects* are changes in regional household spending patterns caused by changes in income coming from the direct and indirect effects.

<sup>8</sup> In estimating these quantities, the following per unit costs were assumed: meals away from home --\$10; annual apartment rent -- \$12,000; new vehicle purchase -- \$22,000; a gallon of gasoline -- \$3.00; entertainment fees and admissions --\$15; and, a major appliance -- \$750.

<sup>9</sup> 1997 represents the latest detailed county government expenditures that combine various sources of government spending (local, county, school corporations, etc.) were available for Elkhart County. Using information from the 2012 Census of Governments these figures were updated using local government spending for the state of Indiana. The updated information must be considered rough estimates of the actual Elkhart County expenditure distribution since expenditures may differ from the state averages.

<sup>10</sup> According to the 2012 Census of Governments, Indiana local governments have, on average, 311.8 employees per 10,000 persons in the population. Elkhart’s population impact of 1,722 persons thus adds 54 local government jobs.

<sup>11</sup> Once Elkhart General’s direct impact has been derived, as in the body of the report, it is possible to apply either revenue or income multipliers to compute total impact. “Revenues” measure the value of output Elkhart General sells to inpatients, outpatients, and others who purchase its services. Each dollar of output sold by Elkhart General requires purchases of output from other Elkhart County vendors, leading to spillover revenues of about \$0.45. “Labor income”, on the other hand, measures the compensation to employees plus proprietor’s income from a dollar of output. Each dollar of Elkhart General’s output produces \$0.468 of direct labor income and another \$0.148 of spillover labor income. The spillover labor income results from payments to workers in Elkhart County who produce goods and services purchased by Elkhart General. The labor income multiplier in Table 6 is the total direct and spillover effect divided by the direct effect  $((\$0.468 + \$0.148) / \$0.468 = 1.32)$ .

# **THE ECONOMIC IMPACT OF SOUTH BEND'S MEMORIAL HOSPITAL**

***A Report***

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## TABLE OF CONTENTS

<i>Section I.</i>	<i>Introduction and Summary</i>	1
	<b>What is Economic Impact?</b>	1
	<b>Memorial’s Economic Development Impact</b>	2
<i>Section II.</i>	<i>The Health Care Industry – Dimensions and Trends</i>	3
	<b>National and State Dimensions of the Health Care Industry</b>	3
	<b>The St. Joseph County, Indiana Area</b>	3
	<b>Memorial Hospital</b>	3
<i>Section III.</i>	<i>Study Methodology</i>	4
	<b>Outside Income – A Flow of Dollars from Outside</b>	4
	<b>Saved Income – Capturing Dollars Previously</b>	
	<b>Spent Outside the Community</b>	5
	• <b>Unique Services</b>	5
	• <b>Medical Specialists Attracted</b>	6
	<b>The Multiplier Effect</b>	6
<i>Section IV.</i>	<i>Findings – Economic Development Impact</i>	6
	<b>Memorial’s Revenues</b>	6
	<b>Leakages</b>	8
	<b>Saved Income</b>	8
	<b>Multiplier Effects</b>	9
	<b>Total Economic Development Impact</b>	10
	<b>Impact of Construction, Renovation and Repair</b>	11
<i>Section V.</i>	<i>Other Impacts</i>	12
	<b>Government Sector Impact</b>	12
	<b>Tax Impact</b>	13
	<b>Community Contributions</b>	14
<i>Section VI.</i>	<i>Conclusion</i>	14
	<b>Summary Table - Summary of Economic Impacts</b>	16
	<b>ENDNOTES</b>	17
	<b>APPENDIX – Memorial Impact Comparisons</b>	18

# The Economic Impact of Memorial Hospital

## *A Report*

### **Section I. Introduction and Summary**

#### **What is Economic Impact?**

There are many dimensions to economic impact. Consider the case of Memorial Hospital in South Bend, Indiana. As in most communities, the local hospital is a key component of the local economy. First and foremost, of course, is recognition that a viable economy is synonymous with one served well in terms of health care – a factor known to affect not only the capability of workers and consumers, but also location decisions of both businesses and households. In this regard, Memorial is obviously of vital importance to the St. Joseph County economy. In addition, Memorial provides stable jobs and compensation topping \$133 million to county residents for some 2,321 employees, helps support hundreds of local supplier firms, provides millions of dollars worth of charity care, and serves as a medical treatment center for 751 area physicians. Total employment of 2,818 ranks the Hospital as the second largest employer in the whole of St. Joseph County.

In analyzing Memorial's 2013 impact-related income, it will be shown in the pages to follow that another especially vital aspect of economic impact is at work in Memorial's operations. That is, nearly one-third of inpatient and outpatient revenues and Hospital jobs associated with these dollars are directly attributable to services delivered to patients who reside outside of St. Joseph County. While still recognizing the large economic impact of the in-county revenues, labor income, and jobs, the emphasis here will be on the flow of that portion of revenues, labor income, and jobs from outside that makes Memorial a *principle contributor to the continuing economic development* of the area. Since it is not as easily recognized as the others, this latter impact requires some examination, and that is the main focus of this report.

The methodology used in the study, then, described in detail beginning on page 4, is based on the premise that the *driving force* in the *economic development* of a local economy is its *export sector* where, in this case, some goods and services produced within St. Joseph County are sold to users from outside the County. Local firms that attract this outside income then funnel a portion of those dollars into the area through payroll expenditures and the purchases of local supplies and services that create more local income and jobs in a process referred to as a multiplier or economic “ripple” effect.

A number of studies provide evidence of the economic development impact of health care providers in large metropolitan areas. For example, it was found that academic based health centers in major U.S. cities like Boston, New York, Baltimore, Pittsburgh, Indianapolis, St. Louis, and Los Angeles channel a large stream of outside income into the community. The total income resulting from commuting patients amounted to over \$1 billion per community and, in the cases of New York and Boston, the figures exceeded \$4 and \$3.5 billion, respectively.<sup>1</sup> The impacts of smaller institutions like Memorial have gone largely unnoticed in the literature, but as will be seen in the pages to follow, the relative impact of Memorial Hospital to the local area is also very impressive.

### **Memorial’s Economic Development Impact**

The findings of this study of Memorial’s economic development impact are covered in considerable detail in Section IV of the report. In summary, however, the findings show that in part, and on the basis of operations in the year 2013, Memorial accounts for a yearly economic development impact in the St. Joseph County area economy, considering both the multiplier effect and an average year of significant construction activity, of \$187 million in area income (or, \$397.8 million in new revenues/sales) and the equivalent of 3,215 full-time local jobs. These are dollars and jobs that would not otherwise exist locally in the absence of Memorial Hospital.

## **Section II: The Health Care Industry – Dimensions and Trends<sup>2</sup>**

### **National and State Dimensions of the Health Care Industry**

In viewing health care activity as an industrial component of the U.S. economy, it becomes evident that this industry is a major player. It employs 10.6 percent of all workers, accounts for about 7.9 percent of all business establishments, and produces 16.6 percent of the total dollar value of the nation's output, the Gross Domestic Product. Given changing demographics and great technological advances affecting the delivery of quality medical care, forecasters expect the industry to continue to be an important contributor to the nation's economy.

The State of Indiana shares in this dynamic industry profile. Health care is the third largest employer in the State. 4 percent more workers are employed in health care as are employed in the hotel/motel and food service sector. In a state where manufacturing is dominant, 5.1 percent of Indiana's Gross State Product is accounted for by a combination of education and health services.

### **The St. Joseph County, Indiana Area**

As is the case in Indiana as a whole, health care is a major component of the St. Joseph County local economy. The industry employs 10.1 percent of the County's workers, and is fourth in total only to the manufacturing, retail, and educational services industries. While the nation as a whole was experiencing little economic expansion, the local health care industry witnessed job growth of 4.3 percent over the last five years. And, both St. Joseph County and the State of Indiana can expect to share in the continued growth of the health care industry that is predicted for the nation as a whole.

### **Memorial Hospital**

Employing a total of some 2,818 persons in 2013, Memorial Hospital, as cited in the preceding introduction, was St. Joseph County's second largest employer. Patient days served in 2013 totaled 103,191, and net revenues analyzed in this study<sup>3</sup> exceeded \$438.9 million in total.

Memorial Health System, a not for profit entity, includes a variety of associated health care business units including: Memorial Hospital of South Bend, Memorial Medical Group, MedPoint Urgent Care Centers offering walk-in physician care, MedPoint Express offering walk-in nurse practitioner care, Memorial Center for Occupational Health, Memorial Venture Center, and the for-profit Memorial Home Care division which includes five retail home care stores and comprehensive home health visit services such as in-home IV therapy, nurse/aide home visits, home delivery, and maintenance of medical equipment and a retail pharmacy. Memorial also is a founding partner of Community Health Alliance health insurance PPO.

Memorial Hospital of South Bend, which dates back to 1892, is an independent, not-for-profit, community-owned hospital and was the first hospital in the US to adopt an official tithing policy to directly invest in community health enhancement efforts. In addition to the traditional hospital operation, Memorial operates a freestanding fitness center, outpatient physical therapy centers, a senior health center, 24 hour nurse call center, a children's health museum, a Family Practice Residency Program, Sports Medicine Fellowship Program, and a Health Foundation where donations to the organization are processed.

### **Section III: Study Methodology**

The methodology employed in this study is an application of the *Export Base Model*<sup>4</sup> that is often used in economic impact analysis. Some basic elements of the model are as follows:

**Outside Income – A Flow of Dollars from Outside the Community.** Income resulting from the purchase of local goods and services that flows into the community from outside St. Joseph County is referred to as *outside income*. This income fosters local economic development since the dollars that are retained locally support the creation of additional new dollars and jobs throughout the community.

Traditionally, area exports were associated with the shipment of manufactured goods to outlying areas. In recent years, however, after a century in which manufacturing

was dominant, the nation has witnessed the emergence of services as the major source of metropolitan growth. On the other hand, not all services generate economic growth. In fact, few services give rise to outside income due to two basic economic considerations – access and cost. Understandably, consumers dislike spending time and money traveling long distances to make purchases. They prefer to have services as accessible as possible. In addition, most service activities do not enjoy substantial economies of scale and consequently do not benefit from large-scale operation. As a result, even relatively small communities have resident plumbers, barbers, and dry cleaners, to cite just a few. Such services rarely bring a community outside income since they are also available in nearly every neighboring community.

On the other hand, as will be shown in the paragraphs to follow, a select group of services that includes major health care providing institutions like Memorial act as a source of outside income and employment to their communities and, therefore, are important contributors to local economic development.

**Saved Income – Capturing Dollars Previously Spent Outside the Community.** Early in a community’s existence, in the absence of broad-based service and goods-producing sectors, much outside income earned leaves a community for purchases of goods and services from outside the local area, which creates little or no additional area income. As the community prospers and grows, however, markets expand and firms that can supply needed goods and services find it profitable to locate and produce locally. The resulting substitution of outside purchases has the effect of *saving income* that had previously leaked out of the area, and therefore, fosters expanding local economic development. In Memorial’s case, with continuing economic growth of the area, it became feasible over time to locally offer a broader range of increasingly specialized medical services.

This study quantifies two important sources of saved income attributable to the operations of Memorial: The Hospital’s offering of unique services locally; and, the attraction of medical specialists to the area.

- **Unique Services.** Certain specialized service activities requiring large market areas not only provide local communities a source of outside income, but also

allow residents to purchase locally what they could only obtain elsewhere before. A few examples of services associated with Memorial that are unique to St. Joseph County include the Neonatal Intensive Care Unit, the Pediatric Intensive Care Unit, the Bariatric Program, and the Trauma Center Level II.

- **Medical Specialists Attracted.** Through the years, the Hospital has been an attraction for physicians to St. Joseph County in many fields including physical medicine/rehabilitation/physiatry, pediatric hematology-oncology, and bariatric surgery, to cite but a few. The income that derives from the private practices of these specialists also captures dollars that would otherwise have flowed to outside areas.

**The Multiplier Effect.** As the community acquires new outside and saved income, a complementary *multiplier effect* takes place. That is, newly acquired dollars are now income for local producers who in turn spend a portion of their dollars locally in a second round of spending. Those expenditures generate still more income for other producers in successive additional but declining rounds of spending. By the time the effect has run its course, the original dollars and jobs have expanded by a multiple.

The Export Base Model provides a means of measuring all of these elements of the economic development impact covered in the study, and are addressed in Section IV as they relate to Memorial Hospital. For purposes of the study, the “local area” is defined as *St. Joseph County*. Data from *calendar year 2013*, the last full year of available data, were used to compute estimates of yearly impact. In addition, the one-time economic impact derived from Memorial’s yearly construction activity is covered in Section IV.

#### **Section IV: Findings – Economic Development Impact**

##### **Memorial’s Revenues**

As will be noted in Table 1, Memorial brought nearly \$158 million of outside revenues into the area in 2013, an impressive amount by any standard, and a full 36 percent of total revenues. These outside revenues arise from a variety of sources. By far the largest share was derived from servicing inpatients and outpatients from outlying

areas. 35.8 percent of inpatient and outpatient revenue credited to these two sources was outside income.

**Table 1**  
**Sources of Outside Revenues**

	Total	Outside (Non-Local)	Outside Percentage
Inpatient Revenues	\$245,438,437	\$ 91,367,152	37.2%
Outpatient Revenues	136,921,696	45,736,761	33.4%
Other Revenues*	56,583,574	20,861,943	36.9%
<b>TOTAL</b>	<b>\$438,943,703</b>	<b>\$157,965,856</b>	<b>36.0%</b>

\*Other Revenues include those of Memorial Medical Groups

In analyzing some *inpatient* procedures, it is interesting to note the contribution that *outside revenue* made to the Hospital’s total revenue. In the following sampling of four relatively large revenue producing Diagnosis Related Groups (DRGs are individual diagnosis classifications that constitute a method of payment defined by Medicare), 58.0% of total revenue was derived from servicing outside residents – 8.6 percentage points greater than the inpatient percentage shown in Table 1.

<u>DRG</u>	<u>Description</u>	<u>Total Revenue</u>	<u>Outside %</u>
470	Major Joint Replacement or Reattachment Of Lower Extremity W/O MCC	\$23,884,114	62.7%
460	Spinal Fusion Except Cervical W/O MCC	12,460,680	58.8%
885	Psychoses	8,388,743	49.2%
3	ECMO or Trach W MV 96+ Hrs or PDX Exc FA	6,596,231	50.8%

Many such procedures that could not be economically provided in smaller communities served as major attractions for patients residing in these outlying areas and, therefore, provided a substantial flow of outside income to the St. Joseph County area.

It is noted that still other indirect revenues that occur as a by-product of Memorial’s activities are important but *are not included in this study*. For example, out-

of-area patients are often accompanied by relatives or friends who remain in the community for some days; and, vendors, salespersons, and other visitors call on the Hospital each week. The expenditures made by these visitors for hotel rooms, transportation, meals, and other items also contribute significantly to the area economy.

### **Leakages**

While Memorial was responsible for generating a total of \$158 million in outside income during 2013, not all of these dollars remained in the local area. For example, 26.3 percent of the Hospital's employees reside outside of St. Joseph County, and a large share of their salaries was spent and saved in their resident communities. In addition, a large proportion of Memorial's expenditures for specialized supplies, equipment, and services that cannot be obtained locally went to vendors located in other communities. Still other outside dollars went for federal and state payroll taxes, pension programs, discounts to some commercial payers, bad debts, depreciation, interest, and so forth. These leakages were lost to the local income stream. *The income and job multipliers that are employed in this report take into account the extent to which outside income earned leaks out of St. Joseph County in the hospital and health care industries.*

### **Saved Income**

As was indicated in the earlier description of saved income, the presence of Memorial Hospital has permitted virtually thousands of area residents over the years, who would have otherwise had to travel beyond St. Joseph County to neighboring communities in order to avail themselves of certain medical services, to acquire this care without having to leave their own community. Eleven examples of saved income arising from *unique services*, where Memorial is the sole provider in St. Joseph County, are listed in Table 2.

**Table 2**  
**Saved Income from Unique Services**

<u>Service</u>	<u>St. Joseph County Revenue</u>
NICU	\$11,315,427
PICU	4,698,672
Peds Rehab ST	6,259,187
Peds Rehab OT	5,447,409
Epworth Adult Acute (EC3)	6,922,108
Peds Rehab PT	2,021,222
Peds Oncology	2,353,643
Epworth Older Adults (GP2/3)	3,065,147
Helicopter Services	753,039
Peds Psych (EC2)	951,638
Adult Depression (2N)	274,624
Driver's Educ	126,050
 Total from Unique Services	 <u>\$44,188,166</u>

Again, Memorial is the only health care provider in St. Joseph County delivering these services. Since the *outside revenue portion* of these services was included in Table 1's computations, it is appropriate here to add back \$44.2 million of revenues *originating from within St. Joseph County* as dollars contributing to the local economy in 2013 before considering multiplier effects.

The second area of saved income, *the attraction of medical specialists*, contributes to the growth of income in St. Joseph County in a similar manner. Using regional estimates of the amounts earned in the practices of area physicians<sup>5</sup>, it is estimated that the impact to the local community, before considering multiplier effects, was \$17.5 million in 2013.

### **Multiplier Effects**

Each dollar of Memorial's revenues shown in Tables 1 and 2 leads to about \$0.52 of labor income, thereby generating \$82.1 million of direct labor income from outside inpatient and outpatient revenues, \$23 million from saved unique services revenues, and \$9.1 million from saved physicians' income. In total, then, this combination of outside and saved income made a direct economic development contribution of \$114.2 million to the St. Joseph County income stream in 2013. In addition, 1,676 direct jobs were

attributed to an infusion of that amount. As described previously, the *multiplier effect* magnifies the local impact of that income and of its resulting job creation.

Estimates of income and employment multipliers vary from place to place, where the size of the community, the value added (the amount of income created per employee in the sector), and the type of industry are important determinants of the size of the multipliers. Data associated with the income, revenue, and employment multipliers exclusive to St. Joseph County’s hospital and physician offices sectors were obtained from IMPLAN Group, LLC of Huntersville, NC.<sup>6</sup> Multipliers applicable to this study are as follows:

	<u>Income Multipliers</u>	<u>Revenue (Sales) Multipliers</u>	<u>Employment Multipliers</u>
Hospital Sector	1.48	1.64	1.77
Physician Office Sector	1.41	1.68	1.72

An income multiplier of 1.48 suggests that for each \$100 of direct income generated by the Hospital, an additional \$48 of indirect and induced income is produced by the multiplier effect throughout the broader local economy.<sup>7</sup> Similarly, an employment multiplier of 1.72 suggests that for each 100 direct jobs created by the practices of area physicians, the multiplier effect will generate another 72 indirect and induced jobs throughout the broader local economy.

**Total Economic Development Impact**

After applying the appropriate income multipliers, the \$ 114.2 million of outside plus saved income added a total of \$171.3 million to the area’s income stream in 2013. Further, this infusion of income created a total equivalent of 2,959 new full-time jobs in the community, 1,283 of which were the result of the employment multiplier effect. It is important to note that these increases in income and employment represent dollars and jobs that would not otherwise exist locally in the absence of Memorial Hospital.

To more fully illustrate the breadth of this economic development impact, Table 3 provides estimates of a breakdown of additional expenditures that could be expected to result from an infusion of \$171.3 million. Then, by making some rough assumptions

about per unit purchase costs, it is also possible to convert the dollar figures in Table 3 to quantity equivalents. These calculations reveal that various components of the total \$171,290,530 expenditures went, for example, to pay for an estimated 818 thousand meals away from home, 614 rental apartment units, 167 new vehicle purchases, 2.7 million gallons of gasoline, 145 thousand entertainment fees and admissions, and 943 major appliance purchases.<sup>8</sup> While local firms such as pharmacies and home medical providers are the most visible beneficiaries, the demand for virtually every consumer product and service provided by firms in the St. Joseph County area is enhanced by Memorial's presence in the local community.

<b>Expenditure</b>	Percent	Additional Expenditure
Total Expenditure	100.00%	\$ 171,290,530
Food	12.67%	21,707,343
Food away from home	4.77%	8,175,247
Alcoholic beverages	0.84%	1,437,572
Housing	32.60%	55,845,903
Rented dwellings	4.30%	7,365,667
Major appliances	0.41%	707,437
Apparel and services	3.26%	5,576,268
Men and boys	0.73%	1,244,635
Women and girls	1.33%	2,284,983
Transportation	15.95%	27,321,441
Cars and trucks, new	2.15%	3,684,725
Gasoline and motor oil	4.66%	7,974,744
Health care	7.21%	12,351,773
Entertainment	5.63%	9,639,301
Fees and admissions	1.27%	2,171,491
Audio and visual equipment and services	2.01%	3,446,391
Personal care products and services	1.14%	1,959,638
Reading	0.22%	382,092
Education	2.55%	4,361,897
Tobacco products and smoking supplies	0.84%	1,441,355
Miscellaneous	1.71%	2,924,325
Cash contributions	3.51%	6,011,322
Personal insurance and pensions	11.86%	20,318,950

### **Impact of Construction, Renovation, and Repair**

When assessing the overall economic impact of Memorial Hospital, one should also consider the contribution made by periodic construction, renovation, and repair projects. These projects not only enhance Memorial's ability to better serve the health needs of the community, but they also provide many opportunities for economic

interaction with the businesses of local contractors. Since the volume of such activity within the Hospital varies greatly from year to year, project expenses over the past four years were averaged to provide a “typical” yearly expenditure of \$23 million resulting in \$10 million of direct labor income. After applying the appropriate income multipliers for the building industry, this expenditure created a total yearly income stream of \$15.6 million. These local dollars also provided income to create 256 additional FTE jobs yearly in construction and in the broader local economy after applying the building industry employment multiplier.

## **Section V: Other Impacts**

### **Government Sector Impact**

Previously discussed multiplier effects spill over into the government sector. Local government services include a variety of activities closely associated with consumer and business needs, such as police and fire protection and operation of the public schools, to mention a few. As economic development resulting from Memorial’s income creating activities occurs, an inevitable increase in the demand for government services occurs as well. In short, new jobs are generated in the local government sector as well as in the local private sector.

In quantifying the government sector multiplier effect as it relates to Memorial’s presence in the area, it was found that the ratio of population to employment in the area is 2.01. Consequently, the 3,215 additional jobs resulting from Memorial’s economic impact added 6,591 persons to the area’s population base. Many of these persons own property, pay property taxes, and hence support various local government services. Table 4 shows the impact on the demand for local government services like police, fire, parks, education, libraries, etc. resulting from Memorial’s local presence.<sup>9</sup> In total, these 6,591 added individuals helped finance \$23.2 million of local government expenditures leading to 206 additional local government jobs in the community.<sup>10</sup>

<b>Table 4</b>					
<b>Local Area Government Goods Expenditures Supported by</b>					
<b>Memorial Hospital's Economic Development Impact</b>					
Expenditure Category			per capita Expenditures		Additional Expenditures Supported by Memorial Hospital's Impact
Direct general expenditure			\$ 3,529.23		\$ 23,260,599
Education			1493.39		9,842,689
Libraries			62.58		412,473
Public welfare			10.72		70,661
Hospitals			507.32		3,343,657
Health			57.21		377,089
Highways			91.78		604,932
Police protection			142.57		939,663
Fire Protection			102.42		675,055
Correction			53.45		352,274
Protective inspection and regulation			2.88		19,002
Natural resources			6.45		42,532
Parks and recreation			98.94		652,090
Housing and community development			66.63		439,124
Sewerage			183.23		1,207,624
Solid waste management			39.33		259,234
Financial administration			35.86		236,321
Other governmental administration			102.57		676,017
Interest on general debt			148.13		976,279
General expenditure, n.e.c.:			232.14		1,530,021.78
Insurance trust expenditure			16.58		109,304.18

### **Tax Impact**

As is apparent in the preceding section, a major hospital complex like Memorial also makes a significant contribution to the various tax bases that support government services for the entire community. Although most of Memorial's real property is tax exempt, Memorial's not-for-profit entities frequently pay a voluntary tax-equivalent amount into community funds, some \$150,000 in 2013. And, the Hospital's for-profit operations account for significant local property tax obligations. Real estate taxes paid in 2013 totaled \$615,000, with an additional amount estimated to be \$246,600 that was included in the rental payments for the many properties occupied by Memorial in the local area. Most of the employees living in the area were also sources of individual real

property tax revenue for local government; and, over the year, the hospital’s employees paid nearly \$53 million in federal, state, and county taxes withheld from wages.

**Community Contributions**

Although the principal benefits are undoubtedly non-economic in nature, a number of education and community service related programs provided by Memorial produced economic benefits as well. While the economic impact of these programs is less tangible and, in some cases difficult to quantify, it is felt that in any analysis of the Hospital’s impact, they deserve acknowledgment. Table 5 lists a number of these activities as well as some areas where monetary donations on the part of Memorial and its employees were involved in 2013.

**Table 5**  
**Partial List of Community Contributions**

<u>Education &amp; Community Service Programs</u>	
Medical education & training Programs (e.g. medical education, sports medicine, surgical tech)	
Medical & health research	
Community health education (e.g. Health Discovery, Nurse Call Center, Leighton Center, The Hispanic Initiative)	
Healthy Communities, Hospice, Community Partnerships	
 <u>Charity Care &amp; Other Contributions</u>	
Charity Care	\$ 7,752,000
Bad Debts	\$38,970,521
Various donations (System and employees) <sup>11</sup>	\$5,097,480

**Section VI: Conclusion**

The process of economic development depends in large part upon those activities in the community that lead to: 1) the creation of outside income, that is, income flowing from outlying areas; and, 2) the local production and substitution of goods and services

that were previously imported from outside. Both of these activities create still additional income and jobs in the local economy through a multiplier effect.

For the most part, outside income in a community is created by manufacturing goods that are shipped for sale outside of the area. As a rule, only a small portion of service-producing activity is exported and, therefore, is capable of providing the impetus for economic development. It is the finding of this study, however, that Memorial Hospital, a principal provider of health care services locally, is an exception to the rule.

The economic impact of Memorial has been shown in this study to include, in part, elements of both Memorial's ongoing contribution to the economic development of the community and the periodic one-time impact of construction activity associated with the physical development of the institution. The Summary Table on page 16 provides the findings that were reported in preceding paragraphs, and indicates that ***during 2013, Memorial was instrumental in producing a total \$187 million in new income (or, \$397.8 million in new revenues/sales) and the equivalent of 3,215 new full-time jobs in the local area – income, sales, and jobs that would not otherwise exist locally in the absence of Memorial Hospital.*** This performance is very impressive and certainly exceeds the economic impact of the vast majority of businesses or governmental entities found in the local community and, from the standpoint of supporting economic development, is comparable to that of many manufacturers of like size.

Finally, underlying trends evident in this analysis suggest that both the health care industry overall, and Memorial Hospital in particular, are *growing* economic forces in the area. A comparison of current findings to those of three previous Memorial impact studies is found in Appendix I, page 18. These trends lead to the conclusion that the economic development impact of Memorial should continue to play an *increasing role* in the economic well-being of the St. Joseph County, Indiana area for years to come.

**Table 6 Summary of Economic Impacts<sup>12</sup>: Memorial Hospital**

<b>Revenues (Sales)</b>			
Source	Direct Impact	Revenue Multiplier	Total Impact
System Outside Revenues	\$157,965,856	1.64	\$259,296,846
Saved Revenues	44,188,166	1.64	72,533,726
Save Income Physicians	17,494,232	1.67	29,267,448
<b>Total Revenues</b>	<b>\$219,648,254</b>		<b>\$361,098,019</b>
<b>Labor Income</b>			
Source	Direct Impact	Income Multiplier	Total Impact
System Outside Revenues	\$ 82,142,245	1.48	\$121,570,523
Saved Revenues	22,977,846	1.48	34,007,213
Save Income Physicians	11,143,826	1.41	15,712,794
<b>Total Labor Income</b>	<b>\$114,217,092</b>		<b>\$171,290,530</b>
<b>Employment</b>			
Source	Direct Impact (Jobs)	Employment Multiplier	Total Impact (Jobs)
System Outside Revenues	1,194	1.77	2,114
Saved Revenues	334	1.77	591
Saved Income Physicians	148	1.72	254
<b>Total Employment</b>	<b>1,676</b>		<b>2,959</b>
<b>Construction</b>			
Source	Direct Impact	Multiplier	Total Impact
Construction Revenue	\$23,021,000	1.59	\$36,699,249
Construction Income	\$10,038,186	1.55	\$15,564,609
Construction Jobs	143	1.78	<b>256</b>
<b>Total Impact All Sources</b>			
	Direct Impact		Total Impact
Revenue	\$219,648,254		<b>\$361,098,019</b>
Labor Income	\$114,217,092		<b>\$171,290,530</b>
Employment	1,676		<b>2,959</b>
Construction Labor Income	\$10,038,186		<b>\$15,564,609</b>
Construction Jobs	143		<b>256</b>

\* Because the multipliers have been rounded to two digits after the decimal point, the direct impact times the multiplier does not exactly match the Total Impact numbers in the table. For example, the actual computation for the System Outside Revenues is: (\$157,965,856) times (1.641474) = \$259,296,846.

Outside Revenues= revenues generated by patients residing outside of St. Joseph County.  
 Saved Revenues = revenues from services that otherwise would be purchased outside of St. Joseph County.  
 Saved Income Physicians = income generated by physicians recruited to St. Joseph county by Memorial Hospital.  
 Construction = three year average of construction expenditures made by Memorial Hospital in St. Joseph County.

## ENDNOTES

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<sup>1</sup> Contributing to the Community: The Economic Significance of Academic Health Centers and Their Role in Neighborhood Development, (The Commonwealth Fund, 1987, p. IV/11).

<sup>2</sup> Statistics cited in Section II are taken from: the Chamber of Commerce of St. Joseph County's web site [www.sjchamber.org](http://www.sjchamber.org); County Business Patterns, U.S. Census Bureau; Survey of Current Business, Bureau of Economic Analysis; and, Annual Reports (Beacon Health System).

<sup>3</sup> Revenues considered in this study are those of the System derived through such offerings as inpatient and outpatient services at Memorial Hospital, Memorial Medical Group, MedPoints, Memorial Home Care, Community Health Alliance, cafeteria, educational programs, and so forth.

<sup>4</sup> In mathematical terms:  $\Delta \text{Regional Income} = (\Delta \text{Exports} + \Delta \text{Imports})(\text{Multiplier})$ . That is, changes in regional income derive from the sum of dollar increases in exports and decreases in imports (import substitution) times the multipliers applicable to St. Joseph County. In this report, export income is referred to as "outside income" and import substitution is referred to as "saved income."

<sup>5</sup> On the recommendation of the client, data covering physician compensation were obtained in publications of the Medical Group Management Association. Where specialties cited in MGMA's survey were broader than those reported by Memorial, conservative estimates were made. In addition, two assumptions were made. First, it was assumed that an additional 25 percent of these revenues went to local labor income (receptionists, nurses, etc.). Second, it was assumed that the outside St. Joseph county income of these doctors was the same average (36%) of all other Memorial Hospital activities.

<sup>6</sup> IMPLAN is a recognized source for these data that are producible for every county in the United States.

<sup>7</sup> *Direct effects* are changes associated with the institution's activities – like an addition of new employees to the overall staff. *Indirect effects* are changes incurring in backward linking industries – like additional purchases from vendors that are required to produce additional output. *Induced effects* are changes in regional household spending patterns caused by changes in income coming from the direct and indirect effects.

<sup>8</sup> In estimating these quantities, the following per unit costs were assumed: meals away from home -- \$15; annual apartment rent -- \$12,000; new vehicle purchase -- \$22,000; a gallon of gasoline -- \$3.00; fees and admissions -- \$15; and, a major appliance -- \$750.

<sup>9</sup> 1997 represents the latest detailed county government expenditures that combine various sources of government spending (local, county, school corporations, etc.) were for St. Joseph County. Using information from the 2012 Census of Governments these figures were updated. The updated information must be considered rough estimates of the actual St. Joseph county expenditure distribution since the relative relationship among expenditures categories has most likely changed over time.

<sup>10</sup> According to the 2012 Census of Governments, Indiana local governments have, on average, 311.8 employees per 10,000 persons in the population. Memorial's population impact of 6,591 persons thus adds 206 local government jobs.

<sup>11</sup> The \$5,097,420 results from employee contributions, Memorial tithing plan, and funding of community based organizations and projects.

<sup>12</sup> Once Memorial's direct impact has been derived, as in the body of the report, it is possible to apply either revenue or income multipliers to compute total impact. "Revenues" measure the value of output Memorial sells to inpatients, outpatients, and others who purchase its services. Each dollar of output sold by Memorial requires purchases of output from other St. Joseph County vendors, leading to spillover revenues of about \$0.72. "Labor income", on the other hand, measures the compensation to employees plus proprietor's income from a dollar of output. Each dollar of Memorial's output produces \$0.516 of direct labor income and another \$0.246 of spillover labor income. The spillover labor income results from payments to workers in St. Joseph County who produce goods and services purchased by Memorial. The labor income multiplier in Table 6 is the total direct and spillover effect divided by the direct effect ( $(\$0.516 + \$0.246) / \$0.516 = 1.48$ ).

## Memorial Economic Impact Comparisons

<b>Memorial Economic Impacts</b>			
Year	Revenues	Labor Income	Employment
1988	\$100,648,071	\$43,342,408	1,635
1991	\$106,772,644	\$49,961,599	1,860
1998	\$168,410,366	\$92,265,544	3,208
2005	\$239,396,539	\$103,489,698	2,629
2013	\$397,797,268	\$186,855,138	3,215
Year	% Change Revenues	% Change Labor Income	% Change Employment
1988-1991	6.09%	15.27%	13.72%
1991-1998	57.73%	84.67%	72.46%
1998-2005	42.15%	12.17%	-18.04%
2005-2013	66.17%	80.55%	22.29%

Impacts are based on outside revenues, saved revenues, recruited physician income and construction. Multiplier and direct impacts are standardized to make results comparable.



# **THE ECONOMIC IMPACT OF BEACON MEDICAL GROUP**

*A Report*

**QUANTECH Research Associates**

**Paul S. Kochanowski, D.B.A.  
John E. Peck, Ph.D.**

**June, 2015**

# **The Economic Impact of Physicians Associated With Memorial and Elkhart General Hospitals**

*A Report*

## **Introduction**

Two previous 2014 *Quantech* Research Associates reports, *The Economic Impact of the Physician Sector St. Joseph County, Indiana* and *The Economic Impact of the Physician Sector Elkhart County, Indiana* provide estimates of the economic impacts of each county's physician sector by considering the effects of hypothetically losing all of that county's practicing physicians. In the absence of physicians in a county, residents would be forced to travel outside the county for various medical services. The presence of a physician sector thus retains expenditures locally that would otherwise leave the county. Estimates of the economic impacts of these saved expenditures reveal that the physician sector adds \$274.3 million of income and 4,434 full-time jobs to St. Joseph County and \$125.9 million and 2,012 full-time jobs to the Elkhart economy.

This report considers the economic impacts of a subset of a county's physicians, namely those physicians associated with Memorial Hospital and Elkhart General Hospital. The methodology employed in these estimates differs by necessity from that described above for an entire county's physician sector. Most of the physicians associated with either Memorial or Elkhart General practice in specialties containing many other physicians in the same county. Thus, if these physicians were not associated with these hospitals, patients would most likely avail themselves of other doctors in the same county. Such a movement between physicians in the same county represents a redistribution of county expenditures and consequently, does not influence the level of a county's income or full-time employment. Nevertheless, these physicians associated with Memorial and Elkhart General through attracting patients from outside the counties where these hospital are located enlarge their county's income and full-time employment.

## Methodology

Table 1 contains the basic data used to estimate the economic impacts of the physicians identified with Memorial Hospital and Elkhart General hospitals. The method employed starts with determining the physicians directly associated with Memorial and Elkhart General. Mean compensation figures, per specialty, were then taken from the 2014 Medical Group Management Association (MGMA) survey of physician compensations (2013 data) were applied, extended, and totaled for each hospital. Twenty-five percent of the total was then added to cover the income of office staff (nurses, receptionists, etc.) in physician offices. These numbers then provide the basis for calculating, outside revenues, direct income and direct employment.<sup>1</sup> As the physician sector acquired and distributed this income, a complementary income (1.41) and employment (1.72) *multiplier effect* took place.<sup>2</sup> That is, a portion of the practices' and staffs' income was used to purchase supplies and to make personal consumption expenditures in a second round of local spending. These expenditures generated still more income for other producers in successive additional but declining rounds of local spending. (In each round of spending, some dollars left the area for outside purchases. The income and job multipliers employed in this study take into account the extent to which income earned leaked out of the county).<sup>3</sup>

<b>Table 1: Economic Impact Information on Identified Physicians</b>						
				<b>Memorial Hospital</b>		<b>Elkhart General Hospital</b>
Identified Physicians				161		57
Number of Specialties				24		12
Revenue of Physicians				\$ 38,876,070		\$ 18,274,080
Staff				\$ 9,719,018		\$ 4,568,520
Total Revenue				\$ 48,595,088		\$ 22,842,601
Percentage of Outside Revenue				36		21
Revenue from Outside Patients				\$ 17,494,232		\$ 4,796,946

## Findings

Table 2 includes a summary of the economic impacts on St. Joseph and Elkhart Counties of physicians associated with Memorial Hospital and Elkhart General Hospital. Again, these are dollars of income and jobs in both the physician sector and throughout the total broader local economies *that would not exist except for these physicians attracting new patients from outside the counties where these hospitals are located*. Virtually every business and household in the community would be affected by this new income and employment.

<b>Table 2: Summary of Economic Impacts</b>					
				<b>St. Joseph County</b>	<b>Elkhart County</b>
Direct Labor Income				\$ 11,143,826	\$ 3,084,436
Labor income multiplier				1.41	1.24
Total Labor Income				<b>\$ 15,712,794</b>	<b>\$ 3,824,701</b>
Direct Employment				148	40
Employment Multiplier				1.72	1.53
Total employment				<b>254</b>	<b>61</b>

## ENDNOTES

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<sup>1</sup> Labor income is compensation, i.e. the direct effect, of each dollar of revenue --- in this case, 63.8 cents. (See also endnote 3).

<sup>2</sup> Estimates of income and employment multipliers vary from place to place, where the size of the community, the value added (the amount of income created per employee in the sector), and the type of industry involved are important determinants of the size of the multipliers. Data associated with the income and employment multipliers exclusive to the St. Joseph County and Elkhart County physician sectors were obtained from IMPLAN Group, LLC of Huntersville, NC. For example, an income multiplier of 1.41 suggests that for each \$100 of direct income generated by the practices, an additional \$41 of indirect and induced income is produced by the multiplier effect throughout the broader local economy. Similarly, an employment multiplier of 1.72 suggests that for each 100 direct jobs created by the practices of area physicians, the multiplier effect will generate another 72 indirect and induced jobs throughout the broader local economy.

<sup>3</sup> Once the St. Joseph County and Elkhart County physician sectors' direct impacts have been derived, as in the body of the report, it is possible to apply either revenue or labor income multipliers to compute total impacts. "Revenues" measure the value of output the sector sells to patients and others who purchase its services. Each dollar of output sold by the sector requires purchases of output from other St. Joseph or

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ElkhartCounty vendors, leading to spillover revenues. “Labor income”, on the other hand, measures the compensation to employees plus proprietor’s income from a dollar of output. In the case of St. Joseph County, for illustration, each dollar of the sector’s output produces \$0.638 of direct labor income and another \$0.261 of spillover labor income. The spillover labor income results from payments to workers in St. Joseph County who produce goods and services purchased by the sector. The labor income multiplier in Table 2 is the total direct and spillover effect divided by the direct effect  $(\$0.638+\$0.261)/\$0.638 = 1.41$ .

**THE ECONOMIC IMPACT OF  
THE PHYSICIAN SECTOR  
Elkhart County, Indiana**

*A Report*

**QUANTECH Research Associates**

**2014**

# **The Economic Impact of the Physician Sector Elkhart County, Indiana**

## *A Report*

### **What is Economic Impact?**

There are many dimensions to economic impact. Consider the case of the physicians practicing medicine in Elkhart County, Indiana – the physician sector of the local economy. First and foremost, of course, is recognition that a viable economy is synonymous with one served well in terms of health care – a factor known to affect not only the capability of workers and consumers, but also affecting location decisions of both businesses and households. In this regard, the physician sector is obviously of vital importance to the Elkhart County economy. Further, these practices provide stable jobs and incomes to some 1,730 employees residing in the county, they help support hundreds of local supplier firms, and they provide millions of dollars worth of charity care. In addition, since the Elkhart community is a *regional* health care provider, Elkhart County experiences a large flow of income from surrounding counties as residents of these outlying areas obtain medical services there.

Yet another way of assessing the value of the physician sector is to consider the effect of hypothetically losing all Elkhart County practicing physicians -- as if the area lost a major economic player like Miles Laboratories when it left the area in 1992. In such a case, one would question what the loss would be to the local economy if all local physicians chose to leave the area, and Elkhart County citizens needing doctors' care were obliged to travel to outlying communities for these services? While still recognizing the large economic impact of the presence of the area's some 380 practicing physicians, the emphasis in the pages of this report is directed toward calculating a portion of the economic loss that would occur if the local physician sector was no longer there.

## Methodology.

In order to estimate the economic impact of the physician sector, the following calculations, as summarized in the page 3 Findings, were made:

- A listing of 381 Elkhart County physicians representing some 32 medical specialties was obtained.
- Mean compensation figures, per specialty, taken from the 2014 Medical Group Management Association (MGMA) survey of physician compensations (2013 data) were applied, extended, and totaled. This figure (\$126,312,277) represents an estimate of total physician compensation in the county for the year 2013.
- Twenty-five percent of the total (\$31,578,069) was then added to cover the income of office staff (nurses, receptionists, etc.) in physician offices, thereby providing total direct revenue of \$157,890,346.
- An infusion of income in this amount is consistent with the creation of 1,315 direct jobs.
- Given the determination of direct revenue impact, a measure of labor income (\$101,520,335) was then derived.<sup>1</sup>
- As the physician sector acquired and distributed this income, a complementary labor income (1.24) and employment (1.53) *multiplier effect* took place.<sup>2</sup> That is, a portion of the practices' and staffs' income was used to purchase supplies and to make personal consumption expenditures in a second round of local spending. These expenditures generated still more income for other producers in successive additional but declining rounds of local spending. (In each round of spending, some dollars left the area for outside purchases. The income and job multipliers employed in this study take into account the extent to which income earned leaked out of the county).
- By the time the effect had run its course, the original dollars and resulting job increases had expanded by a multiple that was spread throughout the

overall local economy to a total of **\$125,885,215** in labor income and **2,012** jobs.

**Findings.**

Table 1 contains a summary of income and jobs that would have been lost throughout the local economy in the hypothetical absence of a physician sector in 2013.

**Table 1**  
**Summary of Economic Impact**  
**Elkhart County Physician Sector**

Total Direct Impact	\$157,890,346
Labor Income	\$101,520,335
Times: 1.24 Labor Income Multiplier <sup>3</sup>	<b>\$125,885,215</b>
Total Direct Jobs	1,315
Times: 1.53 Employment Multiplier	<b>2,012</b>

Again, these are dollars of income and jobs in both the physician sector and throughout the total broader local economy *that would not otherwise exist in the absence of Elkhart County's physician sector*. Virtually every business and household in the community would be affected by the loss. Such performance exceeds the economic impact of the vast majority of businesses and government entities housed in Elkhart County.

It can be concluded that, as would be expected, the practicing physicians of Elkhart County are a major contributor to the economic well-being of the community in a number of ways – not the least of which is the large infusion of income and jobs into all corners of the local economy that are enumerated in the findings of this study.

## ENDNOTES

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<sup>1</sup> Labor income is compensation, i.e. the direct effect, of each dollar of revenue --- in this case, 64.3 cents. (See also endnote 3).

<sup>2</sup> Estimates of income and employment multipliers vary from place to place, where the size of the community, the value added (the amount of income created per employee in the sector), and the type of industry involved are important determinants of the size of the multipliers. Data associated with the income and employment multipliers exclusive to the Elkhart County physician sector were obtained from IMPLAN Group, LLC of Huntersville, NC. An income multiplier of 1.24 suggests that for each \$100 of direct income generated by the practices, an additional \$24 of indirect and induced income is produced by the multiplier effect throughout the broader local economy. Similarly, an employment multiplier of 1.53 suggests that for each 100 direct jobs created by the practices of area physicians, the multiplier effect will generate another 53 indirect and induced jobs throughout the broader local economy.

<sup>3</sup> Once the Elkhart County physician sector's direct impact has been derived, as in the body of the report, it is possible to apply either revenue or labor income multipliers to compute total impact. "Revenues" measure the value of output the sector sells to patients and others who purchase its services. Each dollar of output sold by the sector requires purchases of output from other Elkhart County vendors, leading to spillover revenues. "Labor income", on the other hand, measures the compensation to employees plus proprietor's income from a dollar of output. Each dollar of the sector's output produces \$0.643 of direct labor income and another \$0.153 of spillover labor income. The spillover labor income results from payments to workers in Elkhart County who produce goods and services purchased by the sector. The labor income multiplier in Table 1 is the total direct and spillover effect divided by the direct effect ( $\$0.643 + \$0.153 / \$0.643 = 1.24$ ).

**THE ECONOMIC IMPACT OF  
THE PHYSICIAN SECTOR  
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**2014**

# **The Economic Impact of the Physician Sector St. Joseph County, Indiana**

## *A Report*

### **What is Economic Impact?**

There are many dimensions to economic impact. Consider the case of the physicians practicing medicine in St. Joseph County, Indiana – the physician sector of the local economy. First and foremost, of course, is recognition that a viable economy is synonymous with one served well in terms of health care – a factor known to affect not only the capability of workers and consumers, but also affecting location decisions of both businesses and households. In this regard, the physician sector is obviously of vital importance to the St. Joseph County economy. Further, these practices provide stable jobs and incomes to some 2,660 employees residing in the county, they help support hundreds of local supplier firms, and they provide millions of dollars worth of charity care. In addition, since the South Bend community is a *regional* health care provider, St. Joseph County experiences a large flow of income from surrounding counties as residents of these outlying areas obtain medical services there.

Yet another way of assessing the value of the physician sector is to consider the effect of hypothetically losing all St. Joseph County practicing physicians -- as if the area lost a major economic player like the Studebaker Corporation when it closed in the 1960's. In such a case, one would question what the loss would be to the local economy if all local physicians chose to leave the area, and St. Joseph County citizens needing doctors' care were obliged to travel to outlying communities for these services? While still recognizing the large economic impact of the presence of the area's some 750 practicing physicians, the emphasis in the pages of this report is directed toward calculating a portion of the economic loss that would occur if the local physician sector was no longer there.

## **Methodology.**

In order to estimate the economic impact of the physician sector, the following calculations, as summarized in the page 3 Findings, were made:

- A listing of 751 St. Joseph County physicians representing some 31 medical specialties was obtained.
- Mean compensation figures, per specialty, taken from the 2014 Medical Group Management Association (MGMA) survey of physician compensations (2013 data) were applied, extended, and totaled. This figure (\$244,031,847) represents an estimate of total physician compensation in the county for the year 2013.
- Twenty-five percent (\$61,007,962) of the total was then added to cover the income of office staff (nurses, receptionists, etc.) in physician offices, thereby providing total direct income of \$305,039,809.
- An infusion of income in this amount is consistent with the creation of 2,578 direct jobs.
- Given the determination of direct revenue impact, a measure of labor income (\$194,533,037) was then derived.<sup>1</sup>
- As the physician sector acquired and distributed this income, a complementary income (1.41) and employment (1.72) *multiplier effect* took place.<sup>2</sup> That is, a portion of the practices' and staffs' income was used to purchase supplies and to make personal consumption expenditures in a second round of local spending. These expenditures generated still more income for other producers in successive additional but declining rounds of local spending. (In each round of spending, some dollars left the area for outside purchases. The income and job multipliers employed in this study take into account the extent to which income earned leaked out of the county).
- By the time the effect had run its course, the original dollars and resulting job increases had expanded by a multiple that was spread throughout the

overall local economy to a total of **\$274,291,582** in income and **4,434** jobs.

**Findings.**

Table 1 contains a summary of income and jobs that would have been lost throughout the local economy in the hypothetical absence of a physician sector in 2013.

**Table 1**  
**Summary of Economic Impact**  
**St. Joseph County Physician Sector**

Total Direct Impact	\$305,039,809
Labor Income	\$194,533,037
Times: 1.41 Labor Income Multiplier <sup>3</sup>	<b>\$274,291,582</b>
Total Direct Jobs	2,578
Times: 1.72 Employment Multiplier	<b>4,434</b>

Again, these are dollars of income and jobs in both the physician sector and throughout the total broader local economy *that would not otherwise exist in the absence of St. Joseph County's physician sector*. Virtually every business and household in the community would be affected by the loss. Such performance exceeds the economic impact of the vast majority of businesses and government entities housed in St. Joseph County.

It can be concluded that, as would be expected, the practicing physicians of St. Joseph County are a major contributor to the economic well-being of the community in a number of ways – not the least of which is the large infusion of income and jobs into all corners of the local economy that are enumerated in the findings of this study.

## ENDNOTES

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<sup>1</sup> Labor income is compensation, i.e. the direct effect, of each dollar of revenue --- in this case, 63.8 cents. (See also endnote 3).

<sup>2</sup> Estimates of income and employment multipliers vary from place to place, where the size of the community, the value added (the amount of income created per employee in the sector), and the type of industry involved are important determinants of the size of the multipliers. Data associated with the income and employment multipliers exclusive to the St. Joseph County physician sector were obtained from IMPLAN Group, LLC of Huntersville, NC. An income multiplier of 1.41 suggests that for each \$100 of direct income generated by the practices, an additional \$41 of indirect and induced income is produced by the multiplier effect throughout the broader local economy. Similarly, an employment multiplier of 1.72 suggests that for each 100 direct jobs created by the practices of area physicians, the multiplier effect will generate another 72 indirect and induced jobs throughout the broader local economy.

<sup>3</sup> Once the St. Joseph County physician sector's direct impact has been derived, as in the body of the report, it is possible to apply either revenue or labor income multipliers to compute total impact. "Revenues" measure the value of output the sector sells to patients and others who purchase its services. Each dollar of output sold by the sector requires purchases of output from other St. Joseph County vendors, leading to spillover revenues. "Labor income", on the other hand, measures the compensation to employees plus proprietor's income from a dollar of output. Each dollar of the sector's output produces \$0.638 of direct labor income and another \$0.261 of spillover labor income. The spillover labor income results from payments to workers in St. Joseph County who produce goods and services purchased by the sector. The labor income multiplier in Table 1 is the total direct and spillover effect divided by the direct effect ( $\$0.638 + \$0.261 / \$0.638 = 1.41$ ).

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