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# The Economic Impact of Additional Federal Healthcare Funding

Prepared for:



Health System Alliance  
of Arizona

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## Introduction

Rounds Consulting Group (RCG) was retained to evaluate the economic and fiscal impacts associated with local hospitals imposing an outpatient assessment on themselves that would reportedly generate \$354M, as proposed in House Bill 2668. These funds would also secure an estimated \$1.1B in federal funding. This is not a local tax increase.

It was reported to RCG the new funds would be distributed as follows: A) Hospitals - \$1.1B in Medicaid funding (\$760M net of the assessment); B) Physicians/Dentists - \$350M in Medicaid funding to restore Medicaid rates to pre-recession rate cut levels; and C) State - \$20M of increased premium tax revenue to help support costs for physicians/dentists and AHCCCS administration of the Medicaid program.

## Economic and Fiscal Impact Methodology

When new monies are imported into the state they function like a base sector (exporting) business. The monies arrive, circulate, create jobs and produce tax revenues, then eventually exit and new monies are imported again. This is the often referenced “multiplier” effect.

When new local taxes or surcharges are imposed, individuals and businesses that must pay have an equivalent loss in spending on other items. If an increase cannot be passed along, then the impact is to the business rather than the individual.

For this reason, the attraction of new federal monies is considered “net-new” and can be modeled to identify relevant impacts, while the local assessment is a redistribution of local economic activity. Therefore, to simplify, the following analysis focuses only on the federal portion of the proposal, or \$1.1B. There may exist the potential for a portion of the new funds to not immediately be spent, or even exit the state. Eliminating the \$354M in local assessments from the impact calculation more than covers this risk.

The overall purpose of this analysis is to provide context into what the attraction of \$1.1B in new federal funding for hospital use would yield for Arizona. Due to the varying needs of hospitals, there will be some discretion in selecting how to spend the new revenue. This adds complexity to the analysis.

To overcome this uncertainty, the first analysis will focus on the calculation of economic and fiscal impacts under the assumption that the current overall spending patterns by hospitals will remain intact going forward when applied to the federal funding increase. The related economic and fiscal impact analysis is, therefore, a calculation of the number of hospitals that would be required to yield an approximate economic and fiscal impact. Examples for both the larger urban area hospitals and smaller rural hospitals are provided.

A second analysis more generally identifies the number of high wage jobs that must be generated through economic development efforts to produce an equivalent impact on the state. Additional impact examples are provided for context. The key difference between the proposal and a basic economic development effort is that no incentives are required for the expansion activity to occur. Therefore, this proposal yields the same economic value as other high wage business locations but without the economic development incentive cost.



## Hospital Impact Equivalent

The importation of the \$1.1B in federal funds generates significant economic and fiscal impacts. As the new money circulates throughout the local economy, additional economic activity is produced. The economic activity creates a total of 15,538 jobs with \$955.4M in wages and a total economic impact of \$2.3B. The State of Arizona collects \$45.1M in taxes from the federal funds expenditure in this example.

Economic & Fiscal Impacts - \$1.1B Federal Funds		
Impact Type	Jobs	State Taxes
Direct Impact	7,097	\$25,644,900
Indirect Impact	3,331	\$8,070,500
Induced Impact	5,111	\$11,351,600
<b>Total Impact</b>	<b>15,538</b>	<b>\$45,067,000</b>

May not sum to total due to rounding.  
Source: Rounds Consulting Group, Inc.

Using statewide averages, an equivalent of 8 new hospitals yields an economic and fiscal impact equal to what the \$1.1B in federal funds yields. As previously mentioned, the importation of \$1.1B in federal funds circulates throughout the state and produces a total of 15,538 jobs and \$45.1M in state tax revenues. The economic and fiscal impact example for 8 Arizona hospitals is displayed below.

Economic & Fiscal Impacts - 8 AZ Hospitals		
Impact Type	Jobs	State Taxes
Direct Impact	6,063	\$26,169,000
Indirect Impact	3,463	\$8,338,100
Induced Impact	5,271	\$11,678,400
<b>Total Impact</b>	<b>14,798</b>	<b>\$46,185,400</b>

May not sum to total due to rounding.  
Source: Rounds Consulting Group, Inc.

If only larger urban hospitals are considered, the impacts of the \$1.1B in federal funds is equivalent to 7 new hospitals. Approximately 13 new rural hospitals have the same economic and fiscal impact as the \$1.1B federal funding capture. Rural hospitals are smaller but represent a larger percentage of their local economy. Larger hospitals produce a larger economic impact and allow for advanced research and development opportunities. Thus, both types are vital to the state's rural and urban economies.

## High Wage Job Growth Equivalent

The economic and fiscal impacts generated by the \$1.1B in federal funds equals roughly the same as a 5,800-employee high wage headquarters relocating in Arizona. In economic development, a "large" business expansion or location can be considered to be between 250 and 500 employees. Therefore, the hospital activity is equivalent to between 10 and 20 major business expansions or locations in high wage industries.



Economic & Fiscal Impacts – Company Headquarters		
Impact Type	Jobs	State Taxes
Direct Impact	5,800	\$24,443,000
Indirect Impact	3,809	\$9,639,100
Induced Impact	5,213	\$11,579,900
<b>Total Impact</b>	<b>14,822</b>	<b>\$45,662,000</b>

May not sum to total due to rounding.  
Source: Rounds Consulting Group, Inc.

### Commonly Understood Events of Similar Impact

For additional perspective, the following are examples of commonly referenced economic events compared to the impact of the federal funds attraction contained in this analysis.

- According to studies from across the country, Super Bowls tend to produce economic impacts somewhere between \$700M-\$900M. Approximately 3 Super Bowls each year in Arizona would yield an economic impact equal to the \$2.3B in activity produced by the federal government monies related to the hospital plan.
- The economic impact can also be compared to a single large economic development project. For example, a 4,000 to 5,000 worker increase at a company such as Raytheon or Intel would yield approximately \$45M in state revenues, similar to the hospital proposal of capturing \$1.1B in federal funds.

### Additional Considerations – National Debt and State Funds

An opinion was requested related to the receipt of federal funds impacting the national debt figures. From an economics perspective, the national debt is large enough that a major change in public policy at the federal level will eventually be required to bring spending into balance with revenues over the longer term. This will not occur in the near future.

At the state level, the economics argument is that state policymakers should make every attempt to recoup the tax revenues earned by Arizona workers and paid to the federal government. Since foregoing these revenues will not impact the national debt and will instead be captured by our competitor states, the responsible approach is to attract the federal dollars and allow the taxes paid by Arizona residents to be used on projects that benefit Arizona residents.

For some context, the average federal tax payment for a taxpayer earning between \$50,000 and \$75,000 is approximately 15% of income, according to the Tax Foundation. Thus, these taxpayers contribute about \$10,000 in income taxes to the federal government each year. Foregoing \$1.1B in federal funds is the equivalent of asking more than 100,000 Arizona taxpayers every year (using this income group as an example) to pay federal income taxes and receive no benefit. Or worse, it means more than 100,000 Arizona taxpayers are financially supporting programs in other states and making the other states more economically competitive. This is bad policy.