

The Economic Impact of Human Services Spending *Preliminary Report*

The Role of Human Services and the Oregon Economy

Direct Economic Impact (Over \$4.5 billion invested into the economy each year)

While the economic impact of the department as a direct employer is significant, more than 80% of its \$11.5 billion biennial budget is actually spent in the Oregon economy on goods and services for Oregonians in need. The economic impact of this public spending in just a single year can be very significant.

For example, by investing approximately \$3.5 billion into health and social assistance services in 2006, the department supported an estimated 31% of the health and social assistance Oregon GDP (gross domestic product)¹. If this level of support is applied to the number of Oregonians who worked in the health and social assistance sector in 2006, it could be argued that the department's spending supported nearly 55,000 jobs that year. These are jobs that involve the employment of doctors, home health care workers, nursing facility staff, and many others. In fact, the health and social assistance sector accounted for 10.4% of Oregon non-farm employment in 2006². This sector has also shown one of the strongest growth rates in the Oregon employment market, adding 10,000 new jobs in December 2008 relative to the same time period in the prior year³.

Examples like these illustrate why the department is a critical engine of the state's economic growth in two unique ways.

First, the agency is a significant source of federal revenue investment into Oregon. In the current biennium, this function will facilitate the flow of approximately \$7 billion of federal investment into Oregon's economy, about \$5.7 billion of which will be from federal matching funds that rise or fall along with Oregon's investment into these programs. Unlike many other government revenue sources, these federal matching funds represent a high degree of incremental economic investment into Oregon.

Second, in addition to being a facilitator of federal funding, the department's spending goes directly to some of the most critical and vibrant employment sectors in Oregon such as the health care industry. Thus, the department's role as a consistent economic stimulus to Oregon is not only significant, it is vital in times of economic stress. Both of these unique factors can be described as follows:

¹ Estimated from 2006 Oregon GDP data reported by the United States Department of Commerce, Bureau of Economic Analysis

² 2007 average employment by sector, Oregon Employment Department.

³ Oregon Employment Department, December 2008. "Oregon Employment Situation : December 2008"

Federal Matching Funds (An instant 162% return on investment)

In the current biennial budget, the department is forecasted to receive \$1.62 million of federal matching funds for every \$1 million of state generated revenue invested in a matching fund program. These are funds that otherwise would likely not have been invested in the state's economy. The impact of these matching funds simply can't be overstated. Examples of vital programs funded in part by federal matching funds include subsidies provided to low-income citizens for child care, in-home care services provided to low-income senior citizens, and treatment for those courageously fighting their addictions.

Consistent Economic Stimulus (A consumer of vital economic and employment sectors)

During prosperous economic times, the department's role as a stimulant to the Oregon economy is very significant. But as the economy struggles to yield private sector demand for goods and services, the role of the department's spending is absolutely critical to the Oregon economy. While this economic impact can be illustrated with virtually every departmental program, it can have the greatest effect on vulnerable populations including low-income families and senior citizens.

Low-income families are served through a variety of the department's programs. And each of these programs provides a direct impact to the state's economy. For example, a family receiving the average monthly assistance payment of \$418 under the TANF (temporary assistance to needy families) program will in turn spend that money in the Oregon economy and potentially generate \$665 of economic activity⁴. Further, the department administers the Food Stamp program which provides low-income families and senior citizens with an average monthly food assistance payment of \$181, which in turn will be spent in the Oregon economy and potentially, generate \$333 of economic activity (primarily federally funded)⁵. Many of the department's programs serving low-income families also directly support jobs in Oregon's communities, such as child care providers. Through the ERDC (employment related daycare) program, the department provides subsidies to low-income families for child care assistance, which generates an average monthly payment of \$517 to over 13,800 child care providers every year⁶.

The elderly are also one of the most important economic groups to the Oregon economy. As Oregonians continue to age, a growing amount of economic activity is shifting toward the long-term care industry. It is estimated that this industry represented 1.2% of Oregon's economic activity in 2006⁷. As the payer of long-term care services for an average 26,000 Oregonians every month, the department invests over \$1.3 billion annually for the care and support of the elderly and disabled.

⁴ Based on economic analysis of the multiplier effect of federal TANF dollars conducted by the Texas Department of Human Services, November 2002

⁵ Based on economic multiplier impact analysis conducted by the United States Department of Agriculture, Food & Nutrition Service, December 2007

⁶ Based on analysis by the United State Department of Health & Human Services, Child Care Bureau, 2005

⁷ Estimated from 2006 Oregon GDP data reported by the United States Department of Commerce, Bureau of Economic Analysis

⁸ United States Department of Commerce, Bureau of Economic Analysis

⁹ Certified population of Oregon was 3,791,075 as of July 1, 2008 according to the Population Research Center, Portland State University

¹⁰ Families USA. January 28, 2008. "Medicaid : An Important Part of an Economic Stimulus Package"

¹¹ American Recovery and Reinvestment Act of 2009

¹² Based on economic input-output modeling conducted in IMPLAN. IMPLAN is an input/output modeling system first developed by the Forest Service (U.S. Department of Agriculture) to assist federal agencies in resource management and planning. It utilizes data maintained and updated by the Bureau of Economic Analysis (U.S. Commerce Department) and the Census Bureau.

¹³ ECONorthwest. January 5, 2009. "An Analysis of Oregon's Long-Term Care Sector & the Economic Impacts from Potential Reductions in Funding"

Wisconsin Council on Children & Families. February 11, 2003. "Economic Impact of Reducing Medicaid and BadgerCare Expenditures"

¹⁴ "Recovery Rebates and Economic Stimulus for the American People Act of 2008" and the "American Recovery and Reinvestment Act of 2009"

¹⁵ Shapiro, Matthew D and Joel Slemrod. December 2008. "Did the 2008 Tax Rebates Stimulate Spending", American Economics Association 2009 Annual Meeting

The Economic Impact of Reduced Human Services Spending

Cascading Economic Impacts

Based on recent state revenue projections and expected future declines, it is clear that it will be very challenging for many state agencies to maintain their current service levels in the coming biennium. However, the department is unique in the fact that its consumptive nature and access to disproportionate federal funds allows it to be a significant driver of economic activity in Oregon. For example, for every \$1 million that Oregon could choose to invest into its long-term care services, \$1.62 million of federal funds would be accessed, which in turn would create an estimated \$2.7 million of economic activity in Oregon's economy. That is a basic annual return on state funds investment of 270%, higher than virtually any other public or private enterprise could generate with a similar investment. Given this cascading economic impact associated with the department's budget, we decided to examine how a \$1 billion total fund reduction to the budget would likely impact the Oregon economy in terms of lost jobs and economic activity. These results are discussed below. Please note that a discussion of the methods and differing approaches utilized by our researchers is contained in the appendix.

Social and Economic Safety Net

As demonstrated by the economic impact tables below, reductions to the department's level of spending have a significant and often immediate economic impact to the state. In 2007, Oregon's GDP was \$158.2 billion⁸. Using an assumption of flat annual growth in Oregon's GDP, we can estimate that a \$1 billion reduction in total department spending (distributed in a fashion similar to today's expenditures by division) would reduce Oregon's GDP between 0.3% and 0.5%, depending on the methodology used. Likewise, total employment in Oregon would be reduced between 0.4% and 0.9%, or perhaps more importantly, between 9,000 and 21,000 jobs. If the current recession deepens and hampers Oregon's GDP and job growth, there is potential for these percentages to be higher.

It should also be noted that while the department's programs have a significant impact on the state economy, the impact on vulnerable populations is even greater. In 2007, the department served over 1 million Oregonians with direct services, representing more than 25% of the population⁹. These clients represent groups relying on the department for essential services such as child care, health insurance, assisted living care, foster care, mental health treatment, and food assistance. In essence, the department is responsible for some of the most important services that government can provide to its citizens.

Below, we have provided a detailed analysis of the estimated impacts to the Oregon economy based upon a hypothetical reduction of \$1 billion in total funds relative to our essential budget to maintain current services. These are grouped by operating division, and also include the economic value of not pursuing standard investments into certain programs, such as COLA (cost-of-living adjustment) increases. As noted below, eliminating planned annual investments such as COLA's has a significant impact on the amount of dollars that flow into the economy to support demand for goods and services.

Total Funds (General, Federal, Other Fund) Impact	2009-2011 Example - Economic Impact of \$1 billion Total Fund Spending Reduction 1					
	Direct 6	Indirect 7	Output Total Induced 8	Total	Total Employment	Indirect Taxes 5
DHS Divisions						
Seniors & People with Disabilities	(\$250,000,000)	(\$62,046,107)	(\$100,980,414)	(\$413,026,521)	(7,051)	(\$13,765,676)
Division of Medical Assistance Programs	(\$380,000,000)	(\$103,792,949)	(\$175,789,957)	(\$659,582,906)	(5,931)	(\$17,619,673)
Addictions & Mental Health	(\$67,000,000)	(\$20,038,994)	(\$27,903,622)	(\$114,942,616)	(1,260)	(\$3,906,537)
Children, Adults & Families	(\$220,000,000)	(\$77,436,450)	(\$72,479,870)	(\$369,916,320)	(5,321)	(\$14,427,873)
Public Health	(\$1,000,000)	(\$184,769)	(\$475,756)	(\$1,660,525)	(18)	(\$49,428)
Potential Division Economic Impacts	(\$918,000,000)	(\$263,499,269)	(\$377,629,618)	(\$1,559,128,887)	(19,581)	(\$49,769,187)
Economic Impacts of Cancelled Investments 2	(\$82,000,000)	(\$30,366,255)	(\$32,109,193)	(\$144,475,448)	(1,394)	(\$4,661,274)
Potential Economic Impact of Reduced Spending	(\$1,000,000,000)	(\$293,865,524)	(\$409,738,811)	(\$1,703,604,335)	(20,976)	(\$54,430,461)
% of Estimated Oregon 09-11 GDP 3				-0.5%		
% of Estimated Oregon 2010 Employment 4					-0.9%	

1 - Economic model based on policy options for spending reductions from 2009-2011 EBL by division. \$1 billion allocated according to 2007-2009 LAB breakout (except Public Health).
2 - These are investments that DHS could make in the 09-11 biennium including COLA's for providers, increases in capitation rates, etc.
3 - The US Bureau of Economic Analysis reports Oregon GDP as \$158.2 billion in 2007. Assumed flat growth.
4 - The US Bureau of Economic Analysis reported total Oregon employment as 2,320,517 for 2007. Assumed flat growth.
5 - "Indirect taxes" are lost state and local tax revenues
6 - "Direct" effects are decreases in funds going to providers and households due to reduced spending. \$1 billion allocated according to 2007-2009 LAB breakout (except Public Health).
7 - "Indirect" effects are changes in inter-industry purchases as providers cut back in response to reduced spending
8 - "Induced" effects are reductions to household spending due to lost income attributed to the direct and indirect effects

Federal Funds Only Impact	2009-2011 Example - Economic Impact of \$1 billion Total Fund Spending Reduction 1					
	Direct 6	Indirect 7	Output Total Induced 8	Total	Total Employment	Indirect Taxes 5
DHS Divisions						
Seniors & People with Disabilities	(\$156,694,877)	(\$39,194,970)	(\$62,957,412)	(\$258,847,258)	(4,432)	(\$8,673,412)
Division of Medical Assistance Programs	(\$251,364,492)	(\$70,341,311)	(\$116,690,983)	(\$438,396,785)	(3,772)	(\$11,582,190)
Addictions & Mental Health	(\$9,013,752)	(\$2,691,465)	(\$3,102,699)	(\$14,807,916)	(232)	(\$691,480)
Children, Adults & Families	(\$18,970,375)	(\$5,406,998)	(\$5,452,349)	(\$29,829,723)	0	(\$3,009,363)
Public Health	\$0	\$0	\$0	\$0	0	\$0
Potential Division Economic Impacts	(\$436,043,495)	(\$117,634,744)	(\$188,203,444)	(\$741,881,682)	(8,436)	(\$23,956,445)
Economic Impacts of Cancelled Investments 2	(\$51,850,510)	(\$19,295,199)	(\$20,340,440)	(\$91,486,150)	(865)	(\$2,933,989)
Potential Economic Impact of Reduced Spending	(\$487,894,005)	(\$136,929,943)	(\$208,543,884)	(\$833,367,832)	(9,301)	(\$26,890,435)
% of Estimated Oregon 09-11 GDP 3				-0.3%		
% of Estimated Oregon 2010 Employment 4					-0.4%	

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The Potential for Significant Federal Stimulus Dollars Lost

The 2001 – 2003 Recession

During the last recession, Congress increased the FMAP (federal match assistance percentage) for Medicaid by nearly 3 percentage points. This was meant as a tool of federal government fiscal stimulus to the state economies. A Families USA report estimated that for every \$1 million that Oregon invested into the Oregon Health Plan during each year of the increased federal match, over \$3.5 million of economic activity was generated in the state,¹⁰. Congress is now proposing the largest economic stimulus plan in modern history (\$819 billion), with a significant proposed increase in the FMAP¹¹. Such an increase could provide substantial federal stimulus to the Oregon economy, but only if the state continues to fund federal match programs at levels appropriate enough to yield incremental federal investment dollars.

Loss of Federal Stimulus on the Oregon Economy

In the simple example used for this exercise, a \$1 billion reduction in total funds is evenly comprised of

state generated funds and federally generated funds (please note, not all reductions assumed in the exercise are from federal match programs). As noted earlier, every \$1 million of forgone state investment into a federal matching fund keeps an average of \$1.62 million of federal funds from reaching Oregon's economy. We estimate these incremental federal funds drive an extra \$2.7 million of economic activity in Oregon. If federal match rates such as FMAP are increased as proposed, the forgone federal investment dollars with direct impact on Oregon's economy could be much higher.

Conclusion

Oregon faces a very difficult economic environment which is threatening the well being of some of its most vulnerable citizens. At the same time, it is clear that Oregon Department of Human Service dollars play a key role in the most vibrant sector of Oregon's economy and that state investments have a multiplier effect that goes beyond the dollars spent to create jobs, commerce, and economic activity across the state.

Appendix: Discussion on Economic Multiplier Methods and Approaches

Economic Impact Multiplier Methods

The department calculated the economic impacts of each proposed reduction using input-output modeling software¹². Such methods are commonly used for these types of analyses. Input-output modeling quantifies the economic impact of changes to "final demand," which is defined as the act of purchasing goods and services required for consumption. "Direct" effects are changes in industrial activity based on changes in final demand. "Indirect" effects are changes in inter-industry purchases based on "direct" effects. "Induced" effects refer to household spending changes dependent on income, which is influenced by "direct" and "indirect" effects.

We evaluated each proposed reduction in terms of its corresponding impact on both state generated sources of funds, and access to federal funds. Once this determination was made, the impact was allocated to the appropriate industry codes associated with the reduction. For example, reducing eligibility requirements for long-term care services directly impacts nursing facilities. Each budget action produced a direct, indirect, and induced economic impact. It also resulted in an estimate of jobs lost, and loss of tax revenues.

Differing Approaches (Total fund analysis vs. Federal fund analysis)

In conducting the economic impact analysis, the department's staff identified several research efforts which examined both the economic impacts of federal funds and state generated funds¹³. Clearly, the economic impacts from federal funding appear to be the most incremental to economic investment. For example, Oregon's FMAP (federal match assistance percentage) is higher than the national average. Thus, it appears appropriate to follow the direction other analysts have taken, and present the economic impacts of lost federal revenue investments.

However, a case could also be made for examining the incremental nature of state tax revenues in terms of new impacts to the economy. With personal and private sector consumption continuing to fall across the nation and in Oregon, the role of public sector spending has become more significant. While it is true that most state tax revenues are simply a re-allocation of dollars already existing in Oregon; it should not be automatically assumed that these dollars would have otherwise been spent in the Oregon economy. Perhaps the best example of this logic is the significant change in federal fiscal stimulus policy between 2008 and 2009¹⁴. The original stimulus plan resulted in tax rebates being issued to millions of Americans in the hopes of spurring personal consumption. However, it appears that there is at least some evidence that in many cases, the rebates were either spent on personal debt service, or placed into personal savings¹⁵. Thus, the current federal fiscal stimulus appears to be focusing much more heavily on public sector spending as a means by which to ensure full deployment of such funds into the economy in an effort to support demand for goods and services.

Further, it should not be assumed that all sources of state tax revenue exist today in the Oregon economy. State government investments can be funded by means other than current year general fund allocations, such as through the release of reserve accounts, or by public bonding efforts. Recognizing that some analysts may have differing viewpoints on these two methodologies, we have provided the estimated economic impacts of both methodologies, while asserting our policy advocacy using only the federal funds analysis.