

**THE ECONOMIC IMPORTANCE OF THE TETON COUNTY
GENERAL HOSPITAL IN DRIGGS, IDAHO**

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I. Rural hospitals across the nation are facing a profound change in the market for health care. The two major payers for health care, insurance companies and the Federal Government, have for the past decade been seeking ways to curtail rising costs of health care. While this may be successful in forcing fiscal discipline for many large hospitals in populated urban areas, rural hospitals are faced with major restructuring and in some cases closure. The ramifications of this restructuring have implications beyond the hospital doors. This report explains how the Teton County General Hospital fits into the local economic landscape.

Decisions concerning operation and use of the rural hospital are comprised of three parts. First, local citizens affect the local hospital and health care providers by their decision to use local services or to travel to other communities to get needed care. Second, a hospital board comprised of local citizens makes policy decisions which affect how the local hospital is operated. These people are key in seeing that the hospital provides needed services and operates within the revenue constraints. Third, payers for services include individual clients, insurers, government programs and tax base support. The appropriate mix of these revenue sources is recommended by the board but also falls on local voters, if supplementary revenue is needed. A major focus of the study is to provide a better economic understanding of how the hospital operates in the community to board members and local citizens and also provide information for assisting in decisions. This project is part of that emphasis.

II. The Economic Importance of a Rural Hospital.

A hospital has a special place in the economic landscape of a community. It is linked in a forward sense to consumers as a provider of a necessary service and in a backward sense as an employer and a purchaser of goods and services. Medical services are a vital part of any region and important for not only short range planning of residents' needs but also for long range economic development planning. Firms

considering location into a community as well as resident firms considering leaving the community will weigh, among other factors, the quality and quantity of medical services. A hospital, as a major core for medical services, is an important part of that factor.

In a small community such as Driggs, the hospital is generally a relatively large employer and usually employs individuals with moderate to very good annual incomes and to a lesser extent, as a purchaser of local goods and services. As such, due primarily to the influence of the former, its importance is considerable. The rest of this report explains the nature and extent of these forward and backward linkages and just how changes in revenues received by hospitals affect the surrounding community.

Teton County's economic base is dominated by agriculture, construction, tourism, and Government like many rural counties in the Pacific Northwest. During the eighties, 32 percent of Teton County's employment occurred in agriculture and related services, 19 percent of the employment occurred in various agencies of government, and another 18 percent came from retail trade and eating and drinking establishments^{1/}. Indeed an analysis of Teton County's economic base using 1987 as the base year ranks agriculture, tourism, and government as the primary sources of income and jobs for the county. The trend in the eighties was a move away from traditional manufacturing sector and toward retail and services, Table 1, reflecting a structural shift from timber to tourism and services. Nationally, growth in manufacturing has on average been negative while growth in the trade and services has been positive. Changes in trade and services can come from either of two sources: The growth of an industry or set of industries that produce products for sale outside the county (called the export base) such as agriculture and forest products so that the increased employment from these sectors cause an increase in local demand for goods and services. Another

^{1/} Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System, 1988 and U.S. Forest Service, IMPLAN, 1982.

possibility is that the trade and services sectors itself attracts nonresidents as customers and so become an export base. This occurs when tourism increases in a region. In either case the result is an increase in local re-spending. Like the trade and service sectors, hospital employment has increased somewhat since 1987 to 22 full time equivalents in 1990. However, when one considers trade and services are comprised of many firms while the hospital is one single enterprise, its importance is considerably more enhanced. The rest of the report will track just how the hospital is linked, forward and backward, to the rest of the economy. The 1990 population of Teton County was estimated at 3,439 residents. Assuming a state annual average per capita personal consumption of \$648 expenditures for hospital services, total expenditures for hospital services in and outside of the county, approximated 2.2 million^{2/}.

The hospital, like any business or government agency, is a purchaser of supplies and a provider of jobs, and therefore consumers. Changes in revenues to the hospital affect the local economy through reduced employment (and consumer spending) and reduced purchases of goods and services. Revenues that the hospital receives are not amorphous masses of dollars but dollars that are channeled for special purposes. And depending upon how revenues are used, the effect in the surrounding community is changed. Table 2 tracks the channel of hospital dollars for 1987. The hospital spends dollars on local goods and services, non-local goods and services (which is defined as economic leakage) and on human resources - value added^{3/}. Local businesses that receive the hospital's business in turn spend their revenues on supplies from outside the community, on employment or, is absorbed as to owner income. These dollars that businesses contribute to employees wages or owner income is value-added or economic wealth. Totaling the value-added across all industries and accounting for all

^{2/} Assuming Idaho per capita expenditures are the same as Oregon's in 1990.

^{3/} Defined as wages and salaries, returns to ownership, and indirect business taxes.

re-spending, the community level equivalent of gross national product can be calculated.

For the hospital, in 1987 approximately 11 cents out of every dollar is spent locally on goods and services (Table 2). The hospital contributes forty-eight cents out of every dollar to value-added and forty-five cents leaks out in the form of purchases outside the county. Fifty-five cents out of every dollar of revenue then is retained locally in the form of contributions to value-added or local purchases of goods and services.

Like most rural hospitals (and for that matter, many urban hospitals), the economic leakage (goods and services purchased from outside the community) is considerable. Forty-five cents out of every dollar of revenue leaves the community. Those items that make up the major portion of purchases outside the county are drugs and chemicals, lab and scientific equipment, business and computer/data processing services, and wholesale services (ninety percent of the economic leakage).

While linkages of a hospital to the surrounding businesses tend to be minor, this only describes part of the total impact on the county economy. As discussed above, the primary impact of a hospital is from wages and salaries of individuals. These individuals purchase food and housing and pay taxes in the local economy. As Table 1 describes, a permanent change in hospital revenues implies a long-term change in wages and salaries which in turn impact many local businesses providing retail goods and services to employees. Figure 1 tracks the total effects of a dollar of hospital revenue within the community. Every dollar of hospital revenue generates 11.5 cents (from Figure 1) of sales in related businesses. Sectors that are highly linked are real estate and other business services.

The household linkage - the result after re-spending, of hospital employees, and the proportion of supplier employment household spending that originated from that one dollar of hospital revenue is presented in Figure 2. In addition to the value added another 23 cents of economic activity is generated from household spending through

employment linked, directly and indirectly, to the hospital. In this manner sectors that are highly linked to the hospital are, among others, owner-occupied dwelling, retail trade, real estate, doctors and dentists and even the hospital itself.

CONCLUSIONS

The economic importance of a hospital is primarily related to the hospital's contribution to personal income through wages and salaries. As is shown above, the hospital tends not to purchase major proportions of their inputs or supplies from local businesses (though the kinds of purchases made outside the county are probably not available locally,) so the hospital is a significant source of economic leakage. However, the wages and salaries provide an important link to the local economy. The hospital then effects the surrounding economy through household consumption expenditures derived from wages and salaries and tax revenues. The total linkage per dollar of revenue for the hospital is 33.5 cents per dollar of hospital revenue, or \$1.335.

Table 1: The Economic Structure of Teton County, Idaho.

Industry	Total Value - Added	Rnk	Total Personal Income	Rnk	Employ. Compen.	Rnk	Employment	Rnk
	\$MM		\$MM		\$MM		No. of Jobs	
Potatoes	4.606	1	4.517	1	0.962	5	165	3
Real Estate	4.128	2	3.444	4	0.262	14	20	16
Govt. Industry	3.679	3	3.679	2	3.679	1	253	1
Residential Constr.	3.575	4	3.455	3	2.959	2	150	4
Gen. Retail Trade	3.275	5	2.602	5	2.100	3	183	2
Owner-Occup. Dwell.	2.374	6	1.831	8	0.000	46	0	47
Hay and Pasture	2.360	7	2.230	6	0.227	16	56	7
Recreat. Retail	2.010	8	1.802	10	0.650	7	40	9
Auto Repair	1.967	9	1.905	7	0.847	6	25	10
Food & Feed Grain	1.922	10	1.820	9	0.270	12	109	5
Sawmills	1.700	11	1.634	11	1.332	4	41	8
Livestock	1.450	12	1.350	12	0.367	11	74	6
Logging	0.925	13	0.913	13	0.609	8	25	11
Banking	0.628	14	0.611	14	0.414	9	20	15
Postal Service	0.408	15	0.408	15	0.408	10	8	24
Motor Freight	0.375	16	0.360	16	0.263	13	10	20
Doctors and Dentists	0.283	17	0.281	17	0.197	17	7	26
Misc. Crops	0.252	18	0.249	19	0.036	31	7	25
HOSPITALS	0.251	19	0.251	18	0.242	15	22	13
Road Constr.	0.233	20	0.223	20	0.197	18	4	28
Newspapers	0.213	21	0.208	21	0.169	19	6	27
Wood Furniture	0.204	22	0.200	22	0.158	20	9	22
Eating and Drinking	0.198	23	0.178	24	0.141	21	24	12
Landscape Serv.	0.187	24	0.181	23	0.121	25	10	21
Ag., For., Fish., Serv.	0.177	25	0.169	25	0.129	23	17	17
Rest of the Economy	1.240		1.168		0.714		82	
Total	38.618		35.666		17.451		1366	

Table 2: The Distribution of Hospital Revenues - 1987.

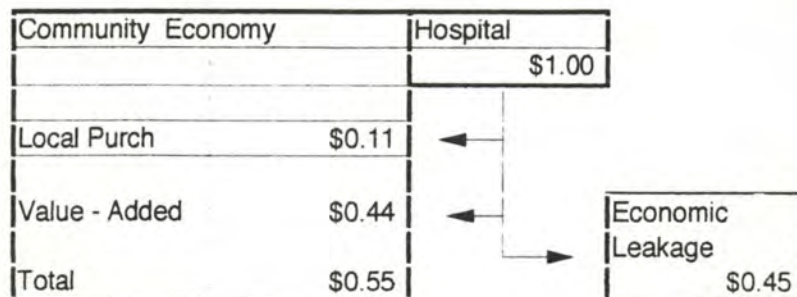


Figure 1: Direct and Indirect Linkages of the Hospital in Teton Co., Idaho
Total Linkage: \$0.115

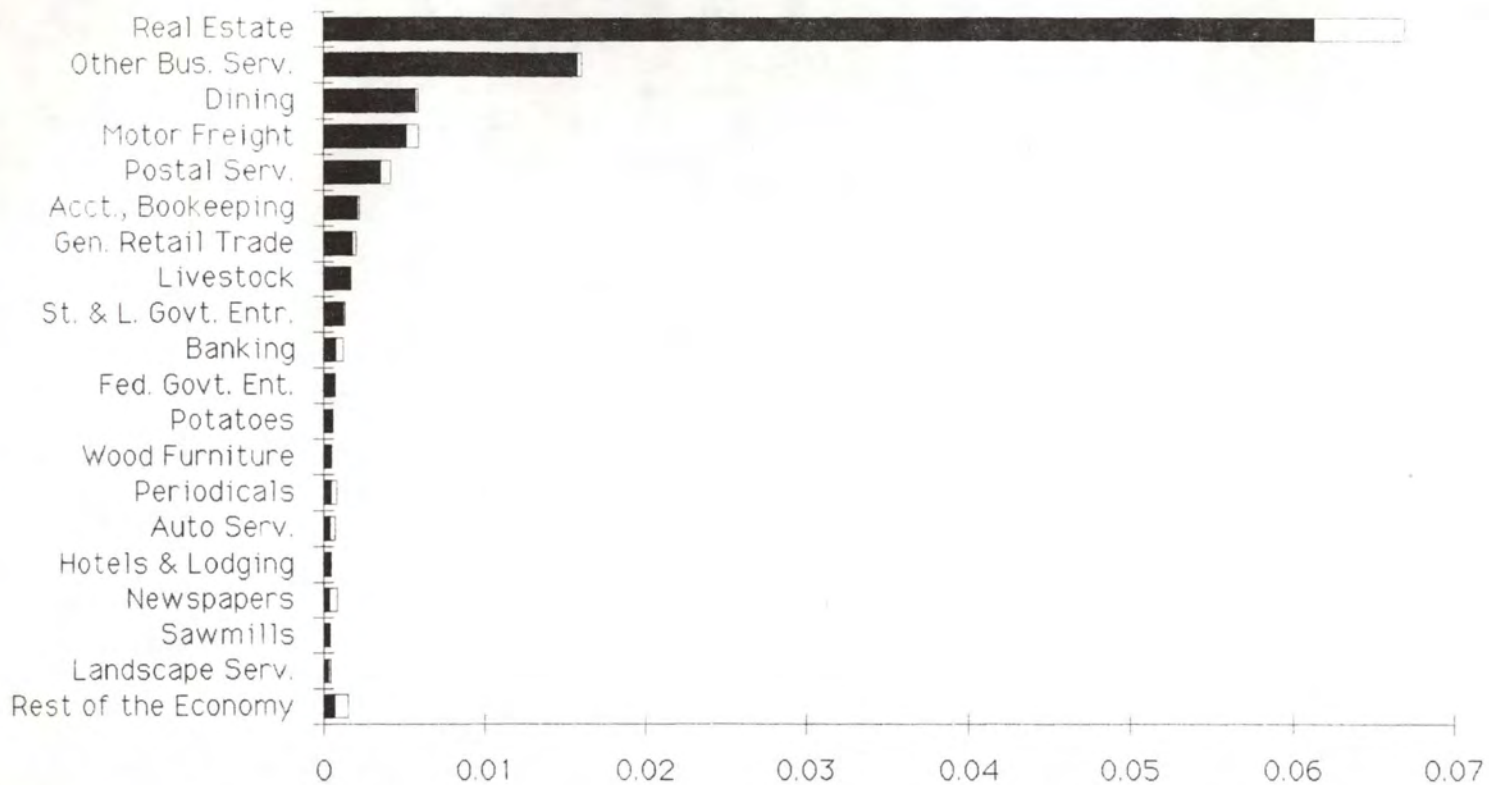


Figure 2: Household Linkages of the Hospital to Teton Co. Idaho Total Linkage: \$0.23

