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**THE ECONOMIC IMPACT OF
AMERIGROUP CORPORATION ON HAMPTON ROADS**

By

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EXECUTIVE SUMMARY

AMERIGROUP CORPORATION is ranked #732 in the 2005 *Fortune* 1000 listing of the largest firms in the United States. It is headquartered in Virginia Beach. Founded in 1994, AMERIGROUP's 2005 sales exceeded \$2.32 billion (a 27.8 percent increase over 2004) and it employed more than 2,700 individuals nationally. With anticipated hiring, AMERIGROUP nationally will employ more than 3,100 individuals in 2006 and its sales will top \$3.0 billion if it continues on its current growth trajectory. In Hampton Roads, AMERIGROUP anticipates employing 1,900 individuals in 2006, making it the seventeenth largest employer, private or public, in the region. AMERIGROUP created more new jobs than any private sector firm in Hampton Roads between 2003 and 2006 and based on available data, it appears that it created more new, permanent jobs than any other private firm in the region since 1994.

The eighth largest health care firm in the country according to *Fortune*, AMERIGROUP is a managed health care company that focuses on providing health care services to individuals eligible to receive Medicaid, Children's Health Insurance Program and Family Care benefits. The Company does not offer Medicare or commercial products.

AMERIGROUP's major customers ("members") typically are much younger than Medicare recipients and the Company helps them access health care in a more efficient manner. This requires a strong commitment to high levels of quality and cost containment. This has been a winning formula; the Company now contracts with more than 50,000 health care providers and serves more than 1.0 million individuals in eight states plus the District of Columbia. State governments find AMERIGROUP is capable of saving them hundreds of millions of dollars via its managed care operations and this is one of the reasons why the Company's sales and employment have expanded so rapidly.

The economic impact of AMERIGROUP inside Hampton Roads can be divided into six categories: (1) direct expenditures on personnel, education and training, equipment, supplies food, materials, utilities, etc.; (2) capital expenditures on buildings and equipment that stretch beyond a single year; (3) taxes paid; (4) gifts made to public and charitable organizations; (5) time volunteered by AMERIGROUP employees to civic and charitable organizations; and, (6) the ripple effect of these expenditures through the regional economy as these dollars are spent and re-spent.

AMERIGROUP's estimated direct economic impact in Hampton Roads in 2006 will total \$199.06 million. These dollars have a ripple effect throughout the community as they are spent and re-spent within the region. This ripple effect, or indirect economic impact, will total another \$199.06 million. The total annual economic impact of AMERIGROUP on the region in 2006 will be the sum of these two effects and is \$398.12 million. This places AMERIGROUP within the top five percent of all private employers

in Hampton Roads and accounts for approximately .6 percent of the region's gross regional product.

AMERIGROUP's cumulative economic impact on the Hampton Roads region since its founding in 1994 is \$1.98 billion. Because of AMERIGROUP's rapid growth, more than 80 percent of that economic impact has occurred since 2000.

I. DIRECT EXPENDITURES ON PERSONNEL, EQUIPMENT, SUPPLIES, ETC.

Perhaps the most direct and visible way AMERIGROUP impacts the Hampton Roads region is via the wages it pays its employees and the fringe benefits that it purchases on their behalf. AMERIGROUP employed 1,323.4 full-time equivalent employees in Hampton Roads in 2005 and the company's total regional employment will rise to approximately 1,900 in 2006. This will make AMERIGROUP the eighteenth largest employer in the region (ninth if its national employees are included).

These employees are paid quite well by regional standards. The mean salary paid an FTE employee of AMERIGROUP regionally was \$51,508, approximately 40 percent above the regional average. Added to this salary were fringe benefits purchased by AMERIGROUP for these employees that amounted to an estimated \$15,452 per full-time equivalent employee, or about 30 percent of each employee's salary. These fringe benefits include health and life insurance; pension and 401-k payments; tuition assistance; sick pay; FICA, FUTA, and SUTA payments; and, workmen's compensation.

In total, AMERIGROUP in Hampton Roads paid its employees \$88.6 million in compensation in 2005. Table One provides details. Between 2004 and 2005, total employee compensation at AMERIGROUP rose by 9.4 percent. AMERIGROUP's total employee compensation within Hampton Roads also grew by 9.4 percent between 2003 and 2004. Thus, there is a steady pattern of growth.

AMERIGROUP expects to increase its number of Hampton Roads employees to approximately 1,900 in 2006. This will have a significant economic impact on Hampton Roads, as Table One indicates. If AMERIGROUP's average salary per employee grows by 4.5 percent (which was the average annual increase in AMERIGROUP's salary payments per employee between 2003 and 2005), then the average salary per employee in 2006 will be \$53,836. If 1,900 individuals are employed, then AMERIGROUP will pay its Hampton Roads employees more than \$102.2 million in salaries in 2006. In addition, it will pay more than \$30.6 million for employee fringe benefits, bringing its average 2006 per employee compensation to \$69,987. This will be almost 50 percent higher than the regional average. AMERIGROUP, then, compensates its typical Hampton Roads employee quite well.

But, there is more to be said about AMERIGROUP's employee compensation. The organization's estimated total compensation paid to employees in 2006 (when implemented for 1,900 employees) will approach a \$133 million annual rate. Only a

small handful of regional employers will exceed total level of compensation. AMERIGROUP easily will rank among the top one percent of regional employers in terms of its total employee compensation payments.

With 1,900 employees, AMERIGROUP also will rank among the 20 largest employers in the region. Table Two discloses that AMERIGROUP will employ more individuals than GEICO, Canon, Landmark Communications, Dominion Virginia Power, Anheuser-Busch and USAA within Hampton Roads. However, if one includes all of AMERIGROUP's employees nationally (which some of the employers on the list do), then AMERIGROUP would rank ninth in size among regional employers, private and public.

TABLE ONE
COMPENSATION PAID EMPLOYEES BY
AMERIGROUP CORPORATION WITHIN HAMPTON ROADS,
2005 AND ESTIMATED 2006

<u>Form of Compensation</u>	<u>2005</u>	<u>Estimated 2006</u>
Full-Time Equivalent Employees	1323.4	1900
Average Salary	\$51,508	\$53,836
Average Fringe Benefits	\$15,452	\$16,151
Average Total Employee Compensation	\$66,960	\$69,987
Total Salaries Paid	\$68,165,687	\$102,292,362
Total Benefits Paid	\$20,063,271	\$30,687,709
Total Compensation Paid	\$88,615,393	\$132,980,070

TABLE TWO

**NUMBER OF EMPLOYEES AND RANKING
OF FIRMS AND ORGANIZATIONS WITHIN HAMPTON ROADS**

<u>Firm or Organization</u>	<u>Number of Employees</u>	<u>Ranking Within Hampton Roads</u>
Northrup Grumman	19,000	1
Sentara Healthcare	14,500	2
Riverside Health System	5,487	3
Busch Gardens/Water Country	5,000	4
Bon Secours	4,000	5
Bank of America	3,600	6
Smithfield Foods	3,223	7
Colonial Williamsburg	3,200	8
(AMERIGROUP National	3,100	9)
College of William and Mary	2,849	9
Chesapeake General Hospital	2,500	10
Value Options (FHC Health)	2,500	11
Ford Motor Company	2,700	12
SAIC	2,500	13
Norshipco	2,200	14
Cox Communications	2,100	15
WAVY-FOX-TV	1,919	16
AMERIGROUP Hampton Roads	1,900	17

Geico Direct	1,800	18
Manpower, Inc.	1,775	19
Canon Virginia	1,750	20
Landmark Communications	1,730	21
Dominion Virginia Power	1,505	27
Anheuser-Busch	1,480	31
USAA	1,300	35

AMERIGROUP has expanded rapidly. Since 2003, it has added more employees, and has recorded larger total sales increases, than any other organization in Hampton Roads, private or public. Based on available data, it appears that it also has created more new, permanent jobs than any other private firm in the region since 1994.¹

Another visible way in which AMERIGROUP affects the region economically speaking is via the expenditures it makes for food, supplies, utilities, and the like, within the region. The Company purchases food, office supplies, electricity and nearly all of the items that a regular household purchases. The estimated value of these purchases will be \$31.37 million in 2006.

¹ During certain years of the 1994-2006 time period, other employers in Hampton Roads, typically those strongly connected to defense spending, created more jobs than AMERIGROUP. However, in other years, these same firms actually lost jobs. Overall, between 1994 and 2006, it appears on the basis of available data that AMERIGROUP created more new, permanent job than any other private firm in the region.

TABLE THREE

**OPERATING EXPENDITURES
OF AMERIGROUP IN HAMPTON ROADS
(NOT INCLUDING COMPENSATION AND TAXES),
2005 AND ESTIMATED 2006**

<u>Year</u>	<u>Operating Expenditures</u>
Est. 2006	\$31.37 million

II. CAPITAL EXPENDITURES

AMERIGROUP operates a capital intensive, facility intensive business. Table Three reveals that it spent an average of \$22.29 million per year between its FY 2001 and FY 2005 on capital projects (computer hardware, leasehold improvements, furniture, etc.). While some regional businesses might approach that number in a single year, relatively few would expend that level of funds on capital projects year after year.

The addition of 400 or more employees in 2006 may well require the physical expansion of AMERIGROUP, in which case capital expenditures likely will increase well beyond the estimated \$30 million.

TABLE THREE

**CAPITAL EXPENDITURES MADE BY
AMERIGROUP IN HAMPTON ROADS, 2001-2005**

<u>Year</u>	<u>Capital Expenditures</u>
FY 2001	\$20.36 million
FY 2002	\$25.42 million
FY 2003	\$11.86 million
FY 2004	\$34.27 million
FY 2005	\$19.53 million
FY 2001- 2005 Ave.	\$22.29 million
FY 2006 Est.	\$30.00 million

III. TAXES AND FEES PAID TO GOVERNMENTS

In 2006, AMERIGROUP is budgeted to pay \$3.323 million in non-personnel taxes and fees. Table Four below catalogs these taxes and fees. Virtually all of these taxes are paid to state and local governments.

As an employer, AMERIGROUP also pays other taxes such as the Federal Insurance Contributions Tax (FICA), which I noted under Compensation in Table One. No FICA taxes are included in Table Four. In addition, AMERIGROUP pays a variety of other taxes that are not included here, for example, federal corporate income taxes that it pays, federal taxes on telephone calls, and the like.

TABLE FOUR
TAXES AND FEES PAID BY
2005 AND ESTIMATED 2006
AMERIGROUP IN HAMPTON ROADS,

<u>Fee or Tax</u>	<u>Budgeted 2006</u>
Licenses and Taxes	\$2.336 million
Other Taxes	\$.987 million
Total	\$3.323 million

IV. FINANCIAL GIFTS MADE BY AMERIGROUP TO CHARITIES

AMERIGROUP Hampton Roads always has been a generous contributor to regional civic and charitable endeavors. In 2006, the Company is scheduled to make \$1.3 million in cash gifts to charitable and civic endeavors. Past recipients included the Urban League, the Boy Scouts, the Ronald McDonald House and the Neptune Festival.

In addition, AMERIGROUP has pursued a consistent policy of donating assets and equipment to charitable and civic groups, especially in the area of computer equipment. A prominent illustration is the Company's donation of 128 productive, usable computer monitors worth \$87,000 to charities between 2001 and 2005. In a

typical year, AMERIGROUP donates about \$20,000 of equipment to charitable and civic organizations.

V. VALUE OF THE VOLUNTEERED TIME OF AMERIGROUP EMPLOYEES

An often overlooked way in which organizations serve and benefit their communities is via the volunteer time and energy their employees provide community and charitable organizations and campaigns. AMERIGROUP employees serve in organizations ranging from the United Way to the Neptune Festival and frequently occupy leadership positions.

AMERIGROUP employees provide an estimated 225 hours of unremunerated public service to the region each month. This translates to 2,700 hours annually. These hours have an economic value, as each of the individuals involved has the alternative of earning income with those hours. In 2006, the average value of a work hour for an AMERIGROUP employee is almost \$27. Therefore, the implicit value of the charitable hours contributed by AMERIGROUP employees is \$72,900.

VI. ECONOMIC RIPPLE EFFECTS

Each dollar spent by AMERIGROUP or its employees within the region goes to an individual or a merchant that in turn will spend most of that dollar. These expenditures reverberate around the region as the dollars turn over. This overall phenomenon frequently is labeled the “economic ripple effect” and multiplies the impact of any expenditure made within the region.

I have chosen a 2.0 multiplier to estimate the total economic impact, including the ripple effect, associated with AMERIGROUP’s expenditures. In AMERIGROUP’s case, a very high percentage of the expenditures it makes, or its employees make, are made within the region. I apply this multiplier to the following:

AMERIGROUP Compensation of Employees	\$132.98 million
AMERIGROUP Regional Purchases of Supplies, Material, Utilities, etc.	\$ 31.37 million
AMERIGROUP Capital Expenditures	\$ 30.00 million
AMERIGROUP Local Tax Payments	\$ 3.32 million
AMERIGROUP Charitable Gifts	\$ 1.39 million
Total	\$199.06 million

Applying the 2.0 multiplier to AMERIGROUP’s direct economic impact of \$199.06 million yields $\$199.06 \text{ million} \times 2.0 = \398.12 million in total economic impact,

direct and indirect. This places AMERIGROUP among the top five percent of regional firms and organizations in terms of its economic impact.

VII. AMERIGROUP’S TOTAL ECONOMIC IMPACT SINCE 1994

While AMERIGROUP’s economic impact in 2006 in Hampton Roads will be an estimated \$398.12 million, it has been in operation since 1994. Table Five reports AMERIGROUP’S cumulative economic impact in Hampton Roads since 1994, stated in 2006 prices.

TABLE FIVE

**AMERIGROUP’S CUMULATIVE ECONOMIC IMPACT
IN HAMPTON ROADS SINCE 1994 (2006 PRICES)**

AMERIGROUP’S Direct and Indirect Economic Impact, 1994-2006	\$1.977 billion
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VIII. SUMMING UP AMERIGROUP’S ECONOMIC IMPACT

We can summarize the economic impact of AMERIGROUP within Hampton Roads as follows:

Direct Economic Impact	\$199.06 million
Indirect Economic Impact ("Ripple Effect")	\$199.06 million
Total	\$398.12 million

By any standard, AMERIGROUP in Hampton Roads is a large economic player within the region. AMERIGROUP is responsible for .6 percent of the value of all economic activity that occurs within our region. This places it among the top five percent of all private employers in the region in terms of its economic impact.

AMERIGROUP has created more new jobs than any private sector firm in Hampton Roads between 2003 and 2006 and based on available data, it appears that it also has created more new, permanent jobs than any other private firm in the region since 1994.

Taking a longer view, AMERIGROUP'S cumulative economic impact in Hampton Roads since its founding is \$1.98 billion.

When all is said and done, AMERIGROUP is a major economic force in Hampton Roads. The region would be visibly poorer were AMERIGROUP not located in our region.