

The Economic Impact of the Bon Secours Hampton Roads Health System

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By

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**Based on data provided by
Bon Secours Hampton Roads Health System**



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EXECUTIVE SUMMARY

The Bon Secours Hampton Roads Health System is a network of hospitals, primary care facilities, ambulatory care sites and continuing care facilities that provides high quality health care to the citizens of Hampton Roads. Bon Secours Hampton Roads (BSHR) is noted for its holistic approach (body, mind and spirit) to the care of the individuals who take advantage of its services. BSHR primarily serves the 1.6 million individual who reside in Hampton Roads, but also serves numbers of individuals from other regions and states, especially North Carolina. Bon Secours Hampton Roads is a part of Bon Secours Health System, Inc., a not-for-profit organization that operates 17 acute care hospitals, six long-term care or nursing facilities, four assisted and independent care facilities, and a variety of other clinics, outpatient, and hospice facilities.

Bon Secours Hampton Roads employs more than 4,100 individuals, making it the fifth largest non-federal employer in the region. The largest unit within BSHR in terms of its economic imprint is Bon Secours Maryview Medical Center in Portsmouth, which earned \$223.4 million in revenues during its FY 2006 year. Bon Secours DePaul Medical Center in Norfolk (whose roots date back to 1839 and has \$123.1 million in annual revenues) and Mary Immaculate Hospital in Newport News (\$99.0 million in annual revenues) also are very substantial units. In addition, BSHR provided \$23.7 million of health care to patients without health insurance, or without the ability to pay, and another \$10.0 million of uncompensated care unreimbursed by Medicaid. By any standard, Bon Secours Hampton Roads is a very substantial economic enterprise.

During its FY 2006 year, BSHR paid \$160.8 million in salaries and fringe benefits to its employees in the region. The average salary of a full-time employee was \$36,616, slightly above the Hampton Roads average. However, each full-time employee received \$10,253 in fringe benefits (28 percent of salary), and this was substantially higher than the regional average of about 20 percent. Overall, Bon Secours provides its full-time employees compensation that is 6.9 percent above the regional average.

The economic impact of Bon Secours Hampton Roads can be divided into six categories: (1) direct expenditures on personnel in the form of salaries and fringe benefits; (2) equipment expenditures; (3) other operating expenditures such as the purchase of drugs and supplies, utilities, and the like; (4) non-operating expenditures such as interest on obligations; (5) gifts made to public and charitable organizations, both financial and in-kind, plus the value of time volunteered by Bon Secours 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.

When the economic ripple effects of their expenditures are taken into account, Bon Secours Hampton Roads has an annual economic impact of \$733.85 million, making it one of the dozen most substantial economic enterprises in the region. This impact is split between the Peninsula and Southside, with approximately 21 percent (\$154.27 million) of that impact on the Peninsula and 79 percent (\$579.58 million) on the Southside.

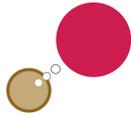
Finally, even though some of the activities of BSHR are not directly taxable, the spin-off from the economic activities of Bon Secours and its employees generates substantial sales, license and property tax revenues that benefit virtually every governmental unit in the region as well as state government. For example, Bon Secours Hampton Roads' purchases of supplies and services, for example, generate an estimated \$6.0 million in sales taxes annually after economic ripple effects are taken into consideration.

I. Direct Expenditures on Personnel, Equipment, Supplies, etc.

The most direct and visible way Bon Secours impacts the region is via the high quality medical services it provides. Indeed, many individuals benefit from BSHR services that are not even aware of that fact. This is true because these benefits sometimes are indirect; for example, a healthy, disease free population is of benefit to everyone. Individuals often are unaware that Bon Secours is the sponsor of medical and health outreach programs or educational programs they utilize. Nevertheless, by working to keep a population healthy and able to live a full and fulfilling life, BSHR makes a very significant contribution to the welfare of the region.

In direct and immediate economic terms, however, the primary way in which Bon Secours Hampton Roads affects the region is via the wages it pays employees and the fringe benefits it purchases on their behalf. The health system employs 4,100 individuals, of whom 2,841 are full-time and 1,277 are part-time. Bon Secours Hampton Roads is the fifth largest non-federal employer in the region.

Bon Secours Hampton Roads' employees are compensated well by regional standards. While the mean salary paid a full-time BSHR employee (\$36,616) is only slightly than the regional average, the fringe benefits paid these employees are quite generous (28.0 percent of salaries); this is approximately eight percent above the regional average. Since the fringe benefits employees usually are non-taxable, this distribution of compensation between wages and fringe benefits works to the benefit of BSHR employees. **Overall, the compensation of the typical full-time Bon Secours employee is 6.9 percent above the regional average.**



The generous fringe benefits Bon Secours Hampton Roads provides its employees also benefit the region’s governmental units and taxpayers in a very important, but perhaps less obvious way. Bon Secours fringe benefits include health and life insurance; pension and 401-k payments; tuition assistance; vacation pay; sick pay; FICA, FUTA, and SUTA payments; and, workers' compensation. The provision of these fringe benefits means that BSHR employees are less likely than most to become wards of the state, or to fall prey to a variety of social maladies. Fringe benefits provide “behind the scenes” economic support to any region and the Bon Secours Hampton Roads system excels in this regard.

TABLE ONE

**NUMBER OF EMPLOYEES AND RANKING
OF NON-FEDERAL FIRMS AND ORGANIZATIONS
WITHIN HAMPTON ROADS**

<u>Ranking Within Firm or Organization</u>	<u>Employees</u>	<u>Number of 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 Hampton Roads	4,100	5
Bank of America	3,600	6
Smithfield Foods	3,223	7
Colonial Williamsburg	3,200	8
College of William and Mary	2,849	9
Chesapeake General Hospital	2,500	10



In its FY 2006 year, Bon Secours Hampton Roads spent \$140.48 million on salaries and fringe benefits for its employees. This will rise to an estimated \$148.91 million in FY 2007. These are supercharged dollars in terms of their economic impact because they are paid to local employees who spend the great majority of those dollars with local merchants. Local merchants, in turn, spend those dollars once again and a significant economic ripple effect is created. Typically, \$1,000 in salary and fringe benefit payments results in \$2,300 in total economic impact as the economic impact diffuses.

TABLE TWO

**SALARIES PLUS FRINGE BENEFITS
AT BON SECOURS HAMPTON ROADS, FY 2006 AND 2007**

	<u>FY 2005</u>		<u>FY 2006</u>	
	<u>Salaries</u>	<u>Fringe Benefits</u>	<u>Salaries</u>	<u>Fringe Benefits</u>
Peninsula	\$20.34 m.	\$5.74 m.	\$22.09 m.	\$6.23 m.
Totals	\$26.08 m.		\$28.32 m.	
Updated to 2007			\$30.02 m.	
Southside	\$92.20 m.	\$19.18 m.	\$92.45 m.	\$19.71 m.
Totals	\$111.38 m.		\$112.16 m.	
Updated to 2007			\$118.89	
BSHR Totals	\$112.54 m.	\$24.92 m.	\$114.54 m.	\$25.94 m.
Totals	\$137.46 m.		\$140.48 m.	
Updated to 2007			\$148.91 m.	



II. Supplies and Equipment Expenditures

Hospitals and health care facilities purchase immense amounts of commodities that typically are labeled “supplies.” These include items ranging from food, clothing to drugs and medicine. Some of these items (for example, food) tend to be purchased locally and hence their economic impact is quite large on the region. Other items (such as pharmaceuticals) are less likely to be purchased locally, though local suppliers and distributors may be involved. In any case, their economic impact typically is smaller upon the region.

Modern medicine also involves facility-intensive, equipment-intensive processes. Equipment purchases may range from sophisticated equipment such as a CAT scanner to a motor vehicle.

Table Three reveals that the various units of Bon Secours Hampton Roads spent \$84.4 million on supplies and equipment in FY 2006 and will spend an estimated \$89.5 million in FY 2007. Very few enterprises within the region spend so much on supplies and equipment in a single year unless they are constructing a new facility de novo. While the economic impact of supply and equipment expenditures upon the local economy is not as great as for wages and salaries because a greater proportion of equipment expenditures is made outside of the region, their impact still is substantial. For example, when Bon Secours purchases food, office furniture or a vehicle, this injects money into localities throughout the region. These funds are spent and re-spent so that a \$1,000 equipment expenditure by BSHR eventually generates \$1,800 in new income.

TABLE THREE

**SUPPLIES AND EQUIPMENT EXPENDITURES
MADE BY BON SECOURS HAMPTON ROADS, FY 2006**

Peninsula	\$20.1 million
Updated to 2007	\$21.3 million
Southside	\$64.3 million
Updated to 2007	\$68.2 million
BSHR Total	\$84.4 million
Updated to 2007	\$89.5 million



III. Other Purchased Services

Salaries, fringe benefits and equipment purchases typically constitute the largest individual expenditures made by Bon Secours Hampton Roads in any given year. That said, there are numerous other operating expenditures the hospitals and facilities make, some of which are virtually unavoidable. These other expenditures typically involve the purchase of services by the hospitals and care facilities. Examples include payments to physicians, utilities, and contractual services to short-time employees and consultants. Taken together, these expenditures are highly significant. Table Four summarizes these other operating expenditures by hospital.

TABLE FOUR

**EXPENDITURES ON PURCHASED SERVICES
MADE BY BON SECOURS HAMPTON ROADS**

Peninsula	\$21.9 million
Updated to 2007	\$23.2 million
Southside	\$86.3 million
Updated to 2007	\$91.5 million
BSHR Total	\$108.2 million
Updated to 2007	\$114.7 million

IV. Non-Operating Expenditures

Non-operating expenditures primarily consist of interest paid by Bon Secours on financial obligations. These obligations often involve interest payments made on facilities previously constructed, but not yet paid for. Since some of the long-term financial debt of ultimately is held by financial institutions outside Hampton Roads after local financial institutions “sell” that debt, the regional economic impact of these expenditures is diminished. \$1,000 in interest expenditures typically results in only \$600 in additional regional income.



TABLE FIVE

**OTHER OPERATING EXPENDITURES (PRIMARILY INTEREST PAYMENTS)
MADE BY BON SECOURS HAMPTON ROADS**

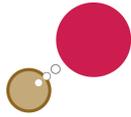
Peninsula	\$2.2 million
Updated to 2007	\$2.2 million
Southside	\$6.8 million
Updated to 2007	\$6.8 million
BSHR Total	\$9.0 million
Updated to 2007	\$9.0 million

V. Volunteered Time and Other Resources Made as Gifts or Provided to the Community Gratis by Bon Secours Hampton Roads

The three major hospitals and other care facilities within Bon Secours Hampton Roads provide a highly diversified and very valuable set of services to the region’s citizens. Many of these services are provided at prices below cost, or in fact are provided gratis. These services include health fairs, free health screenings, health counseling, health education sessions and other services including preventive medicine and shots. Most of these services address populations that are especially vulnerable in a health context -- groups of individuals that are particularly young or elderly, those that lack financial means or insurance coverage, those whose families have been disrupted, those who have chemical dependencies, and those composed primarily of members of minority groups.

Exemplary among numerous BSHR outreach programs are its Park Place Medical Center, the Family Focus Program serving families with young children and pregnant young mothers, the Parish Nurse Program, the Capitol Hill Club Advocacy Program, the Let’s Get Real Program focusing on healthy life styles and cooking, and the programs of preventive health screenings for cardiovascular disease, blood pressure, cholesterol and diabetes.

Bon Secours Hampton Roads usually provides these valuable and sometimes life-saving services gratis, or a very low, far below market prices. In some cases, this is done by discounting or even eliminating a patient’s bill. In other cases, it may occur because BSHR is not fully reimbursed by government for the Medicaid and Medicare services it provides. Bon Secours Hampton Roads’ Consolidated Financial Statement for 2006 contains the forthright



statement, “The primary mission of the system is to minister to the sick, the suffering, the dying, and their families.” As BSHR faithfully fulfills that mission, it often does not take into account a patient’s ability to pay. As a consequence, Bon Secours makes a substantial uncompensated charitable gift to the Hampton Roads communities in which it operates. In its 2006 Community Report, Bon Secours Hampton Roads reported \$23.7 million in charity care for individuals who did not have health insurance, or the ability to pay. It also recorded \$10.0 million in unreimbursed Medicaid costs. It also provided \$2.9 million in services rendered through its community health education programs, health screenings, and the like.

While it is apparent that these programs have a long-term positive economic impact because they avert future health and social problems, and it is undeniable that they impose costs on BSHR, it would be double-counting to consider their current economic impact. In general, the resources that are utilized to mount these programs are paid for, and accounted for, in the categories of expenditures I already have outlined in the sections above. By way of illustration, Bon Secours pays the personnel who serve Medicaid patients whose costs are unreimbursed; these salaries and fringe benefits already have been counted above in Section I. Similarly, unreimbursed expenditures on equipment, supplies, etc., have been counted in Sections II, III and IV. Hence, it would not be appropriate to count those expenditures here once again.

Nevertheless, Bon Secours Hampton Roads employees volunteer thousands of hours each year to regional civic and charitable organizations. These volunteer hours constitute a major, multimillion dollar annual endeavor. It is necessarily difficult to place an economic value on services that are not actually priced in the marketplace and where personal care and concern weigh heavily. Even so, I have attempted to do so and Table Six provides a summary of the implicit economic value of most of the gratis services supplied by Bon Secours hospitals and their employees. Volunteer hours have been valued at \$18.30, which approximates the average wage per hour of a Bon Secours Hampton Roads full-time employee. I have approximated the number of volunteered hours (an average of two hours per week) by relying upon other studies of hospital personnel and ordinary citizens.

The product is impressive. **Table Six reveals that the value of the volunteer hours supplied by Bon Secours Hampton Roads employees is an estimated \$6.30 million annually.** This represents a commitment over and above what BSHR does officially as an organization and does not include any direct financial contributions that Bon Secours employees make on their own to charitable organizations.

TABLE SIX

**THE VALUE OF VOLUNTEER TIME PROVIDED
BY BON SECOURS HAMPTON ROADS EMPLOYEES**

Values of Employees’



Volunteered Hours

Peninsula	\$1.35 million
Southside	\$4.95 million
Total	\$6.30 million

VI. Economic Ripple Effects

Each dollar spent by Bon Secours Hampton Roads or its employees within the region goes to an individual or a merchant who in turn spends 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 it multiplies the impact of any expenditure made within the region.

Not all expenditures are created equal, however, insofar as ripple effects are concerned. Those expenditures made within Hampton Roads for locally produced goods and services usually have a much larger ripple effect than expenditures that are made in Washington, D.C., or perhaps in the People’s Republic of China. This is not to say that expenditures made outside Hampton Roads region are inappropriate. Indeed, any organization or firm that seeks to be efficient, or plans to survive, must seek out the lowest possible price for the items it purchases, consistent with its requirements for quality and service. Viewed in this context, expenditures made regionally may or may not constitute efficient behavior, depending upon what is being purchased and the purchaser’s needs. Regional economic impact, however, is another matter.

Based upon other economic impact studies I have completed, and existing research, the following spending multipliers are reasonable for the expenditures of Bon Secours Hampton Roads and its employees:

Wages, Salaries and Fringe Benefits:	2.3
Supplies and Equipment	1.8
Purchase of Services	1.9
Non-Operating Expenditures	0.6
Charitable and Volunteer Activities of Employees	1.1

With those expenditure multipliers in mind, Table Seven summarizes the economic ripple effects of Bon Secours Hampton Roads and its employees as of Summer 2007. **Taking into account the diverse expenditures of BSHR and the varying multipliers that apply to each type of expenditure, a fair estimate of the total 2007 annual economic impact,**



including economic ripple effects, of Bon Secours Hampton Roads is \$733.85 million. To place this in context, it is substantially larger than that of Norfolk State University, but a bit smaller than that of Old Dominion University. While comparable data are not available for all of the large organizations and firms with the region, this would appear to place Bon Secours Hampton Roads within the top twenty organizations in the region with respect to its economic impact. Needless to say, its impact on the region’s social fabric and quality of life is even larger.

TABLE SEVEN

**ECONOMIC RIPPLE EFFECTS OF
BON SECOURS HAMPTON ROADS, 2007**

<u>Class of Expenditure</u>	<u>Multiplier</u>	<u>Size of Expenditure</u>	<u>Total Economic Impact</u>
Wages, Salaries and Fringe Benefits	2.3	\$148.91 m.	\$342.49 m.
Supplies and Equipment	1.8	\$ 89.50 m.	\$161.10 m.
Purchased Services	1.9	\$114.70 m.	\$217.93 m.
Other Operating Expenditures	0.6	\$ 9.00 m.	\$ 5.40 m.
Employee Charitable and and Service Activities	1.1	\$ 6.30 m.	\$ 6.93 m.
Totals		\$368.41 m.	\$733.85 m.

VII. Partitioning the Results: Peninsula and Southside

Table Eight partitions the data from Table Seven into two parts---the Peninsula (primarily Mary Immaculate Hospital) and Southside (primarily Maryview Medical Center and DePaul Medical Center). **The total economic impact of Bon Secours Hampton Roads on the Peninsula is \$154.27 million (21 percent of the system total). Total economic impact on the Southside is \$579.58 million (79 percent of the system total).**

TABLE EIGHT

**ECONOMIC IMPACT OF BON SECOURS HAMPTON ROADS:
PENINSULA AND SOUTHSIDE**

Economic Impact



Peninsula	\$154.27 million	(21.0%)
Southside	\$579.58 million	(79.0%)
Total	\$733.85 million	(100%)

VIII. Final Comments

What can we conclude? First, these data tell us that Bon Secours Hampton Roads is providing the region's citizens with significant amounts of quality health care. **Second, given that the annual value of the gross regional product of Hampton Roads approximates \$76 billion, this means that BSHR is responsible for almost one percent of the region's economic activity. As such, it is a member of an elite and selective group of organizations and firms that make Hampton Roads move, economically speaking. It provides a substantial economic spark to the region and has become our fifth largest non-federal employer.** Third, many individuals within the region have found attractive jobs supplying health care within the BSHR and when these employees spend their incomes, the entire region prospers. The relatively generous fringe benefits Bon Secours provides to its employees enhance their salaries and increase their value to the communities in which they reside.



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