



EVERYONE WINS: Maximizing the Economic Impact of Health Care Delivery in New Mexico

O'DONNELL ECONOMICS AND STRATEGY

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Everyone Wins: Maximizing the Economic Impact of Health Care Delivery in New Mexico

“Half of the overall economic growth in the U.S. during the last century is associated with improvements in population health”

William D. Nordhaus, The Health of Nations: The Contribution of Improved Health to Living Standards, 2002

Executive Summary

The health care delivery system is a large and growing component of New Mexico’s economic base. The health care industry currently employs over 127,000 New Mexicans, a number that is expected to increase by at least 20 percent over the next ten years, the fastest growth rate of any employment sector in our state. Three of New Mexico’s five fastest growing occupations and six of the state’s highest paid professions are in health care¹, and, although it is concentrated in the urban areas, health care employment can be found throughout the state and can be especially critical to rural economies.²

Health care is a true “economic base” industry that draws over \$7 billion into New Mexico annually, stimulating the state economy by fostering innovation, creating good paying jobs and attracting private sector investment. Each year, health care attracts more federal dollars and creates more economic stimulus than New Mexico’s two National Laboratories combined.³

Health care benefits New Mexico’s economy in numerous other ways as well. The quality of the health care system is often a key factor in location decisions by firms and individuals, especially large employers, retirees, veterans and families with children.⁴ Access to timely and

appropriate health care for workers helps control growth in business costs such as health insurance premiums and taxes, and enhances workforce productivity by reducing rates of chronic disease, absenteeism and employee turnover.

Despite health care's already prominent place in its economy, the state of New Mexico is far from realizing the full economic potential of our state's health care delivery system. The inability of many New Mexicans to access the health care they need due to lack of insurance, high out of pocket costs and provider scarcity stifles economic growth by undermining population health, diminishing workforce productivity, increasing health care costs for businesses, individuals and government, and constraining the growth of this crucial sector.

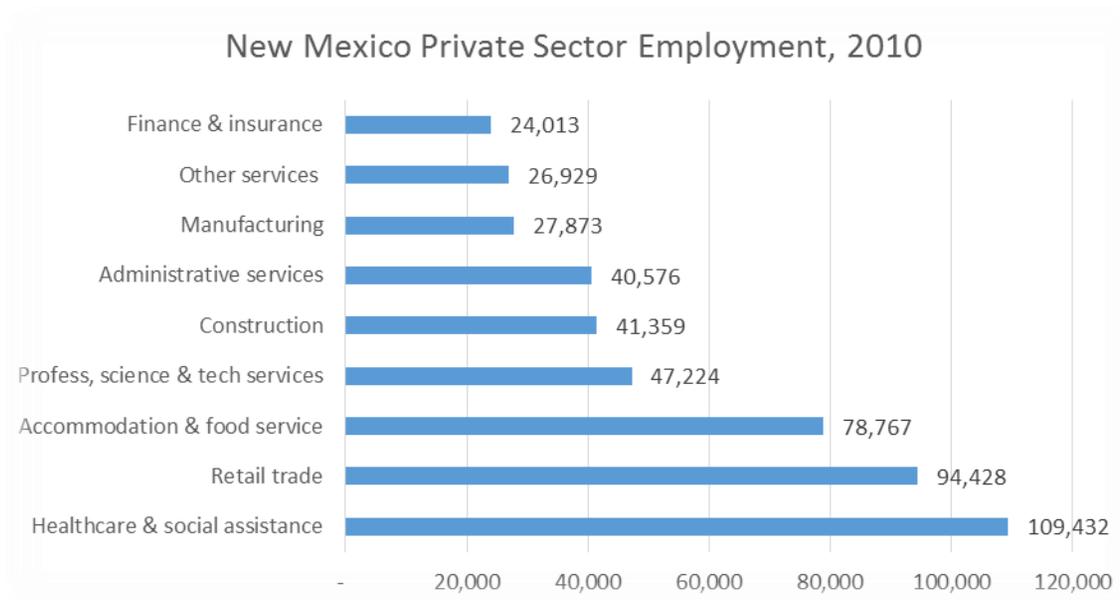
The aging of New Mexico's population and implementation of federal health care reform will dramatically increase the demand for health care services in the coming years. The stimulus to the health care sector will ripple out through the broader economy, creating new jobs and increasing income in virtually all industrial sectors. In fact, one aspect of health care reform alone – the expansion of New Mexico's Medicaid program to low income adults -- will create over 3,000 new jobs in the first full year of implementation and support about 13,000 additional jobs by 2020. But the full potential of health care to fuel job growth and prosperity will only be realized if New Mexico maximizes the benefits of health care reform by taking full advantage of the law's many opportunities to expand insurance coverage and enhance access to care. For health care reform to be a truly effective catalyst for economic growth, the state must take immediate steps to ensure the supply of health care is adequate to meet the anticipated increases in demand by augmenting the health care workforce pipeline and maximally leveraging the capacity of current primary care providers.

A primary care physician practice in a rural community creates an estimated 23 jobs and generates approximately \$1.8 million in annual total revenue of which roughly \$1 million is wages, salaries and benefits,⁵ yet the state of New Mexico spends 12 times more on economic development incentives for which health care providers do not qualify than it does on incentives to recruit and retain health care practitioners. It is hoped that a better understanding of health care's contribution to the state economy will encourage New Mexico's policymakers to champion health care as they do other economic base industries and embrace health care reform as an unprecedented opportunity for economic growth.

Background: Health Care Employment in New Mexico

Health Care Employs More New Mexicans than Any Other Industry

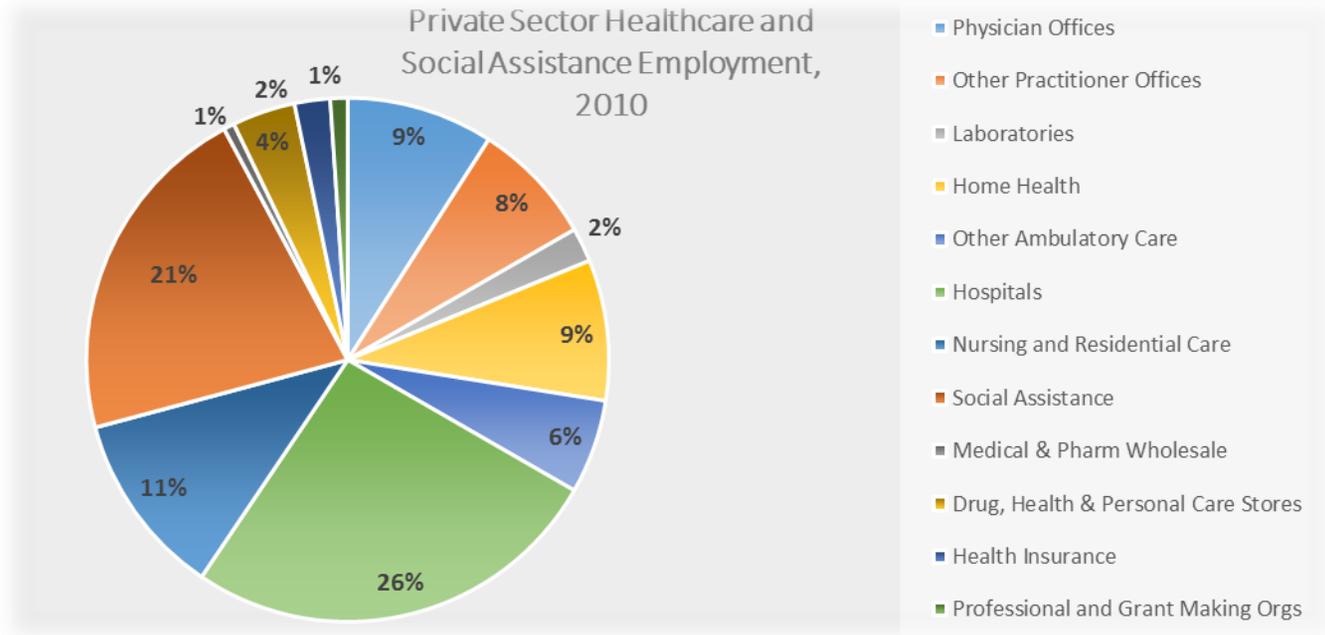
Health care is the single largest private sector employer in New Mexico, accounting for 18 percent of all private sector jobs and 20 percent of private sector payrolls. In 2010, there were 109,000 private sector health care jobs in New Mexico. An additional 18,000 New Mexicans are employed by government health care institutions including university and veterans hospitals.



Source: University of New Mexico Bureau of Business and Economic Research

Hospitals are the single largest employer in the “Health Care and Social Assistance” sector, accounting for over one-quarter of private sector health care delivery jobs. Social assistance services account for 21 percent of private sector health employment and residential

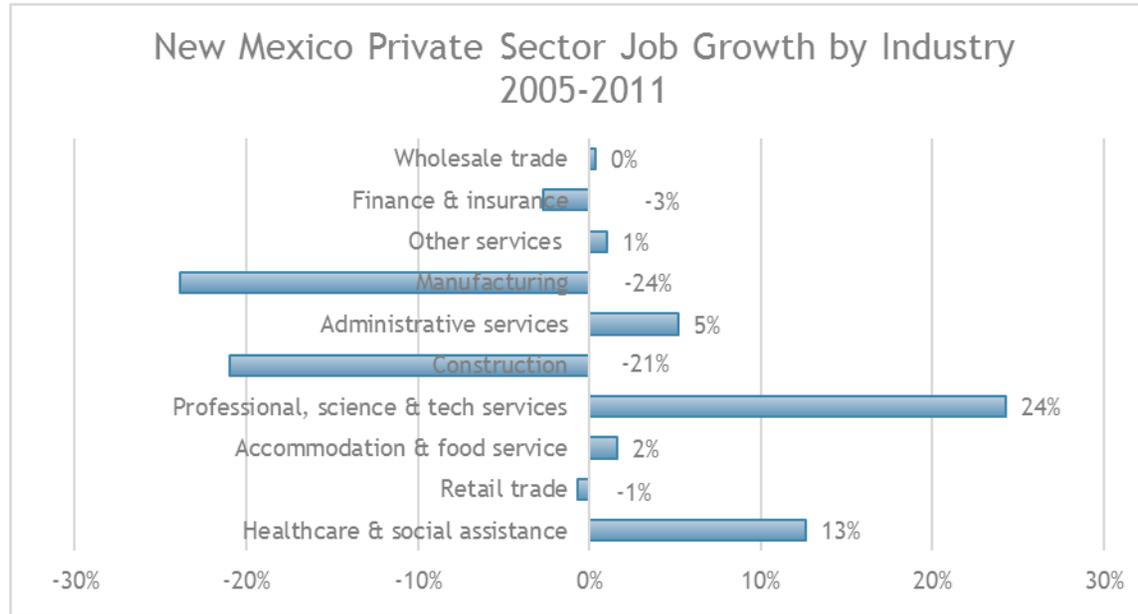
care accounts for 11 percent. Physicians' offices and home health services each provide another 9 percent of private sector health care jobs.



Source: US Bureau of Labor Statistics Quarterly Census of Employment & Wages

Health Care Drives State Job Growth

Health care ranks number one among New Mexico industries in private sector job creation. Between 2005 and 2011 almost 14,000 new private sector jobs were created by New Mexico health care businesses and institutions, more than any other industry. Even during the height of the recession, from 2007 to 2009, when over 60,000 jobs were lost statewide, 7,000 new jobs were created in health care and social assistance.



Source: US Bureau of Labor Statistics Quarterly Census of Employment & Wages

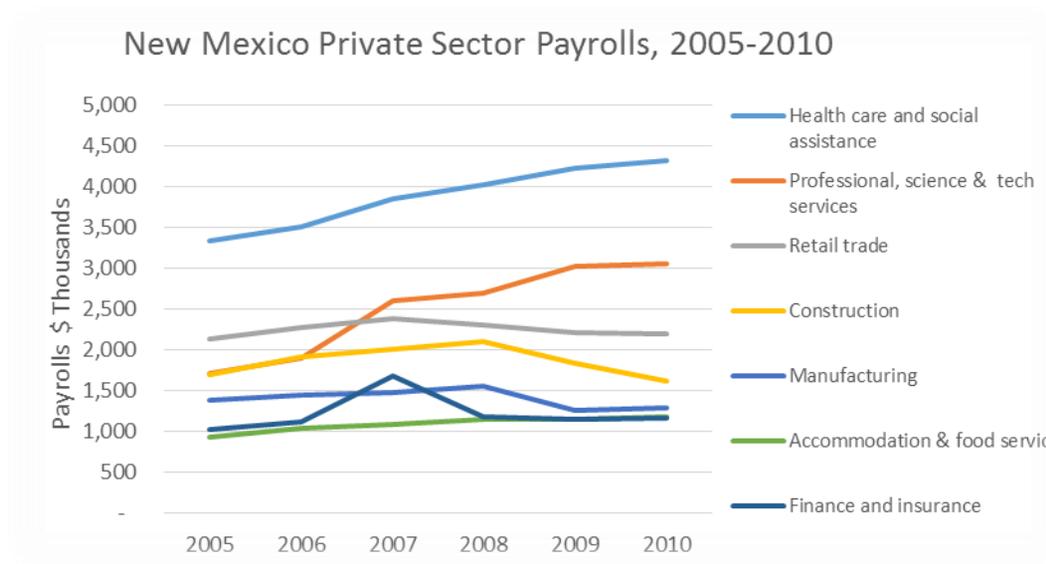
New Mexico's health care sector is second only to professional and technical services in its rate of job growth. Between 2005 and 2011 health care and social assistance employment grew by 13 percent. During the same period employment in other major economic sectors including construction and manufacturing declined by almost one quarter.

Between 2013 and 2020, health care is expected to add 26,000 jobs, an annual growth rate of roughly 2.5 percent per year⁶. Ambulatory health care services including outpatient clinics, the offices of physicians, dentists and other practitioners, and medical laboratories will lead the way in job creation, expanding employment at a rate of over three percent per year and adding over 9,000 jobs by 2020. Employment by nursing homes and social assistance services are each expected to grow by 2.7 percent per year and hospital employment will increase by approximately 1.7 percent per year.⁷

Health Care Payrolls Continue to Climb Despite Recession

In 2010, health care accounted for over 20 percent of New Mexico private sector payrolls. Although not completely “recession-proof,” health care delivery is more resilient in the face of economic downturns than virtually any other sector of New Mexico’s economy, including both government and education.⁸

The state’s health care payrolls increased by 30 percent between 2005 and 2010, a period during which total private sector payrolls increased by only 17 percent and the payrolls of many major employers stagnated or declined.



Source: US Census Bureau County Business Patterns



Source: U.S. Census Bureau County Business Patterns

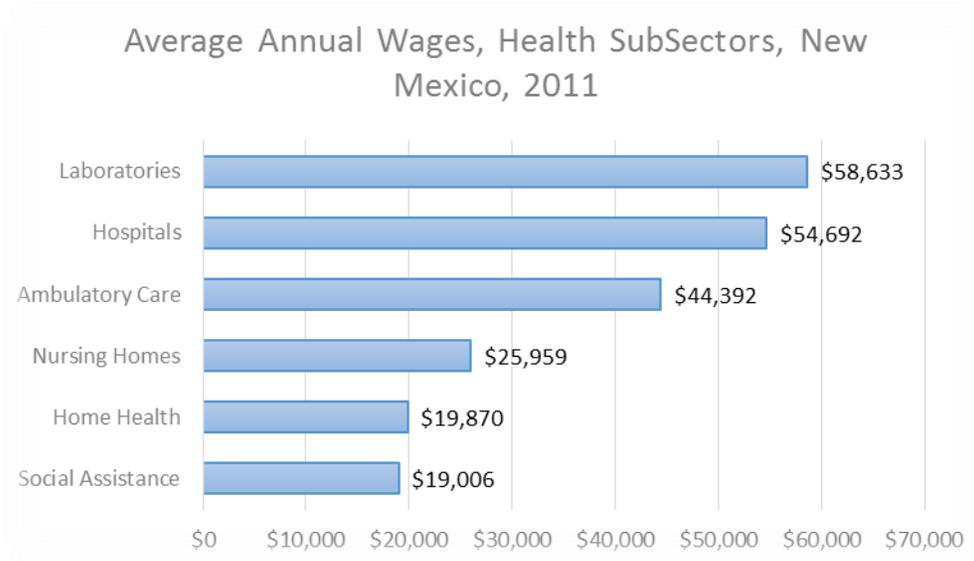
Health Care Wages

New Mexico's health care delivery system provides a broad spectrum of job opportunities for workers of all skill levels, ranging from entry-level home health aides to highly trained medical specialists. In 2011 the average annual wage for New Mexico's health care sector was \$38,052, slightly less than the statewide average for all private sector employment. Average wages also vary significantly across health subsectors.



Source: Bureau of Labor Statistics Quarterly Census of employment and wages

In 2011 average wages ranged from \$19,000 in the social assistance sector to almost \$59,000 for medical and diagnostic laboratory personnel.



Source: Bureau of Labor Statistics Quarterly Census of Employment and Wages

Three of New Mexico's five fastest growing occupations are in health care.

New Mexico Occupations Adding the Most Employment 2009-2019

<i>Personal & Home Care Aides</i>	6,710
<i>Home Health Aides</i>	4,330
<i>Retail Salespersons</i>	3,440
<i>Food Preparation & Servers</i>	3,170
<i>Registered Nurses</i>	3,030

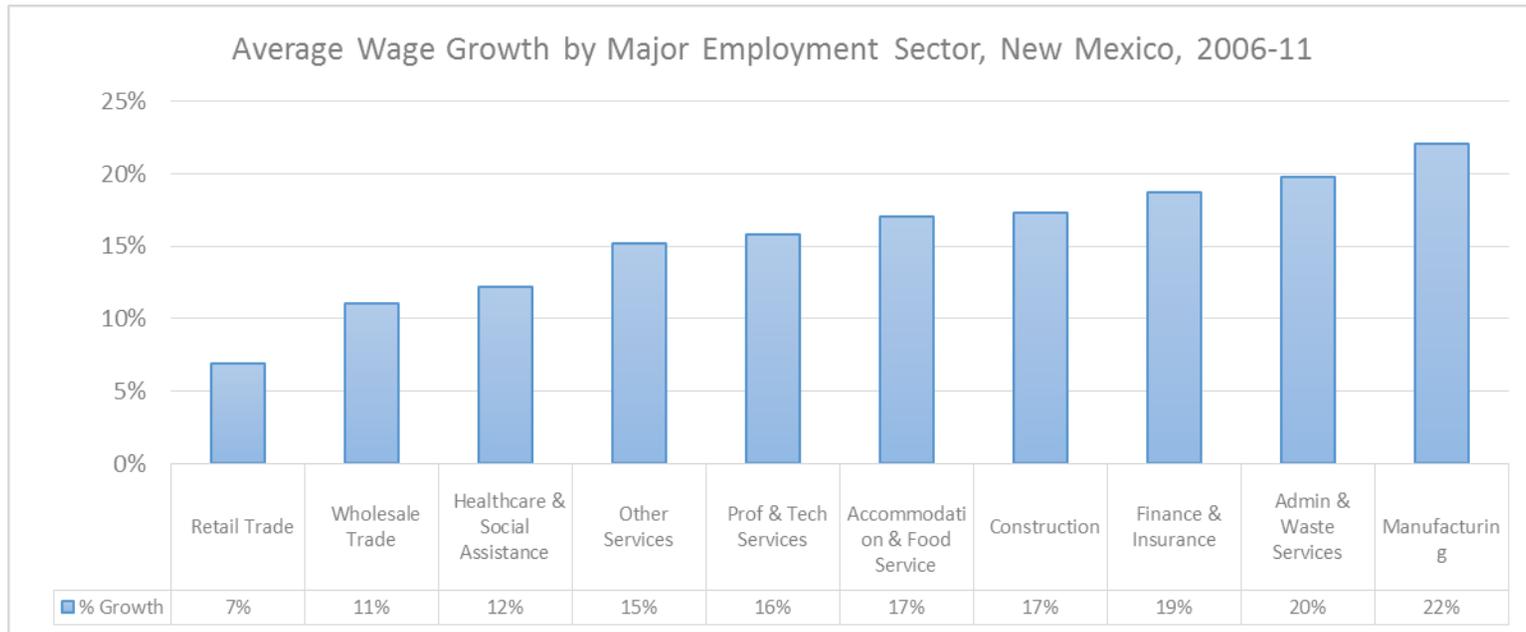
Source: New Mexico Department of Workforce Solutions

Seven of the state's ten fastest growing high wage occupations are also in health care.

Highest Paid Occupations in New Mexico, 2011

<i>Occupational Title</i>	<i>Employment</i>	<i>Entry level</i>	<i>Average Annual Earnings</i>
<i>Anesthesiologists</i>	170	\$190,435	\$243,165
<i>Chief Executives</i>	90	\$102,929	\$212,620
<i>Physicians and Surgeons, Other Specialists</i>	820	\$138,206	\$211,012
<i>Psychiatrists</i>	150	\$96,428	\$190,455
<i>Family and General Practitioners</i>	1450	\$105,327	\$189,689
<i>Pediatricians, General</i>	170	\$130,819	\$180,667
<i>Dentists, General</i>	590	\$98,318	\$176,540
<i>Obstetricians and Gynecologists</i>	***	\$109,179	\$154,635
<i>Health Specialties Teachers, Postsecondary</i>	770	\$69,241	\$147,942
<i>Dentists, All Other Specialists</i>	40	\$105,276	\$144,816
<i>Engineering Managers</i>	1490	\$96,951	\$134,878
<i>Natural Sciences Managers</i>	460	\$81,466	\$120,831
<i>Pharmacists</i>	1460	\$97,450	\$119,335
<i>Materials Scientists</i>	180	\$88,091	\$114,829
<i>Air Traffic Controllers</i>	440	\$74,036	\$112,500
<i>Engineers, All Other</i>	2970	\$69,578	\$112,326
<i>Computer and Information Systems Managers</i>	860	\$74,355	\$107,723

Source: U.S. Census Bureau, Local Employment Dynamics



Source: New Mexico Department of Workforce Solutions

Average wages grew more slowly in health care than in several other key employment sectors between 2006 and 2010. However, it is important to note that health care and social assistance was one of only three major employment sectors that added jobs during that period. Average wages may have increased less in health care than they did in sectors with zero or negative job growth because new hires are typically paid less than veteran employees.

Health Care as an Economic Base Industry

New Mexico’s economic base is comprised of those industrial sectors that bring money into the state from outside. This is usually accomplished when goods and services produced in New Mexico are sold to customers in other states or countries. Exporters of manufactured and agricultural products are the classic examples of economic base businesses. Even though most health care produced in New Mexico is sold to New Mexicans, health care is as much an “economic base” industry as more traditional export industries because over half of New Mexico’s health care costs are paid for by sources outside New Mexico, primarily the federal government.

In fact, health care draws over \$7 billion federal dollars into New Mexico each year, over twice as much as the federal government spends on Los Alamos and Sandia National Laboratories combined.⁹ About 45 percent of all New Mexico personal health care expenditures are directly paid for by the federal government. The federal Centers for Medicare and Medicaid Services (CMS) estimates that about 40 percent of personal health care expenditures for New Mexicans are paid for by Medicare and Medicaid alone.¹⁰ In 2010, personal health care expenditures for New Mexico residents totaled roughly \$14 billion, of which approximately \$2.6 billion was paid by Medicare and \$3 billion was paid by Medicaid.¹¹ Other federal expenditures for personal health care in New Mexico include funding for the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) and treatment facilities at New Mexico military bases, spending by the U.S. Indian Health Service for the care of Native Americans, funding for Veterans Administration hospitals and clinics, and health insurance provided by federal agencies to their New Mexico employees and their families. A 1998 study by the University of New Mexico Bureau of Business and Economic Research estimated that these federal expenditures constituted an additional 10.5 percent of all personal health care expenditures in the state.¹² Employer health insurance for employees of federal contractors and the federal income tax preferences for health insurance and health care expenses are indirect federal health subsidies that are harder to quantify but likely increase the federal share of total New Mexico personal health care expenditures to well above 50 percent.

Economic “leakages” occur when New Mexico households and businesses obtain goods and services from outside the state. Leakages diminish the volume of commerce transacted within the state economy. Maximizing the extent to which New Mexicans can obtain the goods and services they need within New Mexico’s economy minimizes leakages and maximizes economic growth. Comparison of personal health care expenditures by New Mexico residents to the value of personal health care delivered by New Mexico providers¹³ suggests that over 5 percent of health care spending by New Mexicans occurs outside the state. It follows that if New Mexicans were able to obtain these services in New Mexico, the state’s economy would benefit.

The Economic Impact of Health Care

In 2010, New Mexico's health care sector directly or indirectly supported approximately 194,000 (about 1-in-5) jobs and generated about \$23 billion in output, \$9 billion in income and \$734 million in state and local tax revenue. For every 10 jobs that are created in health care delivery, an additional 8 jobs are added in other sectors.

Economic Impact of New Mexico's Health Care Sector in 2010 (\$ millions)

<i>Impacts</i>	Employment	Income	State & Local Tax Revenue	Output
<i>Direct</i>	109,432	\$5,892	\$415,045	\$13,963
<i>Indirect</i>	35,880	\$1,420	\$133,407	\$4,205
<i>Induced</i>	49,165	\$1,734	\$185,288	\$5,183
<i>Total</i>	194,476	\$9,046	\$733,741	\$23,352

Source: Author calculations using New Mexico Health Expenditure Accounts, New Mexico industry data and IMPLAN™ software

Other Economic Impacts

The economic impact of New Mexico's health care delivery system fails to capture the sector's full contribution to the state economy. The availability of health care enhances the competitiveness of all sectors of the state economy by improving quality of life and workforce productivity throughout New Mexico.

Recruiting Business and Attracting Skilled Labor

The health care system plays a key role in recruiting employers and attracting future residents, including highly skilled workers and retirees. Access to high quality, affordable health care is a key determinant of where firms choose to locate and families choose to live. A strong health care network can lower health care costs for firms and their employees and provide access to services, such as occupational health, which increase employee productivity. Households, particularly those that include seniors and/or children are more likely to choose a location that has access to quality health care.

Workforce Productivity

Chronic disease imposes huge economic costs, many of which are borne by business in the form of lost productivity, absenteeism, high turnover and higher premiums for employee health insurance. New Mexico has higher-than-average rates of several chronic diseases,¹⁴ many of which can be effectively treated with consistent primary health care. By helping to ensure access to care for workers and their families, a strong health care system contributes to economic productivity throughout all sectors of the economy.

Limited Access to Health Care Constrains Economic Growth

Despite the large role health care plays in our state's economy, New Mexicans are less likely than residents of most other states to have access to necessary health services. Inadequate and unequal access to health care harms New Mexico's economy by artificially stifling demand for health services, undermining workforce productivity, increasing taxes and health care costs, and making New Mexico a less desirable place to live and do business.

Over 1-in-5 New Mexicans (about 433,000 mostly non-elderly adults) are uninsured and 17 percent of New Mexico adults report that they have been unable to see a doctor when they needed to due to cost.¹⁵ The uninsured have been shown to utilize about 50 percent less health care, on average, than people with health insurance.¹⁶ Not surprisingly, New Mexico adults suffer from ambulatory-sensitive chronic conditions including diabetes and asthma at rates higher than the national average. They are also less likely than other U.S. residents to have obtained routine preventative care such as cancer screenings and dental checkups.¹⁷

Lack of health insurance also contributes to the inefficient use of health care resources, which imposes costs on businesses and households in the form of higher taxes, health care costs and insurance premiums. The uninsured often delay treatment for conditions such as metabolic syndrome that respond well to inexpensive interventions in their early stages but can progress to costly and debilitating chronic disease if left untreated. When the uninsured become so sick that they have no choice but to seek care, they are often treated in the emergency department or hospitalized. Most of New Mexico's uninsured are low income and many are unable to pay their medical bills. Providers and insurers shift most of the cost of providing health care to the uninsured to businesses and individuals through higher premiums. In New Mexico this "hidden tax" accounts for about 16 percent of the average family premium for employer coverage, or about \$2,300 per year, three quarters of which is paid by employer.¹⁸

Access to care is also limited by the scarcity of health care providers. All New Mexico counties except Los Alamos include one or more federally-designated Health Professional Shortage Areas (HPSAs). HPSAs can be geographic areas, population groups, or facilities. Forty one percent of New Mexicans or about 833,000 people reside in or are part of the state's 94 primary care HPSA's. A geographic area with more than 3,000 residents for every one primary care physician may be designated a HPSA. A population with significant socioeconomic, cultural or linguistic barriers to care, or a scarcity of providers who accept Medicaid may be also be deemed a HPSA as can a public or non-profit health care facility that lacks the resources to fulfill the primary care needs of the area or population group it serves.¹⁹

Six of the ten professions listed as “shortage” by the New Mexico Department of Workforce Solutions – registered nurses, licensed practical and vocational nurses, nurse practitioners, pharmacists, physical therapists and speech and language pathologists -- are in health care delivery.²⁰

The New Mexico Health Policy Commission estimates that New Mexico currently has a shortage of about 2,000 physicians. (The greatest deficiency is primary care doctors, where there is a need for an additional 400-600 physicians. The state also needs about 2,000 more nurses than it currently has and ranks 49th of 50 states in the number of dentists per capita.²¹

Data on health expenditures by New Mexico residents also suggests that the supply of some types of health care is insufficient to meet the demand. As noted earlier, comparison of personal health care expenditures by New Mexico residents to the value of personal health care delivered by New Mexico providers²² suggests that over five percent of health care spending by New Mexicans occurs outside the state. To some extent this “leakage” reflects that importation of pharmaceuticals and medical goods manufactured outside the state, but the fact that the value of hospital and physician services provided in New Mexico lags the amount spent on these services by New Mexicans suggests that some are leaving the state to obtain some of their health care.

2010 New Mexico Health Care Expenditures by State of Provider and State of Residence (\$ millions)

	State		Difference	
	Of Provider	Of Residence	\$	%
<i>All Personal Health Care</i>	\$13,832	\$14,378	-\$546	-4%
<i>Hospital Care</i>	\$4,992	\$5,283	-\$291	-6%
<i>Physician & Clinical Services</i>	\$2,838	\$3,100	-\$262	-8%
<i>Dental Services</i>	\$621	\$662	-\$40	-6%
<i>Home Health Care</i>	\$1,490	\$1,474	\$17	1%
<i>Prescription Drugs & Other Nondurable Medical Products</i>	\$1,229	\$1,717	-\$488	-28%
<i>Nursing Home Care</i>	\$516	\$507	\$8	2%
<i>All Other Personal Health Care</i>	\$2,146	\$1,636	\$510	31%

Source: Author calculations based on data from Centers for Medicare and Medicaid Services, State Health Expenditure Accounts

Looking Forward: Demographic changes and Health Care Reform

The aging of New Mexico's population and implementation of federal health care reform will dramatically increase the demand for health care services in the coming years. The stimulus to the health care sector will ripple out through the broader economy, creating new jobs and increasing income in virtually all industrial sectors. In fact, just one aspect of health care reform – the expansion of New Mexico Medicaid to low income adults – will create over 3,000 new jobs in the first full year of implementation and support about 13,000 additional jobs by 2020.

Like the rest of the country New Mexico is experiencing rapid and unprecedented growth in its senior population. Today approximately 280,000 state residents, or 15 percent of the population, is over 65. In 2030 an estimated 555,000 New Mexico residents will be senior citizens and they will constitute over 26 percent of the state's population.²⁸ Although New Mexicans are living longer than ever and remaining vital well past 65, health inevitably diminishes with age and utilization of health care services increases dramatically.

Implementation of federal health care reform (the Affordable Care Act or "ACA") has the potential to reduce the number of uninsured New Mexicans by over 50 percent, starting in January of next year. Numerous aspects of ACA including the creation of health insurance exchanges and coverage mandates will impact insurance rates and health care utilization, but the single largest and most immediate impact will result from the expansion of New Mexico Medicaid to low income adults. Like many states, New Mexico has elected to take

advantage of the federal funding provided through ACA to expand its Medicaid program to adults with income below 138 percent of the Federal Poverty Level (\$26,344 for a family of three).

Forty six percent of New Mexico's uninsured population has income below 138 percent of the federal poverty level (FPL)²⁴ and it is expected that over 130,000 New Mexicans will obtain health insurance as a result of the Medicaid expansion alone.²⁵ The federal government will pay almost 100 percent of the cost in the early years of the expansion and 90 percent of the cost thereafter, directly infusing hundreds of millions of new federal dollars into New Mexico's health care delivery system.

Medicaid is the primary source of health insurance coverage for New Mexico's low income children, but, with the exception of pregnant women, only a tiny fraction of extremely low income non-institutionalized adults currently qualify for Medicaid coverage. As noted earlier, the uninsured use about 50 percent less health care than people with insurance coverage.²⁶ Many of the low income adults who enroll in Medicaid as a result of the expansion will have been uninsured for years and will have health concerns, including multiple serious chronic illnesses, for which they have previously been unable to afford treatment. The release of this "pent up demand" will dramatically increase utilization of ambulatory health care, particularly the services of primary care providers including physicians, nurse practitioners and physician assistants.

Meeting the increased demand for care will require additional medical facility space, particularly in doctor's offices and outpatient clinics. The real estate industry uses a standard of 1.9 square feet of medical office space for every new patient to estimate the demand for medical office space.²⁷ In Massachusetts between 2006 and 2009, implementation of the Commonwealth Care Health Insurance Program increased demand for medical office space by 14 percent at a time when the rest of the commercial real estate market was in free-fall.²⁸ Many additional providers will also have to be hired and many current practitioners will likely have to expand the scope of services they provide to the limits of what their skill levels and licensure will allow.

The stimulus to the health care sector will ripple out through the broader economy creating new jobs and increasing income in virtually all industrial sectors. The expansion of New Mexico Medicaid to low income adults will create over 3,000 new jobs in the first full year of implementation and support about 13,000 additional jobs by 2020. Roughly two-thirds of the job creation stimulated by the Medicaid expansion will be in the health care and social assistance sector, the remaining one third of jobs will be distributed throughout the New Mexico economy.

Economic Impact of Affordable Care Act (ACA) Medicaid Expansion (\$ millions)

	2014			2020		
	Employment	Income	Output	Employment	Income	Output
<i>Direct</i>	1,751	\$113	\$239	7,240	\$452	\$944
<i>Indirect</i>	546	\$21	\$58	2,155	\$82	\$227
<i>Induced</i>	903	\$32	\$95	3,586	\$127	\$378
Total Impact	3,199	\$166	\$391	12,981	\$660	\$1,549

Source: Author calculations using Medicaid enrollment projections from the New Mexico Human Services Department, Medicaid expenditure data from the Centers for Medicare and Medicaid Services and IMPLAN™ software

The Medicaid expansion will also generate significant new state and local tax revenue, more than enough to fully offset the state’s share of the cost, which is expected to average about five percent of the total, or about \$45 million per year between 2014 and 2020 (See Technical Notes).

State and Local Tax Impact of ACA Medicaid Expansion (2014-2020 average annual \$ millions)

<i>Direct</i>	\$36
<i>Indirect</i>	\$8
<i>Induced</i>	\$13
Total Tax Revenue	\$74

Source: Author calculations using Medicaid enrollment projections from the New Mexico Human Services Department, Medicaid expenditure data from the Centers for Medicare and Medicaid Services and IMPLAN™ software

In addition to the Medicaid expansion, numerous features of the Affordable Care Act have the potential to benefit New Mexico’s economy. The ultimate impact of these provisions will depend to a large degree on how they are implemented in the state. Economic impact analysis of these provision is therefore highly speculative and well beyond the scope of this report. However, a partial list of the ACA provisions that are likely to benefit New Mexico’s economy includes:

- Implementation of the individual Health Insurance Exchange and the accompanying federal cost sharing and tax subsidies

- Implementation of the Small Business Health Options (SHOP) insurance exchange and the small business tax credits
- Reductions in indigent health care costs currently absorbed by the health care delivery system and New Mexico taxpayers
- Elimination of state tax expenditures related to the New Mexico Medical Insurance Pool
- Health care workforce development incentives including scholarship and loan repayment programs in fields including primary care, dentistry, pediatrics, nursing and mental health
- Primary and preventative care grants
- Maternal and child health grants
- Increased funding for prevention including grants for employer prevention programs and mandates that preventative care be covered by insurance

Recommendations for Maximizing the Economic Benefits of Health Care and Health Care Reform

To capture the maximum health and economic benefits from the Affordable Care Act, New Mexico must ensure that increased health insurance translates into more health care delivery by increasing the number of health care providers, the capacity of current providers to provide the maximum scope of services and the availability of health services throughout New Mexico. Accomplishing this will require the support of numerous entities including state regulatory boards, the education systems and the economic development community to name just a few.

Because health care reform emphasizes primary care and because most of the people who become insured as a result of the Affordable Care Act will be working-age adults who utilize mostly outpatient care, health care reform is expected to shift patients away from the emergency room and toward clinics, doctor's offices and outpatient surgical centers. However, increased utilization of primary care is not likely to translate into diminished use of hospital and other acute care services right away. Previously uninsured low income adults participating in Medicaid through an Oregon pilot program utilized more primary care, hospital care and prescription medications and incurred health care expenses that were 25 percent *higher* than did a control group of adults who were not offered coverage.²⁹ This suggests that increased utilization of preventative care will not be immediately offset by declines in other forms of care, and thus that New Mexico's health care delivery system will need to both redistribute existing resources and increase total capacity.

In order to efficiently expand the primary care capacity of the health care delivery system, New Mexico must actively recruit primary care physicians and leverage the capacity of M.D.'s with licensed providers such as nurse practitioners and physician assistants. The state of New Mexico administers several programs designed to make the state more attractive to health care practitioners. New Mexico's health care recruitment incentives include a state income tax credit, stipends, loan-for-service and loan repayment programs. The state spends an average of \$10 million per year on health care provider incentive programs, many of which are very effective recruitment and retention tools. The New Mexico Health Policy Commission recommends that funding for many of these programs be doubled to address the state's current provider shortage.³⁰

The New Mexico Rural Practitioner income tax credit is available to health care practitioners who practice at least half time in an underserved rural area of the state. Physicians, osteopaths, dentists, clinical psychologists, podiatrists and optometrists are eligible for a maximum tax credit of \$5,000 per year. Dental hygienists, physician assistants, nurse midwives and nurse practitioners are eligible for a maximum annual credit of \$3,000. In fiscal years 2007 through 2011 an annual average of 1,300 rural practitioners received \$5.1 million per year in tax credits.³¹

The Health Professional Loan Repayment Program (HPLRP), administered by the New Mexico Department of Higher Education, provides loan repayment assistance to health professionals including physicians, dentists, physician assistants and mental health care providers who commit to practicing full time for at least two years in a federally designated health professional shortage area. HPLRP is one of New Mexico's most popular and effective provider incentives, and the number of applicants to the program far exceeds the available funds. In academic year 2009-2010, 230 practitioners applied for the HPLR and 45 were awarded aid. The HPLRP is an exceptionally effective incentive program with documented results. Forty six percent of practitioners who participated in the program in 2009 said that they had relocated to New Mexico specifically because of the HPLRP.³² The HPLRP was funded at \$1.3 million in 2013. The New Mexico Health Policy Commission recommends that funding for the HPLRP be doubled.³³

The New Mexico Health Service Corps (NMHSC), administered by the New Mexico Department of Health, provides stipends to health professionals-in-training who commit to practicing for at least two years in an underserved area of New Mexico. The NMHSC also provides funds to retain health professionals currently employed at qualifying sites. The NMHSC received about \$390,000 in funding for FY 2012. The Health Policy Commission recommends that funding for the NMHSC be increased to \$1,000,000/year.

The Affordable Care Act puts great emphasis on primary care delivered in part through the patient-centered medical home and other models that make use of licensed medical providers other than physicians. The greater reliance on non-physician licensed providers will

require them to assume more responsibility and autonomy and may thus require that the scopes of practice for these and other health care professions be expanded by the state boards and commissions that regulate them.

Because of the major role health care plays in our state economy and the potential for it to contribute even more, the economic development community can and should make ACA implementation and health care capacity development a top priority. For those economic developers and policymakers accustomed to regarding health care as merely supportive infrastructure for target industries like manufacturing and call centers, working to leverage health care's true role in the economic base will require not only a paradigm shift, but a redistribution of priorities and possibly funding. The state of New Mexico currently spends an average of \$125 million annually on economic development incentives including tax credits and wage subsidies to support job creation by export-oriented businesses such as manufacturing and film production. The state spends an estimated \$31,000 for each job created by businesses that utilize economic development incentives, and each job created pays an average of \$43,000 per year.³⁴ Health care delivery businesses generally do not qualify for state economic development incentives because they have not traditionally been defined as part of the "economic base."

New Mexico spends thirteen times more on economic development incentives than it does on incentives to recruit and retain Health Care practitioners even though attracting more health care providers could be every bit as beneficial to the state economy as attracting manufacturers or other more traditional economic base industries. In fact it is estimated that a primary care physician practice in a rural community creates 23 jobs and generates approximately \$1.8 million in annual total revenue of which roughly \$1 million is wages, salaries and benefits.³⁵

Community support for health and wellness is a factor that some businesses consider in deciding where to locate. Chambers of commerce and economic development organizations can help employers establish wellness programs and facilitate the pooling of resources by employers to develop employee health clinics. Economic developers can also recruit wellness-oriented businesses that will contribute to the community's health landscape and the health of its workforce.

New Mexico's colleges and universities will be integral to supplying the practitioners and support staff needed to meet the increase in health care demand and providing the professional development to help providers keep pace with new delivery models and rapid advances in health care technology. The economic development community can help synchronize the health care workforce development pipeline by facilitating the flow of information between the business community and the education system.

The economic development and business communities can learn more about how best to support health care delivery businesses by forming advisory committees and working with industry councils. They can also help educate policymakers about the role of health care in the state economy.

Conclusion

More than any other sector, health care will drive economic development in New Mexico over the next decade. The extent to which the health care expansion translates into renewed growth and prosperity for all New Mexicans depends critically on choices made by state and local policymakers, business leaders and economic developers about where to invest scarce economic development resources and how to leverage the resources made available to states by federal health care reform.

New Mexico can be poised to ride the next wave of economic development in the form of good jobs, workforce productivity and tax revenue if public officials champion health care as they do other “economic base” industries like manufacturing. This means working to recruit and retain health care professionals, fostering strong linkages between higher education and health care employers, improving the capacity of the education systems to train health professionals, addressing regulatory impediments to licensure and competition in the health professions, investing in health care infrastructure, extending traditional economic development incentives to health care businesses and aiding local employers in leveraging the full benefits of health care reform

RECOMMENDATIONS FOR ECONOMIC DEVELOPMENT

1. Recognize the importance of health care as an economic base industry in its own right and promote it as aggressively as other economic base industries.
2. Revamp state and local economic development incentives (including tax credits, training and wage subsidies and capital improvement financing) to recruit, retain and expand health care businesses.
3. Advocate for new incentives that strengthen the health care workforce and encourage wellness and wellness programs.
4. Foster supportive health industry networks through the creation of health care subcommittees and working groups in economic development organizations and chambers of commerce.
5. Become educated about the impact of health professional licensing and regulation on health care supply, and advocate, as appropriate, for regulatory policies that increase the number of providers and access to care.
6. Recruit wellness-oriented businesses that will contribute to the community’s health landscape and the health of its workforce.
7. Facilitate collaboration between businesses that want to pool their resources to establish employee health clinics and/or wellness programs.

Input-Output Analysis

Input-output analysis explores the effects that individual economic sectors have on the state economy as a whole. Economic sectors are linked by their production relationships. The output of one sector serves as input to other sectors and vice-versa. Input-output models such as IMPLAN™, used in this report, are based on the mathematical production relationships between the economy's various sectors. Input-output models calculate the impact that a change to one sector, such as the infusion of new revenue from a source outside the economy will have on all the other economic sectors with which the first sector has production relationships, the impact that the resulting changes to those sectors will have on the sectors with which they have production relationships and so on. These rippling and reverberating impacts, commonly referred to as “multiplier effects,” produce the “indirect” and “induced” economic impacts reported.

The estimate of the role of health care in New Mexico's economy is based on the value of personal health care services provided in New Mexico³⁶ by the following health care delivery subsectors: hospitals, residential care facilities, home health care, diagnostic and medical laboratories, outpatient clinics, practitioner offices and other ambulatory care facilities as well as those portions of wholesale trade, retail trade and government directly related to personal health care.

Medicaid Expansion

The estimate of the impact of the Medicaid expansion is based on enrollment projections released by the New Mexico Human Services Department's Medical Assistance Division and the Hilltop Institute's New Mexico Health Care Reform Fiscal Model,³⁷ but include slightly different assumptions about the share of total cost that will be paid by the federal and state governments respectively.

Medicaid Expansion Model, base expenditure assumptions

	Total Cost	State Share	Federal Share
2014	\$ 365,243,000	\$ -	\$ 365,243,000
2015	\$ 866,640,000	\$ -	\$ 866,640,000
2016	\$ 995,492,000	\$ -	\$ 995,492,000
2017	\$ 1,049,449,000	\$ 52,472,450	\$ 996,976,550

2018	\$ 1,076,627,000	\$ 64,597,620	\$ 1,012,029,380
2019	\$ 1,136,694,000	\$ 79,568,580	\$ 1,057,125,420
2020	\$ 1,158,217,000	\$ 115,821,700	\$ 1,042,395,300

The direct tax impacts of the Medicaid expansion are based solely on the New Mexico insurance premiums and the gross receipts taxes. Most Medicaid benefits are provided by managed care companies that pay a 4 percent tax to the state of New Mexico on the premiums they receive. Thus, 4 percent of most of the new federal Medicaid money will go directly to the state general fund. The managed care companies are required by law to spend a minimum of 85 percent of the Medicaid premiums they receive on health care services, a large portion of which are taxed under the state gross receipts tax, which averages 7 percent and is split roughly 55:45 between state government and local governments. Indirect and induced tax impacts include the full spectrum of state and local taxes.

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³ University of New Mexico Bureau of Business and Economic Research, 2011. "The Impact of Los Alamos National Laboratory on the Economies of Northern New Mexico and the State as a Whole". http://bber.unm.edu/pubs/LANL_EI_FY09.pdf. and Sandia National Laboratories Economic Impact on the State of New Mexico, 2012. http://www.sandia.gov/working_with_sandia/economic_impact/_assets/documents/EconImpact_2012-9908P.pdf

⁴ Eilrich, F.C., Doeksen, G.A. and St. Clair, C.F. 2012. Economic Impact of Rural Health Care. National Center for Rural Health Works

⁵ Eilrich, F.C., Doeksen, G.A. and St. Clair, C.F. "The Economic Impact of a Rural Primary Care Physician and the Potential Health Dollars Lost to Out-Migrating Health Services." National Center for Rural Health Works (www.ruralhealthworks.org). January 2007.

⁶ New Mexico Department of Workforce Solutions, Labor Analysis Statistics and Economic Research (LASER). <https://www.jobs.state.nm.us/analyzer/default.asp>

⁷ New Mexico Department of Workforce Solutions, Labor Analysis Statistics and Economic Research (LASER). <https://www.jobs.state.nm.us/analyzer/default.asp>

⁸ Reagan, S. New Mexico Occupational Forecasts Presentation to the 12th Annual NM Data Users Conference 2009-2019. New Mexico Department of Workforce Solutions.

⁹ University of New Mexico Bureau of Business and Economic Research, 2011. "The Impact of Los Alamos National Laboratory on the Economies of Northern New Mexico and the State as a Whole". http://bber.unm.edu/pubs/LANL_EI_FY09.pdf and Sandia National Laboratories Economic Impact on the State of New Mexico, 2012.

¹⁰ Cuckler, G., Martin, A., Whittle, L., Heffler, S, Sisko, A, Lassman, D. Health Spending by State of Residence, 1991–2009 Medicare & Medicaid Research Review 2011: Volume 1, Number 4, Centers for Medicare & Medicaid Services, Center for Strategic Planning

¹¹ Medicare is 100% federally funded and Medicaid is funded by the federal and state government at a rate of roughly 3 federal dollars to every one state dollar. Thus the federal share of the estimated \$5.5 billion in combined 2010 New Mexico Medicare and Medicaid expenditures totaled \$4.9 billion.

¹² Reynis, L. 1998. NEW MEXICO PERSONAL HEALTH EXPENDITURES CALENDAR 1996. University of New Mexico Bureau of Business and Economic Research

¹³ See Centers for Medicare and Medicaid Services, State Health Expenditure Accounts. <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/index.html>

¹⁴ 2010 CDC Behavioral Risk factor Surveillance System Data accessed through Kaiser Family Foundation StatehealthFacts.org

¹⁵ 2010 CDC Behavioral Risk factor Surveillance System Data accessed through Kaiser Family Foundation StatehealthFacts.org

¹⁶ Hadley, J and Holahan, J. Feb. 12, 2003. "How Much Medical Care Do the Uninsured Use, and Who Pays for It?" Health Affairs (Web Exclusive). Available at: <http://www.healthaffairs.org/WebExclusives/2202Hadley.pdf>

¹⁷ *ibid*

¹⁸ Families USA. 2009. Hidden Health Tax: Americans Pay a Premium. <http://familiesusa2.org/assets/pdfs/hidden-health-tax.pdf>

¹⁹ Designated Health Professional Shortage Areas (HPSA) Statistics, Health Resources and Services Administration (HRSA), February 2012.

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- ²³ US Census Bureau. 2005 Interim State Population Projections. <http://www.census.gov/population/projections/data/state/projectionsagesex.html>
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- ²⁵ New Mexico Human Services Department
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