WHITEPAPER:

ANCHOR INSTITUTION STRATEGIES FOR HOSPITALS

I. Overview

Hospitals have become one of the largest industries in the United States and have a tremendous impact on their local economies. There are approximately 5,000 not-for-profit, for-profit, and state and local government hospitals ("Community Hospitals") nationwide. Community Hospitals are the second largest source of U.S. private-sector jobs and represent 18% of the U.S. gross domestic product in 2011. (Article, 11). Community Hospitals employ more than 5.4 million people and spend more than $675 billion annually. (Article, ES).

Hospitals are often referred to as anchor institutions because they are deeply-rooted in their communities. Hospitals have large stakes in their local communities because they generally hold significant investments in real estate and social capital, thereby making it difficult for them to relocate. (ICIC, 2). In the United States, nonprofit hospitals represent 58% of all Community Hospitals (approximately 3,000) and have become the most prominent anchor institutions. (Article, 11). Of all charitable nonprofit organizations nationwide, nonprofit hospitals make up more than 40% of total revenues and 25% of total assets. (Article, ES).

Because hospitals are geographically tied to their surrounding area, they tend to have an economic self-interest in ensuring that their local communities are safe, vibrant, and economically thriving. Over the past decade, hospitals across the country have embraced anchor institution strategies that have profoundly impacted and transformed their local communities. These hospitals have come to recognize that socioeconomic and environmental factors such as housing, neighborhoods, income and education can have a profound impact on individual health, which is in turn linked to the hospitals' financial success and the economic health of their communities. These hospitals have expanded their economic impact and connection to their communities by effectively leveraging their resources and anchor institution position to become the catalyst for community revitalization strategies to address the socioeconomics and environmental conditions of their communities.

Although there has been increased recognition of the economic impact anchor hospitals can have, only a small percentage of hospitals have implemented anchor strategies to improve their neighborhoods; most hospitals continue to be an unused resource for local job creation and economic development. Therefore, it is important for hospitals to integrate an anchor institution mission into their practice and policies and commit themselves to consciously apply their place-based economic power, in combination with their human and intellectual resources, to better the long-term welfare of the places in which they reside. (Leveraging, 3). Effectively done, this strategy will create a powerful win-win result for both the hospital and surrounding community.

II. Impact of hospital anchor institutions

Hospitals have a significant impact on their local economy due to their employment, revenue, investment and spending patterns. They have increasingly become economic engines for the cities and suburbs they are located in through their roles as real estate developers, employers, purchasers and magnets for complementary businesses and developers of human capital. (Penn, 1). The existence of a hospital in a rural or urban area increases the appeal of that community for residents and businesses, which affects the overall economic condition of the community. (Article, 12).

Over the past decade, hospitals have increasingly recognized the "social determinants of health" (such as environment, poverty, unemployment, inadequate education, lack of affordable housing, crime and other socioeconomic and environmental factors) and the deleterious effect that these factors can have on community health. According to a 2002 Health Affairs article, researchers found that 60% of premature deaths could be linked to social circumstances, environmental conditions, and behavioral patterns whereas only 10% could be linked to other reasons such as inadequate access to healthcare. (Article, 15). Similarly, in a documentary written by Anthony Iton, MD, JD, MPH, and Senior Vice President of Health Communities at the California Endowment explained "*the rates of chronic disease are much higher in low-income communities and the rates of obscenity-related chronic disease are much higher…Being poor doesn't just mean that you don't have enough money, it means that you are also going to be exposed to influences and forces that are bad for your health.*" Iton also indicated that of 10 states with the highest obesity rates, 9 rank among the nation's poorest. (Article, 15).

Given that many hospitals are located in struggling or distressed communities and the increased recognition of the connection between the "social determinants of health" and a community's well-being, there has been a trend over the last decade for many of these institutions to expand their focus beyond just health treatment to include place-based community revitalization strategies to address the causes of poor health and to promote the long-term well-being of their communities. These hospitals are recognizing their increasing economic effect and connection to their communities and are strategically position themselves to produce targeted community benefits by effectively leverage their resources. (Article, 11).

III. Anchor strategies

Hospitals can play a number of community economic development roles, including purchaser, employer, real estate developer, workforce developer, investor and network builder. Through these roles, a growing number of hospitals are implementing innovative and promising anchor institution strategies to address socioeconomic and environmental factors that affect the health and economic conditions of their local communities. (Leveraging, 6).

a. Developing trends and best practices

In an article published in March 2013 by the Collaborative at the University of Maryland, various anchor strategies implemented by hospitals were studied to determine some fundamental best

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practices and promising trends of hospital neighborhood revitalization. These best practices and trends include:

i. **Sustainability practices.** Some hospitals have implemented practices to better align themselves with their core mission of promoting health by changing practices that were having the contrary impact. For example, various hospitals changed their procurement and operating methods to mitigate the public and environmental hazards they were causing. In the Maryland and Washington D.C. area, 40 hospitals are now consistently purchasing fruits, vegetables and meats from local producers in an effort to reduce carbon emissions. In Cleveland, Ohio, in an effort to increase the supply of fresh food in low-income communities, a local clinic and University Hospitals, along with Case Western University, helped co-develop a 3.25-acre urban greenhouse that produces 3 million heads of lettuce and 300,000 pounds of herbs annually. Similarly, Bon Secours Health Systems in New York, partnered with local community organizations, co-sponsored a neighborhood farmers market, which also offers free health services, bilingual cooking demonstrations, and free deliveries to homebound residents. (Article, 44).

ii. **Supplier diversity.** Certain hospitals have developed programs that focus on healthcare suppliers who are minority-, women-, and veteran-, and locally-owned. Such programs help keep resources local and help improve the physical and economic development of their communities. As an illustration, the University of Texas M.D. Anderson Cancer Center in Houston, Texas, in response to state mandate, implemented a diversity supplier program to procure from historically underutilized businesses, or majority-owned minority- and women-businesses. Each year, M.D. Anderson has strived to increase its diversity procurement goals. (Article, 46). Similarly, the Henry Ford Hospital in Detroit has shifted its supply chain to support local purchasing. Henry Ford Hospital reported that it purchases "upwards of $100 million a year of medical surgical supplies, most of which right now is funneled through two large distributors. We're looking at consolidating that; in particular, looking at consolidating it into a single vendor that also is a primary source for the medical center. The intention would be that with that significance of a buyer to be in a position to insist that they relocate part of their strategic development into the City of Detroit." (Leveraging, 8)

iii. **Housing development.** As more hospital leaders begin to acknowledge the connection between a community's social status, environmental conditions, and its health, a growing number of hospitals have used their resources to drive neighborhood revitalization (such as affordable housing, infrastructure improvements, and other environmental investments. For example, a local neighborhood revitalization project was undertaken by Swedish American Health System ("Swedish American") in 2001. Swedish American, in partnership with the City of Rockford, Illinois, Habitat for Humanity, and other

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public and community organizations, initiated a program to revitalize the 6-block area surrounding the Swedish American Hospital campus, which was a crime-ridden, blighted and mostly rental-occupied.

Swedish American committed more than $4.1 million and transformed this area from an at-risk, predominantly rental-occupied part of Rockford to a stable, owner-occupied neighborhood. As part of its community building efforts, Swedish American rehabilitated 24 existing homes and made 16 of them available for resale to Swedish American employee owner-occupants at a discount, with down-payment assistance. In addition, Swedish American constructed a neighborhood playground and two neighborhood parks, purchased and totally renovated a two-building, 24-unit neighborhood apartment building complex, and funded more than 75 "50-50" grants to neighborhood homeowners for exterior renovations.

In less than 8 years, owner occupancy in the neighborhood surrounding Swedish American Hospital increased from 35 percent at the beginning of the program to 51 percent in mid-2008. This upward ownership trend has continued since then as well. As a result of the success of these revitalization efforts, in 2008, the City of Rockford granted an additional $200,000 to Swedish American to continue its efforts, and two additional TIF districts have been created nearby to improve those areas. (article, AHA).

Also, Sanai Health System in Chicago implemented a community revitalization project, renovating a brownfield site, the Hollenbach Sausage Factory. After the company moved in the early 1980s, the factory sat vacant for almost a decade until Sinai Health System purchased and completed a $7 million renovation on the 12,000 square foot building, which now houses the Center for Families and Neighbors, a human services center operated by Sinai that has a childcare center, open and flexible offices for case managers, a secure mental health facility, and a 350-seat meeting room for community use. In addition, Sinai partnered with the City of Chicago's Affordable Housing program to develop 20 units of moderate income housing for purchase on lots owned by Sinai and donated to the project (Leveraging, 6).

Similarly, Gundersen Lutheran, a Wisconsin-based health care system, has also developed an anchor institution strategy that combines real estate development, purchasing power, and financial investments to support local community economic development. Among its actions to date, Gundersen Lutheran has converted a historic brew-house into workforce housing; is a founding member of a multi-stakeholder food cooperative to support regional farmers; leveraged tax increment financing dollars to rehabilitate area housing; created a system where waste bio-gas discharged from City Brewery's waste treatment process is turned into electricity and used to offset 5 percent of the electricity used by the hospital; and purchased a stake in LHI, a health management company, to

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enable the company to take back local control and save local jobs (Leveraging, 7).

iv. **Capacity building**. A growing number of hospitals are focusing on initiatives and outreach programs that educate and mentor local residents, groups and organizations about community health needs to encourage active participation as capable partners in a neighborhood revitalization strategy. St. Joseph Health Care System in Sonoma County, CA made an effort to building community capacity by mentoring community leaders in low-income neighborhoods in five communities that have unmet health needs. It also created a program to provide leadership and advocacy training to local residents, community groups, and organizations. (Article, 51-52).

v. **Local hiring.** By implementing local hiring practices, hospitals can fulfill their workforce needs as well as provide stable employment opportunities in low-income communities. These initiatives often involve workforce training and mentoring, and education financial assistance. For example, Henry Ford Hospital in Detroit has incentivized managers to hire locally, with 7 percent of senior executives' bonuses linked to achieving defined diversity goals. As part of its new procurement practices, Henry Ford also has implemented a policy of paying local vendors one month in advance to provide working capital. In 2010, Henry Ford entered into a partnership with Detroit Medical Center and Wayne State University to increase their local impact through the "Live Local, Buy Local, Hire Local" initiative. The early impact has been modest, just $400,000 in purchasing redirected to local businesses. But given the hospital's $2 billion procurement budget, the long-term potential impact is sizeable (Leveraging, 6).

vi. **Community investment.** Hospitals have great potential to leverage their investments in lending and business development. For example, Catholic Healthcare West (CHW), a large San Francisco-based hospital nonprofit, created Catholic Healthcare West's Community Investment Program that provides below-market interest rate loans to non-profit organizations that develop affordable housing for low-income families and seniors, provide job training for unemployed or underemployed persons, and create wealth in low-income and minority neighborhoods. Between 1992 and 2006, CHW lent more than $49 million to 88 different non-profit organizations. As of 2006, 61 percent of those loans had been repaid, with slightly more than $19 million outstanding. In addition, CHW has made a total of seven loan guarantees amounting to more than $23 million. (Leveraging, 7; Article, 11).

vii. **Multi-institution partnerships.** Hospitals are often encouraged to partner with other anchor institutions, philanthropic organizations, community nonprofits, and local government to maximize their impact in economic development. The Southside Institutions Neighborhood Alliance (SINA) in Hartford, Connecticut is a neighborhood revitalization organization that has partnered with state and

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local agencies, local nonprofit housing organizations to develop educational campuses and construct or rehabilitate affordable housing in blighted area.

b. The concept of shared value

According to an article published in June 2011 by the Initiative for the Competitive Inner City ("ICIC"), in order for anchors to effectively create and implement anchor strategies to enhance their local economies, they must work with their communities to create Shared Value or benefit for both. ICIC's founder and Harvard Business School Professor Michael Porter provides that shared value is defined as "*policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates…Shared value is not social responsibility, philanthropy or even sustainability, but a new way to achieve economic success*."

The concept of Shared Value recognizes that hospitals and their communities are inextricably bound together. As Porter writes, "*A business needs a successful community, not only to create demand for its products but also to provide critical public assets and a supportive environment. A community needs successful businesses to provide jobs and wealth creation opportunities for its citizens*."(ICIC, 2). Hospitals can create Shared Value by embracing their inter-dependencies with their neighborhoods and strategically including community impact in their business strategy. This can produce measurable advantages, such as increased demand for their products and services, more success in hiring and retention and the ability to leverage private development money. (ICIC, 3).

The Johns Hopkins Institutions are a case in point. The area to the north of Johns Hopkins' main campus, once a thriving working-class neighborhood, had descended into poverty, drugs and crime, with vacancy rates reaching 70%. In response, Johns Hopkins partnered with state and local governments and the Annie E. Casey Foundation to create East Baltimore Redevelopment, Inc. (EBRI), which in 2003 launched an ambitious $1.8 billion plan to redevelop 88 acres. Hopkins deeded more than 100 properties in East Baltimore to EBRI. The EBRI master plan calls for the construction of 2,200 mixed-income housing units, 1.1 million square feet of life sciences and biotech labs and offices, retail space, a new cultural center, playing fields and other open public spaces. The hospital will serve as a magnet to attract new biotech companies to the area. (ICIC, 3).

IV. Recommendations

While a small minority of hospitals are transitioning from a narrow focus on healthcare treatment to emphasizing community involvement, the vast majority of hospitals remain focused on a responsive model of health promotion and treatment. Achieving this change and implementing an anchor strategy into a hospital's mission is a long-term initiative that requires internal support and organization as well as external engagement and relationship building. In order for hospitals to begin integrating an anchor institution mission, there are a number of recommendations drawn from case studies and healthcare practices that can provide a starting point for aligning an anchor mission with long-term priorities in order to improve community health and build community wealth in distressed neighborhoods. (Article, 111).

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Hospital

- Secure buy-in from senior-level executives. Other actors such as hospital associations, hospital boards or governing body may also help impact leadership.

- Detail goals and commitments to a long-term strategic plan. This helps create future hospital goals and helps strengthen the institution's primary values.

- Create independent officer positions for key priorities related to achieving institutional objectives. Examples include positions for sustainability, diversity, community outreach, and anchor institution mission.

- Promote staff engagement by fostering cultural change at all levels. Hospitals can challenge employees, including doctors, nurses, and researchers through programs that complement the change in institutional priorities, and also incentivize employees in participating in institutional programs or accomplishing certain goals.

- Create indicators and measures to evaluate progress. Hospitals should accurately assess its capacity and develop realistic targets and focus on specific projects, while embracing flexibility and patience. The case study of Swedish American's neighborhood revitalization project indicated that the hospital stressed "the flexibility of the program to seize opportunities as they present themselves and change course as required." (Article, 114).

- Understand the importance of community involvement and building community capacity as long-term investments. Hospitals are encouraged to engage the community early and often in the process. For example, hospitals can use their community health needs assessments to help community members understand health data, determine obstacles to a healthy neighborhood, and understand broader community health issues. (Article, 114).

- Leverage existing federal and state resources for place-based economic development opportunities.

- Involve community and local political partners and other anchor institutions. This may help overcome any community resistance, secure state and local funding, and help maximize impact and reduce any duplicative efforts.

- Reassess institution policies relating to charity care, Medicaid patients, and bill collections. Recognizing the important connections between various institutional policies may help ensure that hospitals do not preclude low-income families from building or keeping their assets.

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Philanthropy

- Bring together anchor institutions and form partnerships to utilize existing information, power structures and interconnections between different groups in order to create more comprehensive revitalization projects.

- Encourage an anchor framework through specific initiatives.

- Provide important seed, predevelopment, and matching funds to catalyze broader anchor partnerships.

- Recognize the unique position of health conversion foundations as they are uniquely positioned to promote place-based revitalization and help align hospitals with their anchor institution potential.

Policy

- The IRS should evaluate and publish collected data for Schedule H, along with best practice examples and collaborate with other federal agencies, such as the Department of Health and Human Services, and the Centers for Disease Control and Prevention to seize other evidence-based practices in the community health and benefit sector. The IRS made changes to Schedule H in early 2012, allowing hospitals to count qualifying community building activities as a component of their community benefit requirements.

  If the IRS takes a more active role in encouraging hospitals to engage in anchor institution strategies, that could help them meet their communities benefit requirements while enabling them to also have a significant community impact.

- The Department of Health and Human Services should create an award to recognize leading hospitals and hospital-community partnerships that addresses important social determinants in the community.

- Hospitals should leverage existing federal and state resources for place-based economic development opportunities.

- State governments should require mandatory community benefit reporting requirements that at a minimum align with federal requirements. This will allow hospitals to more strategically focus on the goals and project of their community benefit program and also create greater consistency and transparency regarding the benefits that are provided to local communities.

- Because local government have limited ability to legally compel hospitals to act as better community leaders, local governments should collaborate with hospitals in establishing a

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liaison office to identify possible partnerships and coordinate efforts with local economic development.

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**Nicolosi Galluzzo, LLP – We Are Here to Help You:**

If you are interested in establishing an anchor institution strategy for your hospital or have any questions about such a strategy, please contact Paul Nicolosi of Nicolosi Galluzzo, LLP by phone at 815-265-6122 or by email at pnicolosi@nicgal.com.

For more information on Nicolosi Galluzzo, LLP and our services, please visit our website at www.NicGal.com

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