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How Can Anchor Institutions Affect Economic Development?

In many urban locations, so-called anchor institutions—primarily entities such as hospitals and other medical centers, colleges and universities, cultural organizations, large non-profits, and, in some cases, for-profit companies—are major employers and generate significant economic activity. For example, a 2009 report commissioned by the U.S. Department of Housing and Urban Development (HUD) estimated that "eds and meds" (a common euphemism for anchor institutions, particularly those in higher education and health care) employed over seven million people and generated approximately $1 trillion in economic activity nationally. More recently, the Federal Reserve Bank of Philadelphia (Philadelphia Fed) found in 2019 that anchor institutions in the United States directly employed nearly 10 million people and created about $1.7 trillion in economic activity.

In recent decades, some policymakers and anchor institutions have taken a proactive approach to using the institutions' size and assets to attempt to drive economic development. In cities such as Cleveland, anchor institutions have sought to draw investment to distressed neighborhoods, provide workforce development opportunities, and support increased housing supply.

Congress has enacted legislation concerning anchor institutions in recent years. For example, the Unleashing American Innovators Act of 2022 (Division W of the Consolidated Appropriations Act, 2023, P.L. 117-328) required the U.S. Patent and Trademark Office (USPTO) to consider the proximity of any agency satellite office opened after January 1, 2023, to anchor institutions, among other things. This In Focus reviews definitions of anchor institutions, assesses regional economic reliance on anchor institutions, and provides considerations for Congress.

What Is an Anchor Institution?

Researchers and organizations have proposed slightly differing definitions of anchor institutions. However, many from both groups agree that the term refers to large entities in specific locations that have notable economic impacts in that place.

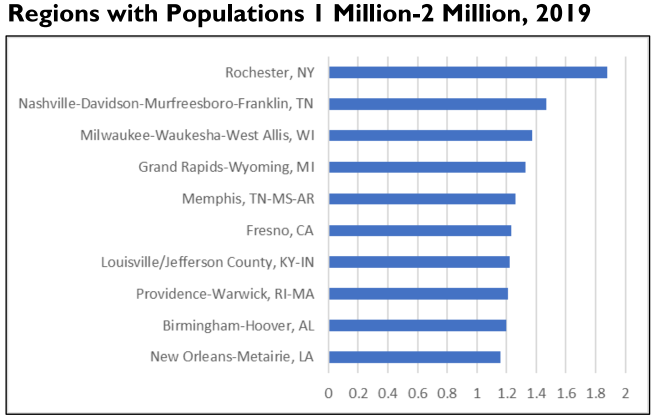
Anchor institutions can be major economic drivers, particularly in urban areas. In 2016, the Initiative for a Competitive Inner City (ICIC) found that anchor institutions were the largest employers in 66 of the 100 largest inner cities in the United States. (ICIC defines "inner cities" as "distressed urban and suburban areas of concentrated poverty and low income.") This echoes previous research. For example, in 2010 researchers at Harvard Business School found that anchor institutions in inner cities had added approximately 130,000 jobs in the decade up to 2008, and that without anchor institutions those inner cities would have cumulatively lost 11,000 jobs over that period. A 1999 report from the Brookings Institution noted that "[a] college, university, or medical institution is a top ten private employer in every one of the 20 largest cities in the U.S."

What Regions Depend on Anchors?

Certain regions depend more on anchor institutions for jobs and other economic benefits than others. The Philadelphia Fed's Anchor Economy Dashboard provides data (as of 2019) on the economic impact of anchor institutions for 524 U.S. regions (i.e., metro or nonmetro regions as defined by the Bureau of Labor Statistics and the Office of Management and Budget). The data includes information on each region's anchor employment, income, and economic activity (as measured by gross domestic product). In addition, the tool's reliance index measures each region's relative economic dependence on anchor institutions. The United States' reliance index score is one; a score below one indicates an economy relatively less reliant on anchor institutions than the country as a whole, while a score above one indicates a relatively greater reliance.

As anchor institutions are comprised heavily of colleges, universities, and medical facilities, college towns' economies are generally most reliant on anchor institutions. The regions with the five highest reliance index scores are Ithaca, NY (3.71); Morgantown, WV (3.57); State College, PA (3.39); Ann Arbor, MI (3.23); and Iowa City, IA (3.19)—all homes to major universities. Controlling for population filters out regions most dependent on higher education and medical facilities, although those organizations still impact larger regions' dependence on anchor institutions. **Figure 1** presents the 10 regions with populations between one million and two million with the highest reliance index scores.

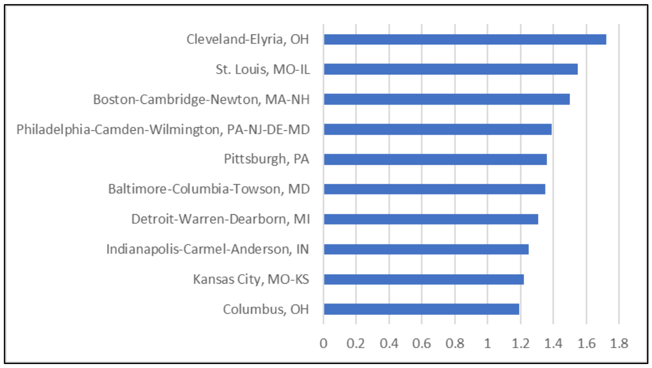
Figure 1. Anchor Institution Economic Reliance for Regions with Populations 1 Million-2 Million, 2019



Source: Philadelphia Fed, *Anchor Economic Dashboard.*

Figure 2 presents the 10 regions with populations of at least two million with the highest reliance index scores.

Figure 2. Anchor Institution Economic Reliance for Regions with Populations of at Least 2 Million, 2019



Source: Philadelphia Fed, *Anchor Economic Dashboard*.

How Have Anchors Impacted Economic Development?

Given their size, financial resources, and connections to their communities, there are a number of ways anchor institutions can and have attempted to generate economic development, in addition to serving as employers. ICIC has published a model framework for anchor institutions to impact their areas' economies. ICIC's recommended strategies for anchor institutions include:

- acting as a real estate developer, for example by using endowment funds to invest in distressed areas and leverage additional private financing;
- creating programs to train and expand the regional workforce; and
- working to improve local business conditions, for example by funding startup businesses and contracting with local firms.

The Mayo Clinic, based in Rochester, Minnesota, is an example of an anchor institution that has tried to impact economic development. The goals of the organization's business development branch include economic development. For instance, the office administers three venture capital funds, which concentrate their investments on Minnesota-based startups.

Another example is the West Philadelphia Initiatives (WPI), started by the University of Pennsylvania in the 1990s in part as a response to disinvestment. WPI's goals included increasing safety in the area; improving and increasing the area's housing stock; reviving commercial activity; and increasing purchases from local vendors. A 2004 evaluation of WPI found that the program was largely successful in meeting its goals, resulting in $134 million in university construction contracts to local women- and minority-owned firms and a $100,000 increase in the area's average home sale prices.

However, while some have argued for the potential economic development benefits of anchor institutions, others have pointed out potential risks. Regions with high economic reliance on anchor institutions may run the risk of becoming overly dependent on the organizations and failing to diversify their economies. Anchor institutions are also often non-profit entities, which may be exempt from property taxes, potentially excluding a source of revenue that could otherwise be provided by for-profit companies.

Considerations for Congress

As aforementioned, the Unleashing American Innovators Act of 2022 required the USPTO to consider the proximity of any agency satellite office opened after January 1, 2023, to anchor institutions, among other factors. In introducing a separate, standalone version of the bill in the 117th Congress (S. 2773), the *Congressional Record* indicates that the bill's sponsors assessed that connecting USPTO satellite offices to anchor institutions could benefit entrepreneurship and innovation. Congress may want to provide continued oversight to ensure the USPTO complies with this requirement.

Should Congress want to, there may be options for additional federal support for anchor institutions to promote economic development. The 2009 report commissioned for HUD noted that in 1994, when HUD created its Office of University Partnerships (OUP), then-HUD Secretary Henry Cisneros wrote that colleges and universities were important economic entities and economic development generators. To better support colleges' and universities' economic development capabilities, the 2009 report called on HUD to "substantially" increase OUP's status within the agency. However, in FY2010, HUD folded OUP's operations into the agency's Office of Community Planning and Development. Congress could direct HUD—or another executive agency—to develop new programs to support anchor institutions and economic development. Conversely, Congress may assess that this type of support, if indeed necessary, is better left to state and/or local governments.

Anchor institutions may be located in areas of economic distress. The federal government administers a number of programs that target such places for economic development assistance. Congress could consider authorizing a program intended specifically for anchor institutions to incentivize such entities to make investments or otherwise seek to promote economic development in distressed areas.

Since anchor institutions often comprise a variety of organizations in one city or region, Congress could consider authorizing a program that encourages applicants to take a consortium-based approach. There are precedents for such programs, including those administered by the EDA.

As mentioned, there may be risks to using anchor institutions for economic development, including becoming overly reliant on them and missing out on tax revenue. Congress could determine that such risks outweigh the potential benefits to supporting anchor institution-focused economic development. Congress could also determine that anchor institutions generate sufficient revenue to fund their own economic development programs.

Adam G. Levin, Analyst in Economic Development Policy

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