

## Section Four

# Case Studies

*Rochester, Minnesota:*

## Mayo Clinic

*Mayo is the engine that drives this community and we are all interdependent.*

- Steve Thornton, former Executive Director, Rochester Area Foundation<sup>169</sup>

Mayo Clinic, based in Rochester, Minnesota, has been one of the largest community benefactors in Southeast Minnesota for more than a century. Similarly, Mayo's economic impact on the region can hardly be overstated. As Karel Weigel, Mayo's first Administrator for Community Relations from 1999 to 2009, summarized, Mayo is the "economic driver" of Rochester, and "Rochester is the economic driver for essentially all of southeast Minnesota."<sup>170</sup> Mayo's role as an anchor is evolving as it starts to assume a greater role in spurring local revitalization of the surrounding region and Downtown Rochester and as it begins to consciously target local purchasing in the surrounding community.

In 1863, Dr. William Worrall Mayo settled with his family in Rochester and began his medical practice. After a tornado destroyed most of the homes and commercial structures on the north side of town and killed 24 people in 1883, the Sisters of Saint Francis offered to build Saint Mary's Hospital "on the condition" that Dr. Mayo and his sons provide the medical care. Soon other doctors and researchers became partners as demand increased, and Mayo became the world's first private integrated group practice. Today, this type of practice is the norm in the United States, and Mayo is one of the largest in the nation with more than 1,700 medical doctors. More than 58,000 doctors, nurses, scientists, students, and allied health staff work together at Mayo Clinic locations in the Midwest, Arizona, and Florida.<sup>171</sup> Together, Mayo's facilities purchase more than \$1.8 billion in medical supplies, equipment, and services across five states.<sup>172</sup>

The center of the health system is its operations in Rochester. Partially as a result of Medicare reimbursement issues, in 1986, Mayo Clinic acquired the 335-bed Rochester Methodist Hospital and the 797-bed Saint Mary’s Hospital in the city’s downtown. Together, these three institutions employ more than 33,500 people in Rochester, and serve as the largest private employer in Minnesota, capturing the workforce from a sixty-mile radius. Additionally, half of Mayo’s purchasing—in aggregate, nearly \$1 billion—occurs through its operations in Minnesota.<sup>173</sup>

Rochester is the third-largest city in Minnesota. Significantly intertwined, the two largest industries in Rochester are healthcare services and the hospitality/tourism industry. An estimated 70 percent of the city’s 2.75 million visitors each year come to Rochester because of Mayo Clinic. From an employment perspective, the combined workforce of Mayo and those who work within the hospitality and tourism industry is greater than 44,000, which is more than 75 percent of Rochester’s civilian labor force or more than 43 percent of the entire civilian labor force for the Census-defined Rochester Metro Area.<sup>174</sup>

Historically, Mayo has at many points in its history recognized its role as more than just a provider of healthcare services and community health programs; it has often been the principal community benefactor. In 1944, Mayo donated the initial \$3,500, and then soon after another \$50,000, to found the Rochester Area Foundation (RAF), helping to

## MAYO CLINIC ANCHOR STRATEGIES

### Neighborhood Revitalization

- Principal investor (\$7 million) in community land trust First Homes, has developed 875 units of affordable housing

### Local and Minority Purchasing

- Strives to purchase food from within 150-mile radius
- Supplier Diversity Program: established 2008, includes focus on small, local businesses and mentorship component

### Sustainability Practices (with Anchor Institution Mission lens)

- Donates unused food to local food bank, food waste to local farm

- Hosts farmers markets frequently in its facilities

### Multi-Institution, City, and Regional Partnerships

- Partner with RAF to improve early childhood literacy skills, contributed \$750,000
- Partner in developing Downtown Master Plan for Rochester
- Developing larger diversity initiative, called “Marketforce,” with Rochester Chamber of Commerce and local community development financial institution

bring “the concept of a community foundation to Rochester,” said Steve Thornton, former Executive Director of the Rochester Area Foundation. Around the same time, just after World War II, Mayo built a subdivision in Rochester for returning physicians and residents to help with the post-war housing shortage. Thornton added that while Mayo did not own the properties, the institution helped assemble the land, contributed to the architectural and design features of the homes, and influenced the overall layout of the subdivision.<sup>175</sup>

Mayo did not involve itself again with housing again until the 1990s. In 1999, RAF reached out regarding the issue of affordable housing in the greater Rochester area. During that period, Mayo, along with other local businesses like IBM, Fastenal, and Benchmark Electronics, grew dramatically and along with this growth came the corresponding need for schools and public infrastructure support. Two notable changes occurred during this time. First, as this period of growth increased the number of available employment opportunities — the overwhelming majority with Mayo, but many in the public sector as well — the availability of affordable housing dramatically decreased. Rochester was experiencing the beginning of the real estate bubble that would only burst at the beginning of the Great Recession. Noted Thornton, “Local businesses were hiring folks, starting them at \$40,000 and \$50,000 a year, and they were quitting two weeks later because they couldn’t find affordable housing.” Additionally, Mayo was spending nearly \$2 million on rental subsidies to have people live in Rochester while housing was being built.<sup>176</sup>

At the same time, a cultural shift was occurring within Mayo. “Mayo Clinic and the community, while growing up together and living side by side as good neighbors, recognized the importance of interdependence and that it would be to everyone’s advantage to define and articulate Mayo’s role in Community Relations for both internal clarity at Mayo and externally for the community,” said Weigel. According to Weigel, Mayo historically worked with and supported community organizations and initiatives, but these efforts tended to be decentralized and inconsistently communicated. Additionally, at times, the community felt overlooked by the institution’s decision-making style that seemed to be communicated on a ‘need-to-know’ basis. Mayo leadership recognized that the institution needed a community point person who could not only effectively represent Mayo in the community but also represent the community back to Mayo and help it navigate a growing institution.<sup>177</sup>

As a result, Mayo created the position of Community Relations Administrator to be a liaison between the community and Mayo Clinic. The position was responsible for creating and implementing a needs-based and value-driven strategic plan to measure and assess outcomes. Mayo’s efforts to increase transparency and focus on community partnership gained visibility with the implementation of the Annual Community Breakfast. Another important step in this relationship was the close collaboration between the planning departments of Mayo Facilities and the City of Rochester to release Mayo’s five-year development plans to the Rochester community. This allowed

for better planning than previous yearly updates. Together, these important communication strategies have assisted the community's planning by anticipating civic infrastructure and workforce needs, as well as providing important background for economic forecasting.<sup>178</sup>

Mayo's expansion, a decrease in affordable housing stock, and a cultural change within the organization provided the right atmosphere for RAF to approach Mayo Clinic with a proposal to create "starter homes for working families." The result of this meeting was a commitment by Mayo to help fund the community land trust First Homes, a proposal that aimed to build 875 units of housing over a five-year period. RAF provided the leadership gift of \$1 million but the project was expected to cost \$12.75 million; Mayo agreed to provide \$7 million: \$4 million initially and an additional \$3 million allocated on a matching basis. Weigel, who also chaired the First Homes board, estimated that another \$5 to \$7 million was raised locally. The project also received financial support and guidance later from the city as well as funding and technical assistance from Greater Minnesota Housing Fund, Minnesota Housing Finance Agency, and USDA Rural Development, to help "provide gap loans to potential homeowners and tax increment financing to developers." In Weigel's assessment, this project still remains "the most successful public-private partnership our community has ever done."<sup>179</sup>



A house in First Homes' community land trust portfolio. Photo: First Homes.

There were a few components of this financial commitment that made Mayo's actions unusual and why it represents an anchor institution best practice. The core of this proposal was not just affordable housing but a community land trust, which aims to preserve affordable housing permanently. This shared-equity strategy, which was not very common at the time, accomplishes this goal because the trust owns the land and enters into a long-term, renewable lease with the interested homeowner instead of a traditional sale. When the homeowner sells the house, the family earns only a portion of the increased property value.<sup>180</sup>

The property value increase not captured by the seller is kept by the trust, preserving the affordability for future low- to moderate-income families. The percentage earned by the homeowner varies by community land trust; in the case of First Homes, the homeowner and land trust split the equity gain. For example, if a home increases in value by \$50,000, the homeowner would earn \$25,000 and First Homes would capture the remaining \$25,000 in property value, reducing the next family's mortgage by that amount. This community wealth building strategy enables multiple families to benefit from each home built because it does not allow the equity gain to benefit just one

family. As a result, a land trust minimizes the capital investment needed per family impacted and enables each family to build some assets (rather than none if they had continued to rent) so that the family can eventually “step up” to a more expensive unit in the land trust or purchase a home outside of it.<sup>181</sup>

The second unusual aspect of this arrangement is how this investment was truly a community investment in terms of who benefited. Although Mayo contributed the majority of the funds to this project, they did not request that the homes be situated only in Rochester or that they be sold only to Mayo employees. The reason that this strategy was not entirely Rochester-based, said Weigel, was that “if we were [focused on Rochester only]. . .two things happen: first, the option of location would have been limited to Rochester, and second, you devastate the infrastructure from loss of taxes in the surrounding small communities.” Thornton added that Mayo declined to “restrict its gift” because it understood that the housing crisis was a community problem requiring a community solution and that the entire community should benefit. Mayo and Rochester rely on surrounding communities to supply the workforce. As a result, First Homes’ projects are found within a 30-mile radius of Rochester, and Mayo employees have purchased only about one third of the homes.<sup>182</sup>

The only eligibility criterion for First Homes is income; anyone who earns 80 percent of state median income or area median income can apply to purchase a home. Additionally, interested homeowners have to complete homebuyer education classes as part of the purchasing process. By 2007, First Homes had reached its initial goal of 875 units of affordable housing—500 single-family homes and 375 units of rental. Of those initial 500 single-family homes, 200 are held by the community land trust. The current land trust portfolio has 210 units. To date, First Homes is the “state’s largest-ever community-based assisted-housing program.”<sup>183</sup>

As First Homes worked toward its goals of 875 housing units, other housing opportunities presented themselves. A neighborhood that encompasses the boundaries of Mayo Clinic’s Rochester downtown campus, Kutzky Park, is filled with historic homes; however, many were converted to multi-family rental properties and many were in disrepair. RAF and First Homes again approached Mayo Clinic with a proposal to assume responsibility for completing Kutzky Park renewal projects begun by another nonprofit organization that lacked the capability to complete them. These homes were rehabilitated with updated design and landscaping and became a new part of First Homes. This offered new housing choices in historic buildings within walking distance



A house in First Homes’ community land trust portfolio. Photo: First Homes.

to Mayo Clinic and Downtown Rochester, and became a key ingredient stabilizing the neighborhood.<sup>184</sup>

Of course, First Homes has had its challenges. There were problems establishing the land trust, and Mayo's matching-grant formula, while successful in leveraging contributions, relied upon raising community funds first for the final \$3 million. This extended the duration of fundraising beyond original expectations. There was also initial resistance from the Chamber of Commerce and business leaders regarding the stigma of affordable housing. Explained Allen, "We wanted to do everything through the land trust, but the first three years we just couldn't. We struggled to set up our land trust." Since First Homes was developing 100 homes each year, this obstacle is the primary reason that the first 300 single-family homes (i.e. the first three years of home construction) were not included in the trust.<sup>185</sup>



House donated by local homeowner to First Homes, relocated in neighborhood. Photo: First Homes.

Although the initial gift of \$4 million and the agreement to contribute \$3 million in matching funds was decided quickly (a period of only five months start to finish), the process to actually secure the matching funds took considerably longer, noted Allen. Today, capital issues still represent a challenge for First Homes. At the time, the crisis was sufficient enough to allow RAF to raise \$14 million; now there is a need to recapitalize at a time when there is not an equivalent sense of urgency.<sup>186</sup>

First Homes has evolved as the needs of the community have changed. Rochester's population has grown, the University of Minnesota now has a Rochester campus, and overall plans for downtown are under way. First Homes has continued to work with all of these partners to preserve housing affordability as part of a "comprehensive" strategy for revitalizing Rochester, focused primarily on seven neighborhoods in Downtown Rochester.<sup>187</sup>

Over the next ten years, revitalization spending in this area is expected to be greater than \$360 million. Although Mayo has not been involved financially in First Homes since it contributed the matching funds (and donated a few properties it had purchased in the Kutzky Park area), Mayo Clinic employees continue to participate on the boards of First Homes and RAF. As a potential partner in this redevelopment, Allen noted that he believes "we'll be able to rely on [Mayo] for some additional resources for downtown housing; we've been talking to them." Mayo has not officially committed more resources to housing, according to Susan Fargo-Prosser, Communications Specialist in

the Department of Public Affairs at Mayo, although they would consider doing so based on evidence of continuing need and availability of institutional resources.<sup>188</sup>

Sean Allen, former Assistant Director of RAF, explained that his organization recently collaborated with Mayo on First Steps—an initiative that aims to ensure children start school with proficient literacy skills to succeed. “It has changed the way we work with them,” he said. It “is building something; it’s a concept.” Since 2005, Mayo has contributed \$750,000 to this “public-private economic development program” that seeks to reduce the nearly 50 percent of kindergartners who enter school unprepared. Referring to this program as an investment in the community, Susan Ahlquist, former Director of Community Relations for Mayo Clinic (2008–2012), added, “We recognize the importance of education and early childhood development as key social determinants of health.”<sup>189</sup>

Procurement is another area where Mayo has started to institutionalize new practices, striving to increase local purchasing and diversify its supply chain. Fargo-Prosser explained, “We try to buy all of our food served in all our cafeterias and facilities within a 150-mile radius.” This purchasing supports local agriculture, considering that the demand currently exceeds supply. Any food that goes unused is donated to Second Harvest North Central Food Bank, while all waste that is no longer safe for human consumption is donated to a local hog farm. Mayo also seeks to encourage local food purchasing by its staff by hosting farmers markets in its cafeterias, “pretty much all the time,” noted Fargo-Prosser.<sup>190</sup>

Mayo has also made efforts in recent years to consciously diversify its supply chain, establishing the Supplier Diversity Program in 2008. In addition to focusing on minority and women-owned business, the program’s mission also includes veteran-owned, small, and local businesses. The challenge to achieving this goal is identifying these potential suppliers and ensuring that they are capable of performing. As a result, one element of making this effort work is Mayo’s Business Mentorship program, which, through a partnership with Rochester Area Economic Development, Inc. (RAEDI), aims to provide potential suppliers with “effective feedback and support.”<sup>191</sup>

An interested and eligible business applies via the appropriate channels on Mayo’s website. Then that business receives feedback from the Supplier Diversity Manager and the Supplier Diversity Ally Team regarding whether the supplier provides a product/service Mayo does not need, whether the product/service is already contracted, or whether the product/service is needed but the business does not meet necessary supplier standards. The business then has the option to take “this information and feedback to RAEDI for planning assistance.”<sup>192</sup>

RAEDI then aids the business in identifying strategies for improving its “qualifications and chances for future success.” Next, a joint meeting between RAEDI, the business and the Supply Diversity Manager will “review any actions/results” that have occurred because of the feedback provided to the business. From here, a variety of possible next

steps are identified, which could include connecting the supplier to the appropriate applicable department Mayo Clinic, a repeat of the steps listed above, or a disqualification of the business from acting as a Mayo supplier with “clear reasoning.”<sup>193</sup>

A larger initiative focused on diversity—“Marketforce”—is a collaborative effort between Mayo, the Rochester Chamber of Commerce, and the African Development Center, a community development financial institution serving African immigrants and refugees. Incorporating elements of the Supplier Diversity Program, it also aims to develop metrics for each activity and ensure that the small businesses are ready and “financially capable” to be dependable suppliers, explained John Wade, President of the Rochester Chamber of Commerce. Wade noted, “Another component is entrepreneurial development. As we build a vibrant community, it is very important. . .to have the flexibility, freedom, and resources to bring their products to market.” Already two years in development as of February 2012, the project is anticipated to be fully operational by the first quarter of 2013.<sup>194</sup>

Mayo is “at the table” for “addressing every major social issue: homelessness, gang activity, whatever the community needs,” said Ahlquist. In recent years, it has begun to recognize its role as an anchor with more clarity. Ahlquist added, “Mayo Clinic in Rochester has always played a major role in community development and benefit as a quiet anchor within the community. More recently its role has become more visible and strategically intentional.”<sup>195</sup>

In 2009, Mayo was involved in developing a Downtown Master Plan “that had all of the players involved.” Components of that plan incorporate Mayo’s vision for transforming Rochester into the “world’s premier destination medical *community*”—not just a “destination medical center.” To accomplish this goal, Mayo is making sure that community and stakeholder input is a very important part of the planning process. Wade, who co-chairs the effort with Lisa Clark, Mayo’s division chair of the Department of Public Affairs, is optimistic about the project: “It is a tremendous undertaking. We’ve aligned a lot of resources...that includes everything from transportation, to hospitality, to workforce.” In addition, Mayo itself will grow by about 10,000 employees over the next decade. Regarding the project, says Wade in another interview, “If we do this right, we will all feel the benefits of it.”<sup>196</sup>