

ECONOMIC IMPACT OF THE UNIVERSITY OF ROCHESTER ON THE ROCHESTER REGION

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July, 2007
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ECONOMIC IMPACT OF THE UNIVERSITY OF ROCHESTER ON THE ROCHESTER REGION

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University of Rochester

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July, 2007

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SUMMARY

The University of Rochester (UR) is a force in the Rochester regional economy. The University contributes the employment (either directly or indirectly) of almost 31,000 area residents, who together receive approximately \$1.4 billion in income.* In turn, the income earned generates an additional \$21 million for the local economy in the form of sales and property taxes, according to analysis by the Center for Governmental Research (CGR). At the state level, all of these factors combine to send an estimated \$83 million annually in sales and income taxes to Albany.

UR, which recently became the region's largest employer, has long been regarded as a major player in the local economy, but the full scope of its economic impact has not been known. In early 2007, University leaders turned to CGR to measure that impact.

* Some elements of the University's Strong Health subsidiaries provide service that is entirely local. The care provided by the Visiting Nurse Service and much of the clinical care at Highland Hospital, for example, is provided in any city of Rochester's size. If these services were not provided by the University of Rochester, another health care provider would offer them instead. To as great an extent as possible, CGR has excluded these purely local services from this impact study, focusing exclusively on the aspects of the University that represent the Rochester economy "trading" with other regions. Estimates in this report focus exclusively on these "traded sector" impacts. See more discussion of these issues in the report below.

CGR focused on assessing the economic impact of the University, its employees, students, and visitors on the Rochester Metropolitan Statistical Area (RMSA), which consists of Monroe, Wayne, Livingston, Ontario, and Orleans counties. Our overall analysis also included an assessment of the institution's fiscal impact, as measured by the taxes the University contributes, both through modest direct expenditures (UR is exempt from many types of taxes) and through the spillover spending of employees and suppliers.

Our report also points out there are many ways in which the University contributes to the Rochester region that cannot be quantified. While we do not list those contributions in any detail in this report, we cite examples in order to paint a fuller economic portrait of an institution that is now at the heart of the regional economy.*

The three tables below show some of our critical findings. The first table provides an estimate of the value (in terms of income) of the jobs that are generated as a result of the expenditures by the different segments of the University. The "direct" economic impact consists of the actual expenditures of the University in the

**University of Rochester Impact on Rochester Region LABOR INCOME
(2006, excludes purely local services)**

	Labor Income (Million Dollars)		
	<u>Direct</u>	<u>Spillover</u>	<u>TOTAL</u>
UR Purchasing in RMSA	\$24.2	\$11.8	\$36.0
Spending of UR Employees	\$820.7	\$401.6	\$1,222.4
1 Year Average Construction	\$77.4	\$45.7	\$123.1
Student Spending	\$12.2	\$8.3	\$20.5
Visitor Spending	\$1.6	\$0.9	\$2.5
TOTAL	\$936.1	\$468.3	\$1,404.4

* For more information about the ways in which University of Rochester contributes to the community, see "Connections: The University of Rochester and the Community", University of Rochester Publications, May 2007.

community. Spillover expenditures result from the follow-on spending of the recipients of the direct expenditures.

The table below provides an estimate for the number of jobs that are generated as a result of the expenditure of the University, its employees, students, and visitors.

University of Rochester Impact on Rochester Region EMPLOYMENT (2006, excludes purely local services)

	Employment Impacts (Thousand Jobs)		
	<u>Direct</u>	<u>Spillover</u>	<u>TOTAL</u>
UR Purchasing in RMSA	0.8	0.7	1.5
Spending of UR Employees	14.1	11.3	25.4
1 Year Average Construction	1.6	1.3	2.9
Student Spending	0.6	0.2	0.9
Visitor Spending	0.1	0.0	0.1
TOTAL	17.3	13.5	30.8

In fiscal year 2006, the University paid \$766,000 in school, municipal and county property tax for properties owned or leased in Rochester, Brighton, Henrietta, and Pittsford. The largest portion of the fiscal impact, however, comes from the sales and income taxes of all the labor income generated by the University of Rochester. Students, employees and visitors all contribute to the fiscal impact of the University. With significant employment and payroll, University of Rochester contributes to the fiscal strength of both the local government as well as the State of New York. The table below summarizes the fiscal impact, statewide, of the University of Rochester.

University of Rochester Impact on New York State FISCAL IMPACT (2006, excludes purely local services)

	Millions of Dollars		
	<u>Direct</u>	<u>Spillover</u>	<u>TOTAL</u>
NYS and Local Sales Tax	\$27.0	\$13.5	\$40.5
NYS Personal Income Tax	\$50.5	\$12.9	\$63.4
Local Property Tax paid by UR	\$0.8		\$0.8
TOTAL	\$78.3	\$26.4	\$104.6

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ACKNOWLEDGMENTS

CGR is grateful to the many members of UR staff who provided the data for this report. The employees of University of Rochester and Strong Health systems were incredibly helpful when asked information. CGR would like to thank the following people for their help in providing information used in this report: Nathan Furl, Bill Murphy, Peter Robinson, Philip Profeta, Dennis O'Donnell, Jessica Foster, Doris Ludek, Betty Oppenheimer, Karl Mink, Celia Palmer, Cameron Schauf, Helene Snihur, Ken Schirmuhly, Victoria Hines, Doug Wylie, Jonathan Burdick, Mary Jo Ferr, Laurel Contomanolis, Michael May, Robert Andler, Lisa Sheldon, Kevin Segerson, Mark Michaud, Burton Nadler, Andrea Allen, Paul Lambiase, Sharon Kubiak, Nancy Fowler, Christine DelRegno, Michelle Ames, Rebekah Lewin, Adrien Daly, Susan Bauer, Paula Smith, Bobbi Lonobile, and Sherry Gunter. We apologize if we have missed acknowledging anyone. The collection of data was a team effort by UR employees and CGR. We appreciate the input of everyone who helped in providing or clarifying information.

Staff Team

Rochelle Ruffer coordinated the data collection, conducted the analyses, and wrote the final report. Kent Gardner provided advice and input about the content of the report, helped to conduct the analyses, and contributed to the writing of the report. Karen Yorks and Kate McCloskey provided clerical and data assistance. Hung Dang and Sergey Zinger provided assistance as needed.

INTRODUCTION

The University of Rochester is a complex academic institution which includes many top-ranked programs and research centers. There are many successful components of the University of Rochester and each one, in its own way, helps contribute to the Rochester community. The reputation of University of Rochester also extends beyond the local region and that global reputation brings substantial value to the Rochester economy.

This report provides evidence of the economic impact of the University of Rochester on the Rochester community. While there are many ways in which the University contributes to the community which are not measurable, this report provides the figures and statistics for those ways in which the benefits of the University of Rochester can be quantified. We provide a few examples of ways in which the University contributes to the community through its programs and services, but encourage the reader to read the “Connections” report from the University of Rochester for a more complete documentation of the University of Rochester’s role in education, health care, arts and culture, economic development, and citizenship.*

CGR focuses on the Rochester Metropolitan Statistical Area (RMSA) as the level of analysis in determining the economic impact. The RMSA is defined as the five-county region of Wayne, Livingston, Monroe, Ontario, and Orleans counties. While the impact statewide is obviously larger than the local impact, our findings indicate a majority of the statewide impact is felt in the immediate region. Thus, we have focused on reporting the economic impact of the University of Rochester on the RMSA. New York State is the level of analysis for estimation of the fiscal impact.

* “Connections: The University of Rochester and the Community”, University of Rochester Publications, May 2007

Direct and Spillover Impacts

Economic impacts are reported in two portions: The “direct” economic impact consists of the actual expenditures of the University in the community. Added to the direct expenditures is the local spending of students and visitors to campus.

Spillover expenditures result from the follow-on spending of the recipients of the direct expenditures. For example, a vendor company that supplies a product or service to the University uses the proceeds of that sale to make an expenditure of its own, typically for both materials and labor. Similarly, employees of the University spend their wages, which become income for other businesses in the region. If a professor at the University of Rochester goes out for dinner, for example, the restaurant uses the money to pay suppliers and staff. These types of expenditures occur daily and add to the overall economic impact of UR.

“Traded Sector” Impacts: Implications for Clinical Revenue

The goal of any economic impact study is to assess how the economy in question is larger as a consequence of the activity being studied. In layman’s terms the question posed is this: How would the economy be smaller if the activity were to disappear? The “traded sector” is defined as that portion of the University of Rochester that would most likely not be replaced by a local alternative.

In answering this question, economists distinguish between economic activities that bring dollars into a region from those that simply reallocate dollars already “earned” from other regions. A new grocery, for example, will not attract shoppers from another region but will only reallocate spending from another store. When the University of Rochester Medical Center (URMC) enters into a contract to conduct a clinical trial of a new pharmaceutical, however, the community receives dollars that could just as easily have gone to Houston or Cleveland or Rochester, Minnesota.

While this is an important distinction, it is impossible to divide every dollar of revenue flowing to a complex institution like the University of Rochester according to source. For example, strictly speaking, tuition from students who would have attended

Nazareth College had they not been accepted at the University of Rochester should be excluded from the impact assessment. We do not have the information available to make this kind of distinction.

One adjustment that CGR has made in this analysis, however, is in health services revenue. Consistent with the many previous studies of the economic impact of URMC, CGR distinguishes between clinical service revenue to Strong or Highland hospitals that would likely be earned in the local economy anyway if these hospitals were to close. Routine surgery—an appendectomy, for example—would be performed in the Rochester area regardless of whether Strong Memorial Hospital or Highland Hospital existed. Yet Strong’s highly regarded (and quite large) liver transplant program is unusual and attracts patients from outside the region. Local residents who receive liver transplants would otherwise travel to another city if Strong did not provide this service. CGR refers to revenue derived from such sources as “highly specialized” revenue.

URMC staff estimate that about one quarter of clinical revenue flowing to Strong Memorial Hospital is highly specialized. This, along with the share of Highland Hospital’s large bariatric surgery program, is the component of the clinical service revenue that CGR includes as part of the University’s unique contribution to the Rochester economy.

MEASURING THE ECONOMIC AND FISCAL IMPACT

The University of Rochester has a significant influence on many aspects of the region’s economy. In the economy of the 21st century, it has become vital to the region’s success. The economic impact is measured by four main components: the University, the employees, the students, and the visitors. For each of these impacts, the spillover of the spending by the University and its employees is also estimated.

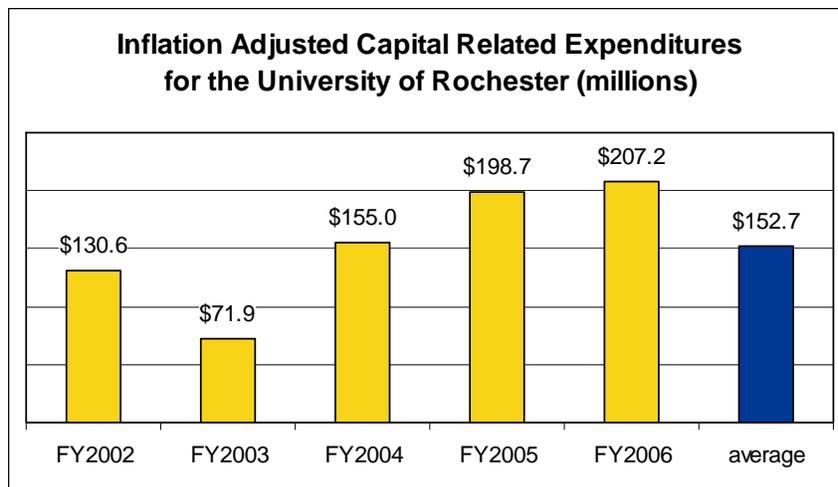
University

Operating Expenditures

The University directly spent approximately \$423 million on goods and services in 2006. Of that expenditure, approximately \$145 million was spent in the Rochester area. Of this total, CGR estimates that \$68 million was spent on “traded sector” activities, thus excluding purchases for purely local services.

Capital Expenditures

Over the past five years (2002-2006), the University has spent \$727 million in capital-related expenditures such as building renovations and additions, co-generation plant construction, medical equipment purchases, and the Laboratory for Laser Energetics Omega EP laser expansion. The University averaged \$152 million per year (2006 dollars) in major projects and acquisitions over that five-year period.

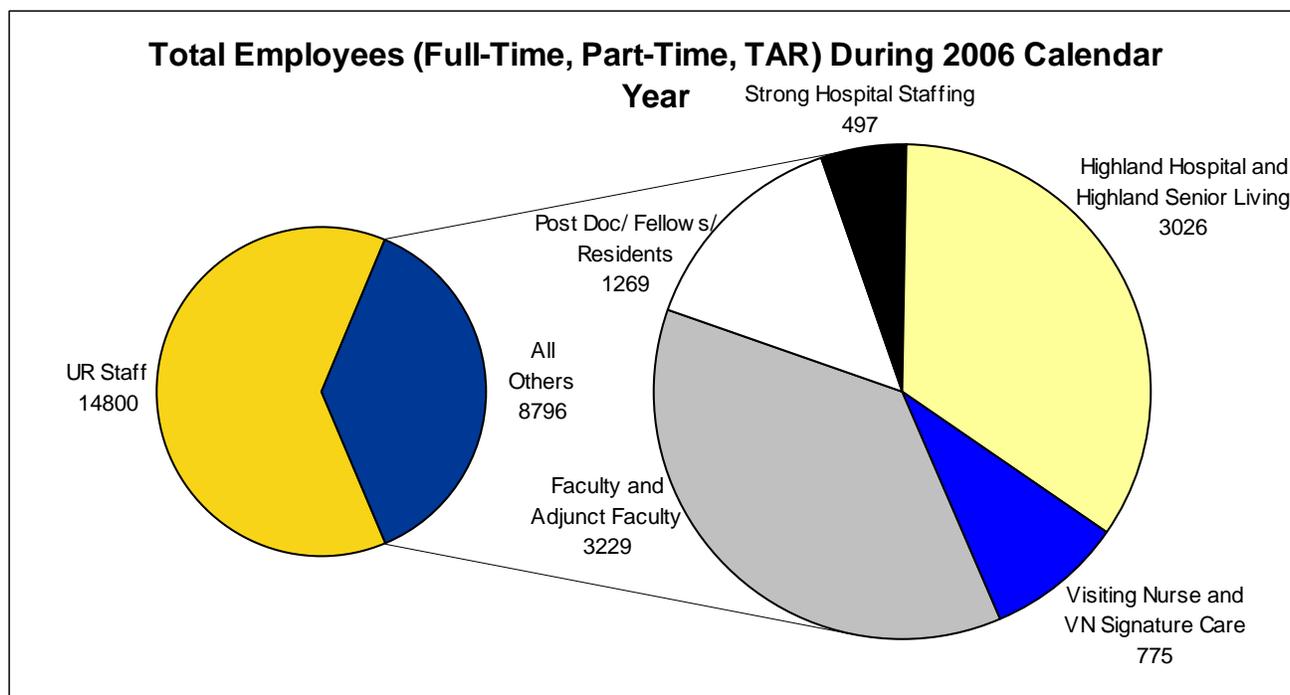


In addition, there are plans for new buildings over the next five years. For example, the Wilmot Cancer Center, Cardiovascular Research Institute, University Health Service Building, Clinical and Translational Research Building, expansion of the utilities infrastructure, and renovation of Eastman Theater are all projects either underway or under consideration. These projects indicate a continuing commitment to capital improvement in the future.

Employees

During the 2006 calendar year, the University of Rochester and Strong Partners Health System provided employment to a total of 28,610 people. This includes full time, part-time and TAR (time as reported) positions for adjunct faculty, faculty, post doctoral students, research/teaching fellows, medical residents, staff, Strong Memorial Hospital staffing, undergraduates, graduates, and employees from Highland Hospital, Highland senior facilities, Visiting Nurse Care, and VN Signature Care.

While the University paid undergraduate and graduate students \$32 million in wages during 2006, CGR does not include them in our employee spending impact. The undergraduate and graduate students contribute to the economic impact as students, regardless of whether they are employed by the University.* Even without the undergraduate and graduate students, the University employed



* CGR assumed an average amount of spending per student and did not take into account whether the student earned money during the academic year, only in the summers, or were solely supported by their parents. In each case, the students' expenditure is assumed to be the same.

23,596 people in full-time, part-time, or TAR positions during 2006. The chart on the previous page shows the distribution of the jobs across the University of Rochester and Strong Health.

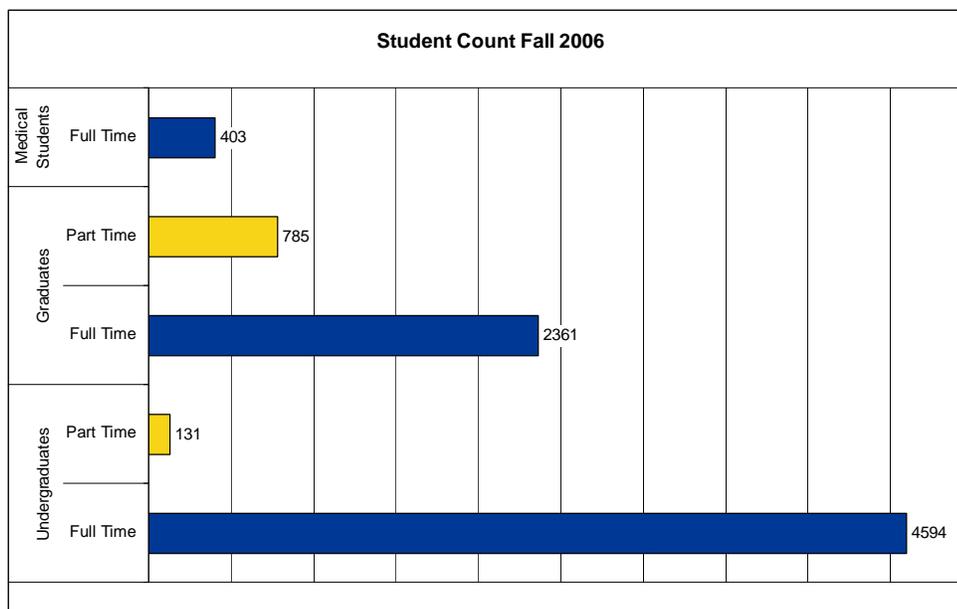
CGR estimates that University of Rochester provides the full time equivalent of approximately 19,500 positions paying salaries and wages of just over \$1 billion.

Of this total, CGR estimates that over 14,000 of these employees are part of the “traded sector” activities. The majority of this purchasing power is spent within the Rochester area, supporting a range of product and service providers.*

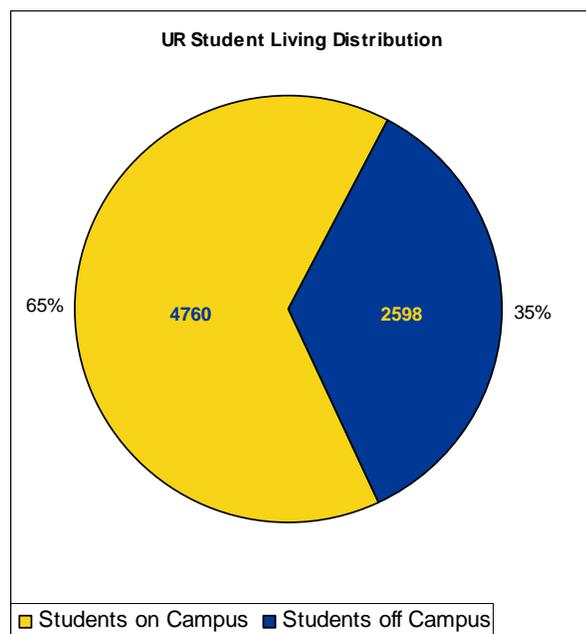
* CGR assumed that the household income of each employee of UR was double the UR employees’ wages. This assumption helps us to determine the manner in which UR employees might spend their income. The assumption impacted the distribution of expenditures as clearly UR wages were considered as expenditure.

Students

During the Fall 2006 semester, there were 4,594 full-time undergraduate students and 131 part-time undergraduate students.*



There are also 2,764 full-time graduate students (including 403 medical students) and an additional 785 part-time graduate students. CGR only included the 7,358 full-time students in estimating the economic impact of the University of Rochester.†



The University of Rochester has many on-campus living options for students. Approximately 4760 undergraduate and graduate students live on campus. The remaining students live off-campus. In order to estimate the economic impact of student spending, CGR assumed that those students living off campus rented apartments in the area. In some cases, students may own their own house or live at home. These situations would impact the final results.

* The student counts do not include non-matriculated students.

† Most full time students are spending money earned elsewhere—either being supported by parents, savings or borrowing. These funds are new to the region and enlarge the Rochester economy. It is more difficult to make the case that part-time students are contributing new funds to the economy as a result of being a student at UR.

The economic impact of student spending is estimated for the academic year, since it was not possible to obtain reliable estimates about students' activities in the summer. Since we were unable to perform a student survey of spending, we estimated the distribution of student spending among goods and services using the distribution implied from the Bureau of Labor Statistics' (BLS) Consumer Expenditure Survey.* However, CGR recognizes that spending on goods such as clothing may occur outside the county during school breaks. Also, additional spending may occur over the summer.

Visitors

Visitors also bring new dollars to the campus. CGR extensively interviewed various employees on campus in order to estimate the visitor impact. CGR recognizes that our estimate for visitor impact is possibly underestimated as a result of missed events that may bring in visitors from out of town.† As a whole, we estimate that the visitors to University of Rochester account for more than 21,000 hotel room reservations in the Rochester area. The largest events contributing to the visitor impact are discussed below. The chart on the next page provides a visual representation of the visitor events discussed below.

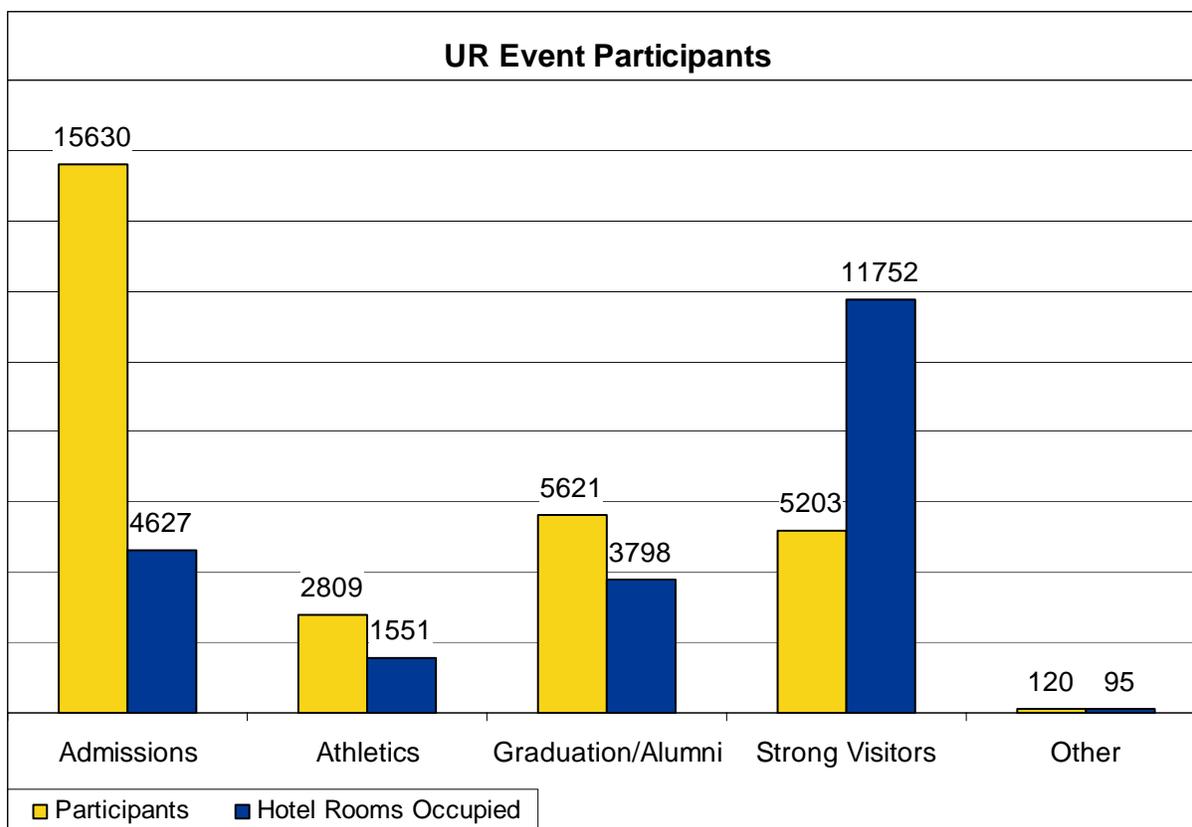
Meliora Weekend (MW) is one of the biggest annual events on campus. It is the combined weekend for Homecoming, Family Weekend, and Reunion. In 2006, 3,219 MW attendees (specifically alumni, parents, and guests) came from out of town and occupied approximately 1,400 hotel rooms. The average length of stay was

* The methodology to estimate student spending is very similar to that used in the "Economic Impact Study: A Study of the Economic Impact of the University of Texas System", Institute for Economic Development, 2003. The University of Texas report also uses BLS data to infer distributions of student spending. It also only includes student spending for the nine-month academic calendar. CGR also considered the different meal plan options and adjusted student spending accordingly.

† In fact, in CGR's July 2006 study "Solutions for New York: The Economic Significance of Independent Colleges and Universities in New York State", we estimated visitor expenses as \$580 per student by averaging the estimated expenses from three detailed studies (see page 7 of CICU report for more information). After extensive interviews on the UR campus for this study, CGR estimates visitor spending to be \$544 per full-time student.

three days. These visitors, and any out-of-town visitors to campus, affect the local economy by spending money at places such as hotels, restaurants, retail establishments, gas stations, car rentals, and the airport.

Another major visitor event is graduation weekend. The University awarded 2,402 degrees during May 2007 commencement. The Conference and Events Office at UR estimates five visitors per graduate. While some of the graduates live locally, many of them have family from out of town who attend graduation and stay in hotels.



Athletic events are also a large draw for visitors, composed of the visiting teammates as well as parents and other spectators from out of town coming to watch the game. During the 2006-2007 academic season, there were approximately 100 home games with

about 2,500 visiting teammates from places far enough away to warrant staying in a hotel.

Many different parts of the campus entertain prospective students. The undergraduate admissions office on River Campus estimates that approximately 14,000 individuals come to visit annually. The Eastman admissions office also provided tours to 1,440 people during 2006. Many of these people are from out of town and stay overnight in the Rochester area.

Visitors to patients of Strong Hospital also make an economic contribution. The Strong Guest Hotel Services processed over 5000 guest reservations for a total of more than 11,000 hotel nights during fiscal year 2006.

ECONOMIC IMPACT ESTIMATES

CGR used IMPLAN, a regional input-output modeling system, for estimating the economic impact. IMPLAN is acknowledged as one of the best models of economic activity available.* Using the IMPLAN tool, CGR developed separate indirect and induced multipliers for a range of economic activities for the RMSA. For purposes of reporting, we combine the indirect and induced effects into the “spillover” category.

The following sections report the economic impacts of the University of Rochester on the RMSA in terms of both labor income and total employment.

* For more information on Implan, see www.implan.com.

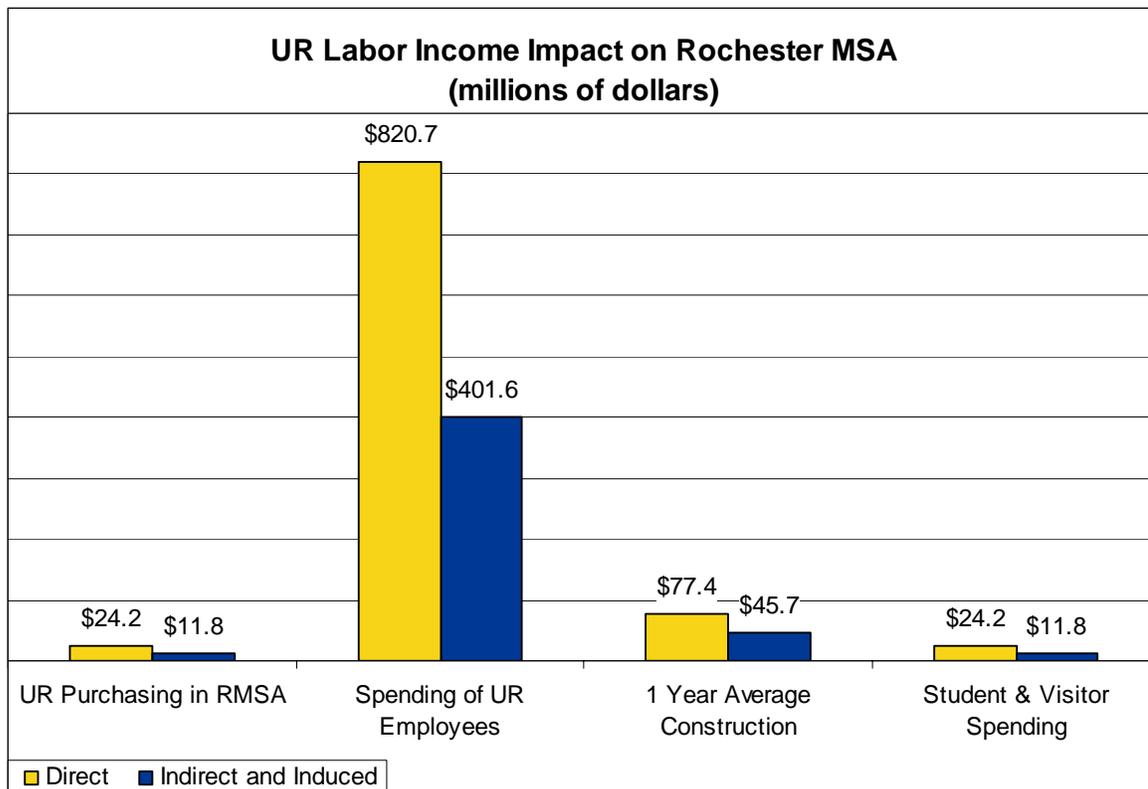
Labor Income Impact

The table below provides an estimate of the value (in terms of income) of the jobs that are generated as a result of the expenditures by the different segments of the University. The labor impact component estimates a direct impact of \$936 million plus spillover impact of an additional \$468 million for a total impact of \$1.4 billion.

University of Rochester Impact on Rochester Region LABOR INCOME (2006, excludes purely local services)

	Labor Income (Million Dollars)		
	<u>Direct</u>	<u>Spillover</u>	<u>TOTAL</u>
UR Purchasing in RMSA	\$24.2	\$11.8	\$36.0
Spending of UR Employees	\$820.7	\$401.6	\$1,222.4
1 Year Average Construction	\$77.4	\$45.7	\$123.1
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Visitor Spending	\$1.6	\$0.9	\$2.5
TOTAL	\$936.1	\$468.3	\$1,404.4

The chart below provides a visual of the five different impacts, combining student and visitor impact. After adjusting for purely



local services, University of Rochester hires 14,000 full-time equivalent employees for a total of \$820.7 million in wages. The spillover of those wages adds an additional \$400 million to the local economy in terms of labor income. Not surprisingly, the spending of UR employees accounts for approximately 88% of the total labor income impact.

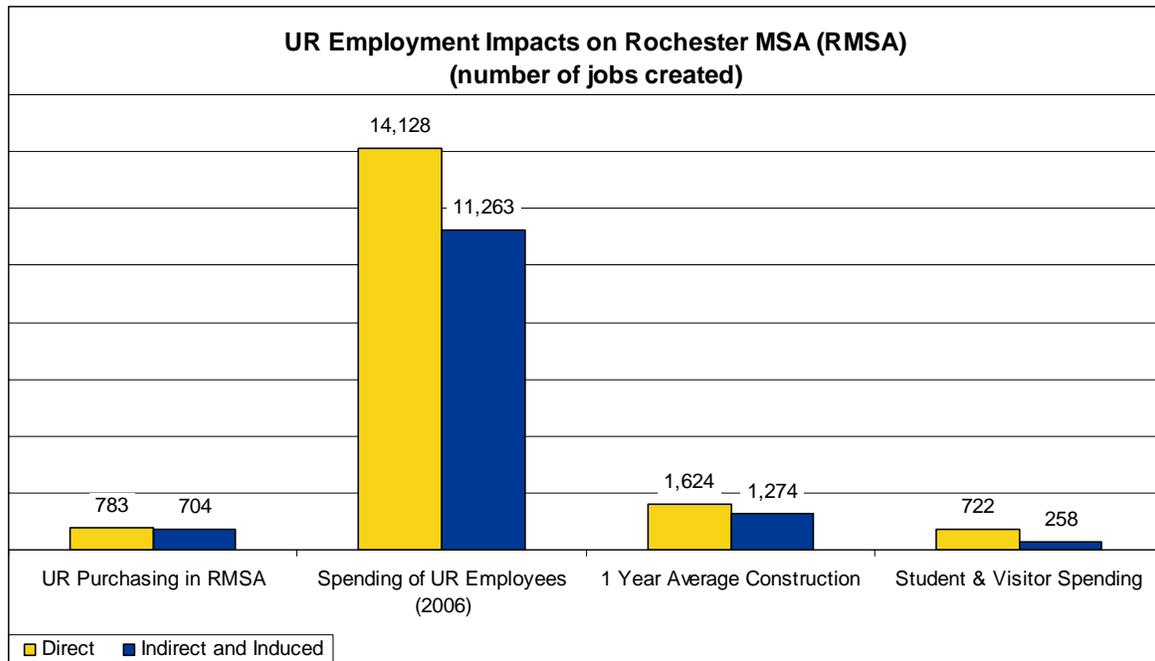
Employment Impact

The table below provides an estimate for the number of jobs that are generated as a result of the expenditure of the University, its employees, students, and visitors.

University of Rochester Impact on Rochester Region EMPLOYMENT (2006, excludes purely local services)

	Employment Impacts (Thousand Jobs)		
	<u>Direct</u>	<u>Spillover</u>	<u>TOTAL</u>
UR Purchasing in RMSA	0.8	0.7	1.5
Spending of UR Employees	14.1	11.3	25.4
1 Year Average Construction	1.6	1.3	2.9
Student Spending	0.6	0.2	0.9
Visitor Spending	0.1	0.0	0.1
TOTAL	17.3	13.5	30.8

The employment impact is quite substantial: After adjusting for purely local services, the direct employment impact of the institution on the Rochester area totals more than 17,000 jobs. Spillover impacts total an additional 13,500 for an aggregate impact of almost 31,000 jobs. Again, not surprising, the spending of UR employees contributes the largest portion of both the direct and spillover effects. The chart on the next page shows a graphical depiction of the employment impact results.



Fiscal Impact

Although much of the economic activity of the University of Rochester is tax exempt, the University does pay some property taxes. In fiscal year 2006, the University paid \$766,000 in school, municipal and county property tax for properties owned or leased in Rochester, Brighton, Henrietta, and Pittsford. Properties in Rochester account for 85% of the taxes paid. For the City of Rochester, this is not an insignificant contribution.

The largest portion of the fiscal impact, however, comes from the sales and income taxes of all the labor income generated by the University of Rochester. Students, employees and visitors all contribute to the fiscal impact of the University. The table on the next page summarizes the fiscal impact, statewide, of the University.

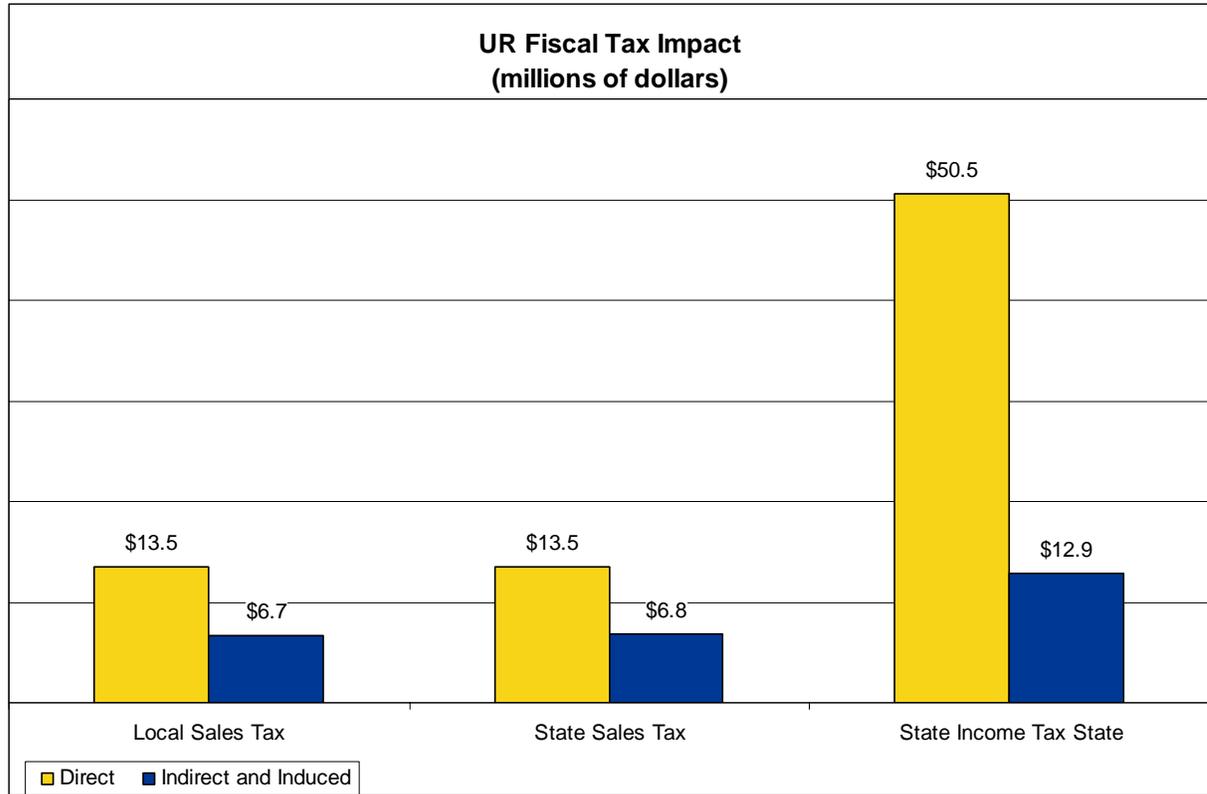
**University of Rochester Impact on New York State FISCAL IMPACT
(2006, excludes purely local services)**

	Millions of Dollars		
	<u>Direct</u>	<u>Spillover</u>	<u>TOTAL</u>
NYS and Local Sales Tax	\$27.0	\$13.5	\$40.5
NYS Personal Income Tax	\$50.5	\$12.9	\$63.4
Local Property Tax paid by UR	\$0.8		\$0.8
TOTAL	\$78.3	\$26.4	\$104.6

With significant employment and payroll, University of Rochester contributes to the fiscal strength of both local government and the State of New York. Personal income tax proceeds are estimated using the tax liability as a share of total income for Monroe County, as published by the Department of Taxation and Finance's Office of Tax Policy Analysis. Similarly, the average taxable retail sales as a share of Monroe County personal income provides an approximation of total state and local sales tax liability.

CGR estimates that the University helps to contribute over \$100 million to the fiscal strength of the Rochester region and state of New York. Approximately \$20 million stays locally in the form of sales tax revenue. An additional \$80 million is generated for the state by both personal income tax and state sales tax revenue.

The chart on the next page provides a visual of the impact of the three largest portions: local sales tax revenue, state sales tax revenue, and state personal income tax.

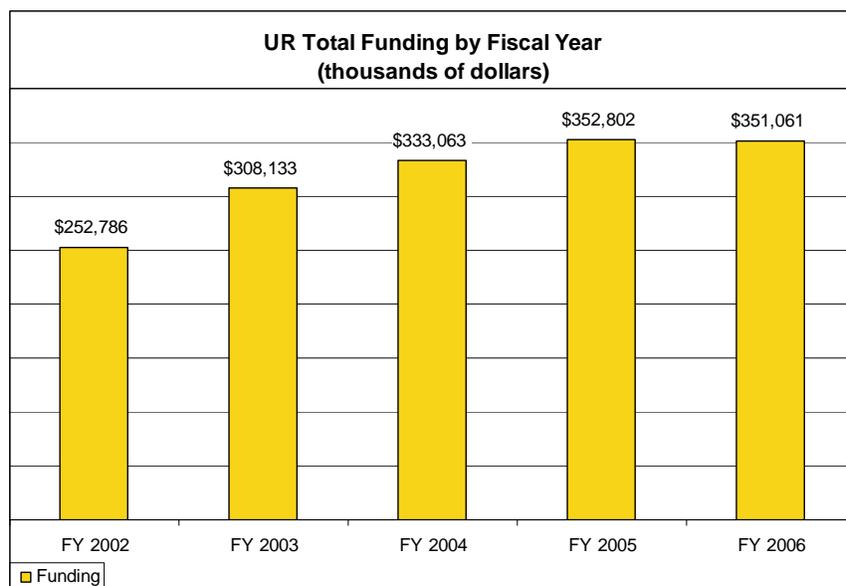


OTHER AREAS OF IMPACT

In addition to the areas mentioned above, there are many ways in which the University contributes to the community that are difficult to quantify. These include the disparate activities of alumni, sponsored research funding, and volunteer activities of the employees, students, and alumni living in the area.

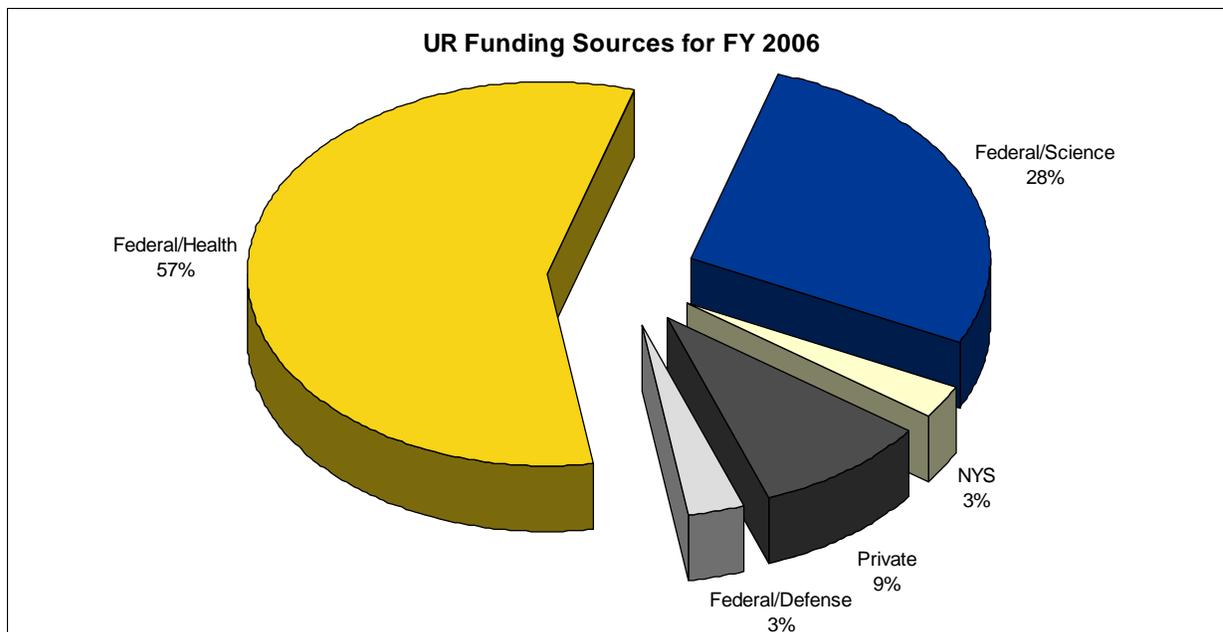
Sponsored Program Activities

Although CGR's economic impact study traces the economic consequences of University expenditures, it is important to acknowledge the sources of funds to the institution. The University consistently finds itself in the top 30 of colleges and universities receiving funding for research and other sponsored activities. From fiscal year 2002 to 2006, University of Rochester received a total of almost \$1.6 billion in funding. On average over the past five years, the University received almost \$320 million per year in funding.*



During fiscal year 2006, the funding came from a number of different sources. The chart on the next page illustrates the distribution of the various sources of funding. The Federal/Health category includes Department of Health and Human Services, Public Health Service, Centers for Disease Control and Prevention, Health Resources and Services Administration, and National Institutes of Health for a total of \$170.1 million. The Federal/Science category includes agencies such as Department of Energy, Environmental Protection Agency, and National Science Foundation for a total of \$81.9 million. The Federal/Defense category includes the three areas of the Department of Defense (Air Force, Army, Navy) for a total of \$8.9 million.

* For more information, see the 2006 fiscal year annual report of the Office of Research and Project Administration at <http://www.rochester.edu/ORPA/AnnualReport/index.html>



As of June 30, 2006, there were 2,591 active research projects at UR. During fiscal year 2006, 31 (24 U.S. and 7 foreign) patents were issued for various research projects across the University. These research dollars no doubt play an important role in the University's ability to attract quality students and recruit top-notch faculty and staff.

NIH Grant

In October 2006, The University of Rochester Medical Center was designated to be one of the first National Institutes of Health centers for Clinical and Translational Science. This designation has allowed the Medical Center to make the connection between outstanding science and superior clinical practice and has further intensified the Medical Center's contribution to the regional economy. The School of Medicine and Dentistry now ranks among the top 25% of medical schools in NIH research funding, which represents a doubling of funding in the past 10 years.*

Technology Transfer

From fiscal year 2002 through fiscal year 2006, there have been a total of 25 start-up companies formed as a result of research at

* University of Rochester Medical Center + Strong Health – Annual Report 2006.

University of Rochester, both the main campus and URMC. It is clear that the University of Rochester is a major catalyst for economic growth and has helped Rochester become a technologically adept region.

Community Involvement

The University of Rochester community—staff, students, faculty and the University’s 20,000 local alumni—contribute to the Rochester area in non-economic ways. Many of these individuals volunteer their time in the local community, enriching neighborhood associations, the local arts community, contributing knowledge and leadership in diverse ways. While the economic contribution of these efforts is impossible to tally, their importance is undeniable.

Although the Eastman School of Music is the most prominent contributor, the University contributes to the community’s quality of life in many diverse ways. A new report available from the University of Rochester (“Connections”) includes a broad sample of the ways in which Rochester connects to the community. The following examples are drawn from that report.

Education

ScienceStart! is a grant-sponsored program which has assisted 1,700 children in making gains in language skills and advancing their knowledge through a scientific approach. The program also helps teachers by using hands-on materials to develop a themed curriculum leading to an exciting learning environment for the student. The program goes beyond simply educating students and teachers, but has also provided more than \$500,000 in books, supplies, and equipment to Rochester-area preschools.

Wellness

The Smilemobile program assists children who would have trouble obtaining oral health services in receiving the dental help that they need. Essentially a dental office on wheels, the program currently has three fully equipped vans that visit inner-city elementary schools and rural locations. The three units provide services to 2,700 children and teens annually and make a profound difference in the lives of young children.

Development

The University has opened a Center for Entrepreneurship, with the help of a \$10.5 million grant. The center has started numerous programs including the Young Entrepreneurs Academy, which helps middle- and high-school children develop real businesses, and the Center for Nursing Entrepreneurship, which assists nurses in starting and running a health care business. The Center currently operates several businesses that together have served more than 35,000 Rochester-area clients in the past year.

CONCLUSION

Defining the economic impact of an institution as complex as the UR is not easy, but it is a highly worthwhile endeavor. Measuring the University's economic and fiscal impacts gives the Rochester community a new understanding of the tremendous importance of UR to the region. The 31,000 jobs, \$1.4 billion annual employee income, and the more than \$100 million contributed annually to local and state governments because the University exists, underscore just how important the institution is for area residents. Today the UR plays a critical role in sustaining and driving the economic well being of the entire Rochester community.