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Michelle Miller-Adams

**A Simple Gift? The Impact
of the Kalamazoo Promise on
Economic Revitalization**

*Randall W. Eberts, George A. Erickcek,
and Jack Kleinhenz*

**Development of a Regional
Economic Dashboard**

**Books on Regional
Economic Development**

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A Simple Gift? **The Impact of the Kalamazoo Promise on Economic Revitalization**

Kalamazoo, Michigan, the hometown of the W.E. Upjohn Institute, recently became the site of an unprecedented experiment in economic development. Announced in November 2005, the Kalamazoo Promise guarantees full college scholarships to potentially every graduate of the 10,500-student Kalamazoo Public School (KPS) district. Behind the scholarship program is an economic development agenda that seeks to revitalize the city and the region through a substantial investment in public education. It is an unorthodox approach that is drawing attention throughout the United States (see Boudette 2006; Jones 2006; Lydersen 2006). If the return on investment in human and economic terms is high enough, the Kalamazoo Promise could serve as a new model for community revitalization and change the way policymakers think about K-16 education.

The Kalamazoo Promise differs from most other scholarship programs in that the allocation of funds is based not on merit or need, but on place—in this case, a medium-sized midwestern city located halfway between Chicago and Detroit. Beginning with the class of 2006 and continuing indefinitely, any student graduating from the district's high schools who has been continuously enrolled in and resided in the district since kindergarten will receive a scholarship covering 100 percent of tuition and mandatory fees

at any of Michigan's public colleges or universities. Graduates who have attended a public school and lived in the district for four years will receive a 65 percent scholarship, with a sliding scale for those in between. There are remarkably few strings attached: students must maintain a 2.0 GPA in their college courses and make regular progress toward a degree. With current in-state tuition ranging from under \$2,000 a year for a full-time student at the local community college to more than \$9,000 a year at the University of Michigan, the benefit to families is worth as much as \$36,000 per child, while the cost to the donors is expected to run to \$12 million a year once four classes of "Promise-eligible" students have graduated.

At first glance, it is easy to miss the economic development implications of the Kalamazoo Promise. The sole direct contribution of the donors is to lower the cost of postsecondary education, thereby increasing incentives for high school graduation, college attendance, and college completion. This intervention on the "demand" side is likely to translate into changes on the "supply" side, including the broader availability of college-preparatory courses within the schools and intensive efforts to close the achievement gap between students of different races and income levels. The Promise is also expected to reverse the school district's decades-long slide in enrollment and the increasingly minority

and low-income composition of the student population. The anticipated results include higher lifetime earnings for the community's young people, a better-trained workforce for area businesses, and a school district that has more resources and is more diverse in terms of both race and socioeconomic status.

But beyond its impact on human capital and the educational system, the Kalamazoo Promise is envisioned as a catalyst for economic growth and development. By creating incentives for current residents to remain in the district and for new residents (especially those with children) to move in, the scholarship program is expected to bring about a tightening in the slack housing market and higher property values. The Promise also makes the community more attractive for businesses seeking to invest, expand, or relocate; not only will their employees' children have access to free college tuition, but the businesses themselves will be able to tap an increasingly well-trained workforce (provided that college graduates or newly skilled workers opt to stay in the region). The program fits readily into a regional growth strategy that seeks to position the Kalamazoo area as a leader in the life sciences field and a home to high value-added, high-wage service jobs. The arrival of middle-class professionals is also expected to benefit the struggling downtown, as a larger population can support more of the kinds of amenities—restaurants, bookstores, arts and cultural institutions—that are seen as essential for attracting and retaining members of the “creative class” found in vibrant urban centers around the world (Florida 2002, 2005).

Kalamazoo at the “Tipping Point”

Like many older cities in the Midwest and the Northeast, Kalamazoo has faced a series of challenges over the past several decades that have hollowed out the urban core and led to an increasing concentration of minorities and the poor in the central city and the public schools. For many years, Kalamazoo's labor market was characterized by

plentiful manufacturing jobs as well as positions for highly trained scientists and other professionals recruited to work in the city's pharmaceutical and financial firms. But automotive and paper plant closings and corporate mergers led to the loss of the headquarters of two of the area's largest employers, the Upjohn Company and First of America Bank. These economic changes set in motion a cycle of middle-class flight, rising poverty, and stagnant population growth, made worse by the state's “little box” system of governance in which metropolitan regions are comprised of very small jurisdictions, each with its own government and property tax rate. (Kalamazoo County, with a population of approximately 240,000, encompasses 24 local jurisdictions grouped into 10 separate school districts, making it the fifth most fragmented metropolitan area in Michigan.)¹ Such a system makes it easy for those remaining in the region to leave the central city and its urban schools by relocating only a few miles in any direction, lowering their tax rates and keeping their jobs while sending their children to schools that are far more homogeneous and have better test scores. (One reflection of these demographic trends is that the population of the city of Kalamazoo has shrunk by 10 percent over the past 35 years, while that of the county has grown by almost 20 percent).² While the city retains a cadre of middle-class and wealthy residents and is rich in educational, cultural, and philanthropic institutions, the housing market is flush with properties for sale, unemployment exceeds the national average, median income lags behind both the state and the nation, poverty is twice the national rate, and overall population growth is nonexistent.

This is a familiar story, and familiar solutions have been tried. Experts have visited to encourage regional cooperation and changes in metropolitan governance. Tax abatements have been offered to companies considering a move out, and incentives offered to those thinking about moving in. Bidding wars have erupted between neighboring towns, not to mention neighboring states (the Indiana border is only 40 miles away). Downtown

revitalization has been pursued, and a series of regional economic development entities have taken the lead in attracting businesses and jobs. Sporadic efforts have been made to integrate the large student population (especially those from Western Michigan University, with an enrollment of 26,000) into the community. Yet the trends continue, with some indicators approaching what urban expert David Rusk (2005) has called the “tipping point” for urban areas.

Hopes and Challenges for The Promise

The assumption underlying the Kalamazoo Promise is that the city and the school district have declined together and that they will revive together as well. The Promise has the potential to serve as a powerful force to shift Kalamazoo away from the tipping point of urban decay and set it on a virtuous cycle of school improvement, population growth, and economic revitalization. But formidable challenges are embedded in that vision.

The first of these is structural. By opting to make scholarships available to every graduate of the Kalamazoo Public Schools, the donors have created a hurdle to their larger goal of revitalizing the urban core. Geographically, more than one-half of the school district lies outside the boundaries of the city of Kalamazoo and, because of limited space for new development in the central city, most investment generated by the Kalamazoo Promise, unless directed otherwise, is likely to occur in the newer, less dense, and more suburban-like townships that surround the city (see map). Further complicating matters is the fragmented system of local governance described above that prevents the city of Kalamazoo from capturing any of the revenues generated by expansion outside its borders. In addition, two amendments to the Michigan state constitution, one dating from 1978 and the other from 1994, interact in such a way as to prevent any revenue gains even if property values within the city appreciate.³ At the same time, a larger regional population could place an added burden on some city

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Randall W. Eberts, George A. Erickcek, and Jack Kleinhenz

Development of a Regional Economic Dashboard

Everyone seems to like lists that rank the nation's metro areas on a variety of topical characteristics such as quality of life, economic performance, housing market conditions, and entrepreneurship, just to name a few. These rankings usually get some media play, and local leaders either support the strong showing their metro area achieves or strongly protest the area's low ranking in the new and clearly erroneous study.

At the same time, many metro areas have completed benchmarking studies that compare their performances with that of a set of similar areas on dozens of economic and social indicators. These studies aim to provide guidance to the metro's community leaders and stakeholders, but the large number of indicators can be mind numbing. Furthermore, uncertainty can arise because the report rarely offers any guidance about which of the often conflicting indicators should be given greater importance.

The Dashboard of Indicators for the Northeast Ohio Economy, by the Upjohn Institute and Kleinhenz & Associates, addresses both of those concerns. The report was prepared for The Fund for Our Economic Future, a multiyear collaboration of organized philanthropy in northeast Ohio established to foster a regional economic development agenda that can lead to long-term economic transformation of the region. The uniqueness of the study is threefold.

1) It is based on a constructed regional framework that contains five components of regional development, including productivity and innovation, education, social inclusion, quality of life, and collaborative governance.

2) It identifies key factors that influence a region's growth and ranks 118 metro areas according to factors that are statistically correlated to economic growth measures—employment, output,

worker productivity, and per capita income.

3) It adheres to the belief that “less is more” and limits its set of growth factors to only eight.

When regional economies exhibit strong growth, they tend to rank high in these eight factors, and when regional economies experience weak growth, they tend to score poorly. By tracking these factors, area stakeholders and decision makers can obtain a better understanding of the performance of their area and are better informed to select possible development policies.

Development of the Growth Factors

The *Dashboard* is derived from analyses of 40 variables for 118 metropolitan areas between the population size of 200,000 and 3 million. The variables encompass a comprehensive view of metro areas in terms of education and skills, fairness and equity, quality of life and place, business activity, and regional cooperation and governance. Since 40 is an unwieldy number, we performed a factor analysis on the data that statistically grouped the 40 variables into eight factor groups based on statistical commonality. Factor analysis not only sorts the original 40 variables into eight factors, but in doing so, the resulting factors become statistically uncorrelated, making them suitable inputs to be entered into a regression analysis. This is the second step of the process. We regressed the eight factors' “scores” on the growth rates of each of the four measures listed below to estimate their statistical correlation with regional growth.

Measures of Regional Growth

The *Dashboard* was devised by finding factors that are statistically correlated

with the following four broad measures of regional economic activity for the period 1994–2004. These measures capture different aspects of growth.

Gross regional output measures the overall economic activity of a region. It is the regional counterpart of the nation's gross domestic product, and is the clearest measure of a region's business performance.

Employment measures the opportunities for local residents and those who migrate to the region to earn wages and salaries and to pursue a career. Some would argue that employment is what attracts people to a region.

Productivity is a measure of the output per employee, which is critical to determining a region's overall competitiveness.

Per capita income is the preferred measure of regional activity for most economists because, while employment opportunities are important, for the standard of living to increase, a region must generate pay increases and a greater share of high-paying jobs.

Eight Factors of Regional Growth

All eight factors that were derived from the factor analysis were found to be statistically related to at least one of the economic performance measures.

The skilled workforce factor is a weighted combination of the percentage of the population with bachelor and graduate degrees; the number of occupations with high education content, such as professional occupations; patents per employee; productivity of the information sector; and skills of the workforce.

Urban assimilation includes ethnic diversity (percent Asian, Hispanic, and foreign born); minority business ownership; percentage of home ownership; and cost of living.

Racial inclusion measures racial inclusion (social dimension, excluding the economic dimension); racial dissimilarity; and percentage of African-Americans.

Legacy of place takes into account the costs associated with a declining industrial base, an older infrastructure,

Table 1 Rankings of Growth Factors According to Their Importance to Economic Growth

Factors	Employment	Growth rate of		
		Per capita income	Productivity	Output
Skilled workforce	5	1	1	1
Racial inclusion	3		3	3
Urban assimilation	6		2	2
Income equality	4	4		5
Business dynamics	2			6
Legacy of place costs (negative)	1	2		4
Location amenities		5		
Urban/metro structure		3		7

high unemployment, a population with lower educational attainment and fewer opportunities, a disproportionate need of human services, and a tax base insufficient to support the demand for services. This factor also includes the percentage of housing stock erected before 1940, which reflects the cost of maintaining an older system of roads and sewers, the crime rate, and the number of municipalities per capita.

Income equality measures economic inclusion by taking the difference between 90th percentile income and the 10th percentile income and dividing by the 10th percentile income. It also includes the percentage of children under 18 living in poverty.

Locational amenities includes quality of life variables such as the transportation systems, recreational opportunities, arts, health services, and the presence of a major research university. This factor only measures quality of life variables that a region can construct publicly or privately, as opposed to those over which it has little or no control, such as climate.

Business dynamics measures the proportion of small business establishments, concentration of manufacturing, and churning, which is a measure of the gross change in jobs, both those created and those lost. (Note that gross change in jobs is different from net change in employment.) Regions that score highly in business dynamics are characterized by a high degree of business activity outside the manufacturing sector.

Urbanization/metro structure measures the core city's share of poverty

relative to its share of the metropolitan population. Cities that have a higher share of the poverty relative to the general population are less able to cover the costs of poverty through their tax bases.

Relative Importance of the Eight Factors to Economic Growth

The eight factors of the *Dashboard* vary in their influence on the four measures of economic growth. In Table 1, each of the eight factors is ranked by its statistical correlation to the four growth measures. Only when the relationship is statistically significant at a 95 percent confidence level is the factor's ranking shown.

Not surprisingly, a skilled workforce is strongly correlated with three of the four measures of economic growth. Education and training are clearly tied to the worker being more productive and being paid more. In addition, areas with an educated workforce are more competitive and able to generate greater production than their rivals. However, it is not the most important factor in influencing employment growth.

Legacy of place, which contains variables that are associated with the age of the area's infrastructure, declining industrial base, and housing stock, has the strongest correlation (negative) with employment growth. This factor only confirms the well-known challenge that older metropolitan areas in the Northeast and Midwest face as they try to transform their economies from being based largely on manufacturing activities to more

knowledge-based functions.

Several other results from the regression model are of interest. Business dynamics, which includes the amount of business churning and the proportion of small businesses in the area, is strongly related to employment growth but is not statistically related to per capita income growth. Many of the jobs created by small businesses pay relatively low wages. The factor, location amenities, is moderately related to per capita income, suggesting that higher-income workers are attracted to locations with public or privately constructed "quality of life" attributes; however, it appears to have little influence on the other three growth measures.

Finally, the analysis suggests that social factors matter in terms of economic growth. Metro areas that rank high as urban assimilation centers, which is a measure of their openness to immigrants and new cultures, experienced higher growth. Moreover, racial inclusion and income equality are statistically tied to three of the four growth measures. Areas enjoying higher growth are more racially integrated and do not have a high disparity of income.

Rankings of Metropolitan Areas Based on Indicators

The report ranks each of the 118 metro areas according to their score for each of the factors. One of the more important relationships identified in the report is the clear correlation between the skilled workforce factor and per capita income growth. An effective workforce training effort and/or the ability to attract quality workers into the area are important ingredients to a meaningful economic development policy.

Conclusions

Several general conclusions can be derived from the study.

- There is no single factor or variable that single-handedly determines whether or not a region's economy grows. This should be no surprise for most; however, it does reconfirm the importance for metro area stakeholders to carefully

reexamine the relative importance of different factors to overall economic growth before selecting regional economic development policies.

- A skilled workforce and strong business dynamics are highly correlated with regional economic growth. Both indicate the importance of human capital development in the increasingly knowledge-based, global economy. Metro areas that successfully create an environment where training and educational opportunities are available and where entrepreneurs are welcomed and encouraged have a greater chance of generating greater economic growth.

- Openness to new cultures (urban assimilation), racial inclusion, and income equality are positively correlated with economic growth.

- Locational amenities, a measure of quality of life variables such as universities, recreation, and transportation, is positively correlated to per capita income growth but not to the other three growth measures.

- Finally, regions burdened with negative legacy of place costs are at a disadvantage when repositioning their economies for growth relative to newer metro areas.

The Dashboard of Indicators for the Northeast Ohio Economy is available at <http://www.upjohninstitute.org> and <http://www.clevelandfed.org/Research/Workpaper/2006/index.cfm>.

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"A Simple Gift?" continued from page 2

services. All of these factors are likely to intensify the fiscal crisis already brewing for the city of Kalamazoo.

The second challenge relates to the continued segregation of the region by race and income. Relative to neighboring municipalities and Kalamazoo County, the city of Kalamazoo has a high concentration of minority and low-income residents (see Table 1). Most of these are clustered in a few inner-city neighborhoods characterized by limited commercial activity, relatively high crime rates, and a decaying housing stock. The schools reflect this dual concentration by poverty and race, a condition not unique to Kalamazoo. (Recent research by Harvard University's Civil Rights Project ranks Michigan as one of the nation's four most segregated states when it comes to its schools [Orfield and Lei 2006]). As Table 2 shows, 61 percent of KPS students are low-income (compared to 16 percent in the similar-sized Portage Public School district, which abuts Kalamazoo) and 59 percent are nonwhite (compared to 13 percent in the Portage schools). Moreover, despite several decades of desegregation efforts, first through cross-district busing and then

through the creation of magnet schools, KPS elementary schools remain stratified by race and income.

Research shows that socioeconomic integration is among the most powerful tools for raising student achievement.⁴ The Promise is expected to make KPS more diverse in terms of the socioeconomic status of its students, but it is less certain that the influx of middle-class families will be robust enough to create a mixed-income school district. (To achieve a federally subsidized lunch rate of 50 percent or lower would require the entry of over 3,000 noneconomically disadvantaged students; the enrollment increase for all students projected by KPS officials for fall 2006 is 450).⁵ An even more important question is whether socioeconomic integration will change the composition of individual elementary schools. KPS has a system of in-district school choice, and middle-class students are currently concentrated in just a few elementary schools. As these fill up, parents will begin to look at other schools, but as with much about the Promise, socioeconomic school integration is a long-term proposition.

A third challenge is that the Kalamazoo Promise does not provide any new funding for the schools themselves

KPS District Boundaries and City Limits

Table 1 Demographic Characteristics

	City of Kalamazoo	City of Portage	Kalamazoo County
Population	77,145	44,897	238,603
White (non-Hispanic)	69.5%	89.6%	83.5%
African American	20.6%	3.7%	9.7%
Hispanic	4.3%	1.9%	2.6%
Poverty rate	24.3%	4.8%	12.0%

SOURCE: U.S. Census Bureau, 2000.

beyond the automatic increases that accompany higher enrollment. The donors have left it up to others to find the resources to help schools close the achievement gap and prepare all their students for college, but this is no simple task. KPS Superintendent Janice Brown has repeatedly charged the community with helping to make real the promise that "every child is college material"; however, the barriers faced by many of the district's students extend well beyond the purview of the schools to include issues such as a lack of parental support, an absence of neighborhood role models, or the punishing effects of poverty. Support services such as nutrition programs, mental health care, and mentoring are crucial, but despite a considerable outpouring of volunteer energy and a large network of social service agencies, the mission of organizing these services is a formidable one.

A final challenge relates to the economic development goals of the Promise. Implicit in the program is the idea that an increase in the local supply of educated workers will have a matching effect on the demand side, enticing employers to expand or relocate to the community. But in the absence of concerted action to increase the attractiveness of Kalamazoo to employers, such an increase in demand is unlikely

to materialize. And without a steady supply of new jobs that require a college education, it is doubtful that families will choose to relocate to Kalamazoo or that college graduates will opt to stay or move here. If the impact of the Kalamazoo Promise is merely a shift of middle-class families from outlying areas into the KPS district, the result will be disappointing from an economic development standpoint—a redistribution of the existing pie rather than its expansion. The Promise in and of itself is probably not a powerful enough incentive to attract major new employers to the region, but it is a rallying cry for community engagement and mobilization, and a catalyst for positioning Kalamazoo as an attractive locale for those households and businesses that place a high value on education. By calling into action coalitions of residents, businesses, and organizations working strategically to leverage its potential, the Kalamazoo Promise may emerge as an important new instrument for economic revitalization.

The Upjohn Institute is part of this process of mobilization, particularly in the area of research and evaluation. In 2007, the Institute will publish a book on the origins and initial impact of the Promise. The Institute is also carrying out an evaluation of the net impact of the Kalamazoo Promise on K-16 student achievement, the local housing market,

and the overall economic climate. Finally, the Upjohn Institute is positioned as a clearinghouse for research efforts and a convener of those seeking to strengthen the connection between education and economic development. The results of these efforts will be highlighted in future editions of this newsletter and on the Institute's Web site.

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Notes

1. As measured by the Metropolitan Power Diffusion Index (MPDI) developed by David Y. Miller and calculated by David Rusk based on 1992 data.
2. U.S. Census Bureau data from 1970 and 2000.
3. The relevant pieces of state legislation are the Headlee Amendment, ratified in 1978, and Proposal A, ratified in 1994.
4. See research by Richard Kahlenberg, among others, at <http://www.equaleducation.org/>.
5. Deputy Superintendent Gary Start, quoted in the *Kalamazoo Gazette*, May 26, 2006.

Michelle Miller-Adams is a visiting scholar at the Upjohn Institute, where she is working on a book about the Kalamazoo Promise.

Table 2 School Characteristics

	Kalamazoo Public Schools	Portage Public Schools
Enrollment	10,580	9,042
Students per teacher	15.2	17.4
Minority enrollment	59%	13%
Economically disadvantaged	61%	16%
Reading proficiency	64.2%	90.0%
Math proficiency	52.2%	81.0%

SOURCE: Michigan Department of Education, 2004–05; Standard & Poor's SchoolMatters, available at <http://www.schoolmatters.com>.

Books on Regional Economic Development

Does "Trickle Down" Work?

Economic Development Strategies and Job Chains in Local Labor Markets

Joseph Persky, Daniel Felsenstein, and Virginia Carlson

The authors employ a "job chains approach" to clarify the potential justifications for economic development subsidies and identify the limitations of such efforts. In addition, they estimate the number of job vacancies created by job changers as a result of a subsidized business investment or expansion and the extent to which gains are achieved by the unemployed and underemployed.

"In addition to an excellent read for those who conduct impact assessment, this would make an excellent complimentary text for a regional economic methods course." *Journal of Regional Science*

179 pp. \$40 cloth ISBN 0-88099-309-X
\$17 pbk. ISBN 0-88099-308-1 / 2004.

Industrial Incentives

Competition Among American States and Cities

Peter S. Fisher and Alan H. Peters

"[This book] provides an important contribution to the field of tax policy analysis. In clear, accessible language, Fisher and Peters describe and discuss the theoretical and practical difficulties presented by measuring the value of economic development incentives and, more importantly, the way to overcome these using their Tax and Incentive Model." *National Tax Journal*

307 pp. \$46 cloth ISBN 0-88099-184-4
\$21 pbk. ISBN 0-88099-183-6 / 1998.

State Enterprise Zone Programs

Have They Worked?

Alan H. Peters and Peter S. Fisher

"This is an important book that local economic development researchers and practitioners must not miss. In addition to the analysis of enterprise zones, the book provides insightful comments on reverse commuting, inner-city distress, and various economic development programs." *Journal of Planning Literature*

"Considering the quality of previous economic development volumes published by the Upjohn Institute, [this book] has a tough act to follow. The authors rise to this challenge with a book that expands enterprise zone research and which is a suitable companion to and extension of their previous work, 'Industrial Incentives' (1998). The result is an accessible, persuasive and sometimes provocative work that employment and public finance scholars, as well as policymakers, will find of interest." *Urban Studies*

345 pp. \$52 cloth ISBN 0-88099-250-6
\$22 pbk. ISBN 0-88099-249-2 / 2002.

Bidding for Business

The Efficacy of Local Economic Development Incentives in a Metropolitan Area

John E. Anderson and Robert W. Wassmer

The authors examine the use and effectiveness of local economic development incentives within a specific region, the Detroit metropolitan area. The Detroit area serves as a good example, they say, because of the area's 20-plus year track record of its communities offering the gamut of economic incentives aimed at redirecting economic activity and jobs. The evidence they uncover reveals

factors that drive cities not just in this Southeast Michigan area, but nationwide to offer particular types of incentives that are more or less generous than those offered by their neighbors. Their work also shows how the redistribution of economic activity within most metropolitan areas has created a spatial mismatch between low-skilled employees living in central cities and inner suburbs and potential employers located increasingly farther out in suburbia.

"Instructors in urban, regional, and real estate economics, as well as urban and regional planning, will find much to assign and to discuss regarding both the theoretical and empirical issues." *Growth and Change*

245 pp. \$40 cloth ISBN 0-88099-202-6
\$17 pbk. ISBN 0-88099-201-8 / 2000.

~ NEW ~

The Geography of American Poverty

Is There a Need for Place-Based Policies?

Mark D. Partridge and Dan S. Rickman

Partridge and Rickman propose that innovative sets of place based-policies can make tangible dents in poverty in the most distressed American central cities and remote high poverty rural communities. They develop a set of policy suggestions to ensure that job creation efforts benefit the poor—the intended beneficiaries. And because the most distressed areas often lack needed work supports, the authors link job creation strategies with place-based supports such as enhanced transportation and daycare. In conclusion, the authors call for a more integrated national poverty-reduction strategy that recognizes that "one size doesn't fit all."

376 pp. \$56 cloth ISBN 0-88099-287-5 /
\$22 pbk. ISBN 0-88099-286-7 / 2006.

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