

The Economic Development Impact of Place-Based Scholarship Programs:  
Initial Results from Kalamazoo, Michigan



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Paper presented at the annual conference of the Midwest Political Science Association  
Chicago, IL, April 11, 2013

DRAFT – COMMENTS WELCOME

## Abstract

Announced in 2005, the Kalamazoo Promise is the first of a growing number of place-based scholarship programs that signal a new approach to local economic development. To date, more than thirty communities nationwide have replicated key elements of the program as they seek to expand access to higher education and revitalize the economy. An emerging body of literature explores the impact of Promise programs on student achievement, as well as positive enrollment effects seen in the Kalamazoo Public Schools. However, no research to date has specified and quantified the other community-level impacts of place-based scholarship programs. Stakeholders designing such programs are seeking to improve both educational and economic outcomes for their communities; this paper presents initial research examining whether this is a realistic goal. I examine two pathways through which a place-based scholarship might contribute to local economic development – the connection between educational attainment and economic growth, and the creation of a stronger urban core – and find preliminary evidence that the Kalamazoo Promise has helped strengthen the local economy through both avenues.

## Background

When the Kalamazoo Promise was announced in 2005, it was clear that the anonymous donors who created it meant for the program to be much more than a scholarship. Unlike traditional scholarships, which are generally awarded on the basis of financial need or academic merit -- attributes of the individual student -- the Kalamazoo Promise is awarded on the basis of place. Any student who attends the Kalamazoo Public Schools (KPS) for a minimum of four years, resides within the district, and graduates from one of its high schools will receive a scholarship covering 65 percent of tuition and fees at any public post-secondary institution in Michigan. If a student attends and resides in the district from Kindergarten through high-school graduation, the scholarship amounts to 100 percent of tuition and fees, with a sliding scale in place for those who have attended for between four and thirteen years. Students have ten years after high-school graduation to use their scholarship funds (up to 130 credits or a bachelor's degree), and the program is guaranteed to continue in perpetuity.<sup>1</sup>

The combination of limiting scholarship recipients by place – in this case, a high-poverty urban district in a mid-sized community in Southwest Michigan – while extending scholarships to all students who meet minimal enrollment and residency requirements, suggests that the donors are seeking not just to increase college access and embed a college-going culture within the K-12 system, but also transform the place itself.

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<sup>1</sup> For program details, see The Kalamazoo Promise website: <https://www.kalamazoopromise.com/>

Subsequent programs modeled on the Kalamazoo Promise (there are now over thirty, with more in the works) have tinkered with the model, most dramatically in terms of its universal eligibility, which applies in only about half of the existing programs. In the other programs, scholarships are contingent not just on attendance and residency, but also academic merit, usually a 2.5 high-school GPA and a strong attendance record.<sup>2</sup> A few programs have targeted scholarships toward low-income or first-generation college students. However, despite the diversity of models, virtually all Promise programs include economic development (sometimes expressed as “community vitality,” “workforce development,” or “quality of life improvements”) as one of their motivations.

I have written elsewhere about the relative advantages of the universal versus merit-based model (Miller-Adams 2011), and will reiterate here that merit-based models are poorly equipped to support the economic development goals of Promise programs. Universal programs have the greatest potential to transform communities because they matter to students and families across the academic achievement continuum as well as to residents not directly connected to the public schools. Universal eligibility creates broad buy-in throughout the community and leverages new sources of support for student success and alignment around an education-based economic development strategy. In short, the Kalamazoo Promise and other universal programs are not just about the students who receive scholarships – they are about the community as well.

### The Economic Development Rationale for Place-Based Scholarship Programs

Because the Kalamazoo Promise donors have opted to remain anonymous, it is impossible to ask them why they structured the scholarship program precisely in the way they did. Clues, however, are readily available. Dr. Janice Brown, KPS superintendent when the Promise was created and sole conduit to the donor group, has repeatedly referred to the program as an economic development initiative. The structure of the program gives us our best indication – to receive the scholarship, it is not sufficient for a student to be enrolled in the Kalamazoo Public Schools; rather, residency within school district boundaries is a key criterion for receiving the scholarship and one that has never been waived on appeal. (The Kalamazoo Promise organization has an appeals structure in place and many accommodations have been made for students’ individual

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<sup>2</sup> A few communities, including New Haven (CT), have imposed a stricter academic merit requirement of a 3.0 high-school GPA.

circumstances. The residency requirement, however, has been strictly enforced.) From this structure, one can conclude that the donors are seeking to bolster long-term residency in the urban core, not just increase the number of students attending KPS. This suggests that stabilizing the population of the school district (which encompasses both the City of Kalamazoo and some surrounding townships) and making it more attractive to new residents are among the goals of the program's designers. In this light, the Kalamazoo Promise fits within a broader set of place-based economic development strategies.

Place-based economic development is nothing new. For half a century, cities, regions, and states have pursued localized strategies to increase the number of jobs available for residents, expand the tax base, and improve the quality of life. Since their large-scale adoption in the 1960s, local economic development policies have passed through three stages: Until the early 1980s, the focus was on strengthening a community's infrastructure to increase its appeal to outside investors. From the 1980s to the mid-1990s, the emphasis was on customized aid for specific businesses and industries, including the creation of business incubators, start-up support, and technical assistance. Beginning in the late 1990s, communities began to adopt more holistic approaches intended to make the entire business environment more hospitable. Greater support for the development of business clusters, an emphasis on workforce development and education, the creation of public/private partnerships, and attention to quality of life indicators are elements of this effort (World Bank).

The Kalamazoo Promise reflects this more recent emphasis on human capital and quality of life as critical factors in attracting businesses to a community. Firms have become more footloose in recent years thanks to lower transportation and communication costs and the shift from manufacturing to service provision; as a result, recruitment and retention is easiest in a city that is home to the kind of workers businesses value. A Michigan-based consultant writing shortly after the Kalamazoo Promise was announced recognized this important shift to a human capital-centered strategy:

Communities facing hard times have traditionally focused on such things as new public buildings, business parks, and the like as a means of enticing new employers and new residents to a community. Temporary tax breaks and incentives have also been tried frequently. Success has been limited. The Promise is different. The enticement of new residents to the community to take advantage of funding of their children's college

educations is a strong one. Given tight labor markets across the nation, new companies are also likely to consider Kalamazoo as a place to do business as they see a rising population. The lure of more and more college graduates in the local labor force in coming years is also a powerful incentive to locate a business in Kalamazoo (Thredgold 2007).

By situating education at the center of the community's economic development strategy, the Kalamazoo Promise emphasizes the value of human capital and provides a tangible incentive for its creation.

There are several strands of academic literature that support the idea of putting education at the center of a place-based economic development strategy, two of which are examined in this paper. The first concerns linkages among education, productivity and economic growth, and the second addresses the value of a strong core city for regional vitality. These two arguments are summarized below, followed by a discussion of how the Kalamazoo Promise has contributed in each area.

#### *Education, productivity, and economic growth*

Assuming that economic development is the underlying goal of the Kalamazoo Promise donors (a reasonable assumption given its structure and likely outcomes), why are college scholarships the cornerstone of the program? The short answer is that education is possibly the most important factor in a community's economic success. The longer answer rests on the premise, found throughout the economics literature, that education has the very real potential to increase an individual's productivity and that productivity is in turn the key to economic growth. Human capital can be defined as "the stock of skills that people are endowed with or acquire through investment in training and education, and which renders them more productive in their work (Johnes 2006)." Most economists believe that the greater an individual's human capital, the more productive he or she will be as a worker. This is what underpins the wider range of job choice, higher earnings potential, and lower unemployment rates for skilled or educated workers.

The most important insight from this literature is that the benefits of education do not accrue only to the individual. The logic of capitalism requires that businesses seek to maximize productivity. One of the chief mechanisms for doing this is to assemble a well-trained and productive workforce. Because access to such a workforce is critical to business success, cities or

regions rich in workers with high human capital are among the most appealing places for businesses to locate.

Edward L. Glaeser of Harvard University and Albert Saiz of the University of Pennsylvania are among the economists who have explored the connection between workers' skills and regional economic growth (Glaeser and Saiz 2003). They have found that, apart from climate (which along with immigration is the most important driver of metropolitan population growth in the United States), "skill composition may be the most powerful predictor of urban growth. This is both a boon to the skilled cities that have done spectacularly over the past two decades and a curse to the cities with less skilled workers that have suffered an almost unstoppable urban decline." (ibid:42). Glaeser and Saiz argue that human capital matters most in potentially declining places. Skills are most valuable in these settings because they help cities adapt and change in response to negative economic shocks. This finding has clear implications for urban policy: "City growth can be promoted with strategies that increase the level of local human capital (ibid:43)," including the provision of quality public schools. A high-quality educational system plays two roles, attracting educated workers to a community while producing more of them through graduation and access to higher education.

The Kalamazoo Promise and programs modeled on it are good examples of this dual dynamic. The availability of scholarships creates an incentive for workers and businesses who value education to move to or remain within the community. At the same time, it increases pressure on the public school district to educate and graduate students who are prepared to pursue some kind of post-secondary education. Over time, these two paths should converge to yield a more skilled local workforce.

Elaborating on the education-economy connection, Glaeser and Christopher R. Berry of the University of Chicago have shown that regions with skilled workforces ("smart" regions) experience higher rates of population and income growth than those without these assets (Glaeser and Berry 2006). Their research found that regions where more than 25 percent of the population had college degrees in 1980 saw their population surge by 45 percent on average over the subsequent twenty years, while low-skilled metropolitan areas (those where fewer than 10 percent of adults had college degrees in 1980) grew on average by just 13 percent. In addition, even unskilled workers located in the "smart cities" earned significantly more than their counterparts in metropolitan areas with lower levels of educational attainment. And the gap in

educational attainment between skilled and less-skilled areas has accelerated. One possible reason for the widening gap is that entrepreneurs of the past tended to hire large numbers of unskilled workers whereas today's most successful businesses rely on highly educated workers. In a virtuous circle in which smart places are getting smarter, regions with an initial advantage in human capital are better able to attract employers who provide jobs for workers with high levels of skills and education.

Other research has shown that an increase in a metropolitan area's concentration of college-educated residents has a positive effect on employment growth (Shapiro 2006), while cross-national comparisons suggest that the educational level of the population is an important factor in a country's competitiveness in the global economy. Within a community, the presence of institutions of higher education can also contribute to economic growth. Even if the direct impact on growth is debatable (Federal Reserve Bank of Chicago 2007), universities play a critical role in workforce development and as a resource for businesses seeking to develop or apply new technologies. Higher education institutions also serve as an amenity for those who live near them, with college sports, cultural events, recreational facilities, and continuing education among the benefits they provide.

### *Strengthening the urban core*

The economic development strategies outlined above are critical in attracting high value-added employers to a region, but the Kalamazoo Promise scholarship program is offered specifically to students in the high-poverty, urban school district that lies at the region's core. Why did the donors select as the target of their generosity a shrinking school district that serves a student body made up mainly of low-income and minority children? Most likely, this choice reflects a growing understanding that a region is only as strong as its core. "Regional economies are integrated wholes, with different parts of the metropolitan area specializing in different economic functions," writes Peter Dreier. "[O]lder central cities continue to provide large pools of private assets, accumulated knowledge, sophisticated skills, cultural resources, and social networks (Dreier et al. 2007:25)." There is also a new recognition of the economic and environmental costs of urban sprawl, which is arguably more expensive than other, more compact forms of development (Burchell et al. 2005, Glaeser 2011).

While some of the nation's largest cities have become increasingly vital in recent decades, most urban areas have lost population, wealth, and influence (Glaeser expounds on the reasons for this divergence in his 2011 book, *Triumph of the City*). In his insightful account of one of the more extreme examples of these trends, historian and sociologist Thomas J. Sugrue identifies three forces that accounted for the urban crisis in Detroit (and, by extension, other metropolitan areas): the flight of jobs, especially the unionized manufacturing jobs that characterized the post-World War II urban economy; the persistence of workplace discrimination; and racial segregation in housing that led to an uneven distribution of power and resources in metropolitan areas. He writes:

Despite more than half a century of civil rights activism and changing racial attitudes, American cities (particularly the old industrial centers of the Northeast and Midwest) remain deeply divided by race. Poverty rates among people of color in major American cities are staggeringly high. Vast tracts of urban land lie pockmarked with boarded-up buildings, abandoned houses, and rubble-strewn lots. At the same time, hundreds of thousands of acres of marshland, meadow, farm, and forest on the periphery of major metropolitan areas get gobbled up each year for vast tracts of new housing, shopping malls, and office parks. City governments struggle with shrinking tax bases and ever-increasing demands on public services, while wealthy suburban municipalities enjoy strong property tax revenues, excellent public services, and superb schools (Sugrue 1996:xvii-xviii)."

Others have elaborated on how this bleak landscape emerged. In *Metropolitica*, Myron Orfield traces the decline of once vibrant, middle-class neighborhoods in the urban center into tracts of concentrated poverty through what he calls the "vacancy chain":

A household move to a new unit at the periphery creates a vacancy at the old address, to be filled by another household, which leaves a vacancy at its old address, and so on. Building new housing at the periphery sets in motion vacancy chains reaching far back into the city's central core. Thus the more rapid peripheral growth of middle-class sectors leaves excess housing and low demand at the center of its vacancy chain. As demand declines, so too does price, opening up opportunities for the region's poor people. ... As these [central] neighborhoods grow poor, social and economic decline accelerate, pushing the middle class out while the vacancy chain simultaneously pulls these residents outward ... Ironically, as the various economic classes leave central-city areas, all the social and economic changes that occur in the core of their sectoral housing markets eventually follow them through the vacancy chains out into the suburbs (Orfield 1997:16).

With unemployment, racial segregation, and single-parent homes coming to dominate older, poorer neighborhoods, residents grow increasingly isolated from middle-class society and the



private economy. “Individuals, particularly children, are deprived of local successful role models and connections to opportunity outside the neighborhood (Orfield 1997:18). Crime is the last resort in such communities.

Theoretically, public schools work against this dynamic, providing equal opportunity to all and serving as a way out for children from distressed homes and communities. In reality, however, schools take on the characteristics of the neighborhoods that surround them and perpetuate the cycle of decline. “It is the rapid increase of poor children in local schools...that sounds the first warning of imminent middle-class flight (Orfield 1997:38).” David Rusk, the former mayor of Albuquerque and an authority on urban affairs, has demonstrated in a variety of studies that housing segregation almost always equates with school segregation. The concentrated poverty found in most urban school districts, which maps closely with race, is a mirror of the segregated neighborhoods created by middle-class flight. These neighborhoods are home to high-poverty schools that struggle to retain quality teachers, grapple with their students’ poverty-related behavioral issues, and almost always earn low scores on standardized tests. The reverse side of this neighborhood-school dynamic is that when neighborhoods become more diverse in terms of family income, so do their schools, with benefits for all (Schwartz 2010).

Another challenge for urban areas and one that is especially pressing in Kalamazoo is the high degree of local government fragmentation. Rusk and Orfield both advocate regional integration as a way of overcoming the inefficiencies that result from multiple governing jurisdictions in a single geographic area. The chief remedy for the linked problems of declining core cities, deindustrialization and urban sprawl, according to Rusk, is for a city’s boundaries to be flexible enough for it to capture the growth in population and tax base that occurs in the suburbs. “For a city’s population to grow, the city must be ‘elastic,’ and if a city is not growing it is shrinking,” writes Rusk (Rusk 1995:9). Michigan is a state where local governments hold a relatively high degree of power, and Kalamazoo County is very much a “little box” system where multiple jurisdictions bump up against each other on all sides. These factors make it difficult to envision the solutions proposed by Rusk and Orfield, such as annexation of neighboring municipalities, consolidation of government functions, or even joint planning on a regional scale.

What can an urban community do if its boundaries are not elastic? According to Rusk, the municipalities within the region can move toward regional land use planning to help control

sprawl, ensure that all suburbs have their fair share of low- and moderate-income housing to help dissolve concentrations of poverty, and implement regional revenue sharing to help reduce fiscal disparities (Rusk 1999:11). (In the 1990s, Rusk was hired to develop such a plan in Kalamazoo only to have it shot down by surrounding municipalities intent on retaining their autonomy and ill-disposed toward joining forces with the City of Kalamazoo, home to most of the region's poor and minority residents.) Another strategy for inelastic communities is to increase the population density and socioeconomic diversity of the urban core by attracting middle-class families to move in rather than out of the central city. This is one of the goals implicit in the Kalamazoo Promise and also a cornerstone of other efforts to revitalize cities.

Not everyone believes that strengthening the urban core will benefit the low-income individuals who live there. Writing about the cities of the rustbelt, historian and sociologist Thomas Sugrue maintains that “[t]here has been very little ‘trickle down’ from downtown revitalization and neighborhood gentrification to the long-term poor, the urban working class, and minorities. An influx of coffee shops, bistros, art galleries, and upscale boutiques have made parts of many cities increasingly appealing for the privileged, but they have not, in any significant way, altered the everyday misery and impoverishment that characterize many urban neighborhoods (Sugrue 1996:xxv).”

Others argue, however, that cities are becoming increasingly important engines of regional economic development and indeed global competitiveness. Bruce Katz, director of the Metropolitan Policy Program of the Brookings Institution, has written extensively about the advantages of a dense urban core. Katz notes that since the 1990s the trend of population decline in the nation's major cities has reversed. He and his colleagues have proposed a set of new federal urban policy initiatives to support this uneven, but potentially important urban resurgence. One of these strategies is to invest in the growth of the middle class through investments in education. “The key to growing an urban middle class is simple: education,” writes Katz. “With residential choice dependent on school quality, cities need to ensure that their schools can attract and retain families with broader options (Katz 2006:15).”

### Economic Development Impacts of the Kalamazoo Promise

Judged relative to its time frame (the program is set up to continue in perpetuity), the Kalamazoo Promise is still quite new, which makes the ultimate impact of the scholarship program in the

economic development arena impossible to assess. Yet there is evidence that the program is working as intended in at least two of the areas mentioned above. First, regarding education, productivity and economic growth, achievement gains in the K-12 system, expanded access to post-secondary education, and shifts in college choice for scholarship recipients hold the potential for increasing the stock of educated workers in the Kalamazoo region, with productivity implications for the local business community. Second, regarding the strength of the urban core, the enrollment increase in the Kalamazoo Public Schools triggered by the Kalamazoo Promise, and improvements in the perception of the school district are working to create a virtuous circle that strengthens the school district serving the city and inner townships.

### *Education, productivity, and economic growth*

Recent data regarding the use of the Kalamazoo Promise, high-school graduation rates, college attendance and completion rates, and shifts in college choice provide evidence of promising trends in the acquisition of human capital. (The missing link is where these better-educated workers will choose to work and live, and whether it will be within the local community. It is too early to answer this question, and there are some data challenges involved in addressing it – specifically, payroll data will need to be accessed and linked to school and college records to ascertain whether Promise recipients have remained in the local area for at least a portion of their career.)

***Use of the Kalamazoo Promise.*** When the Kalamazoo Promise was first announced, some skeptics feared that it would benefit mainly middle-class students who were already college-bound while others believed it was designed to help low-income students, many of them minorities, who were ill-prepared for higher education. It turns out that the Kalamazoo Promise has benefited both of these demographic groups. A review of usage data (see Table 1) suggests that students are using the Kalamazoo Promise in roughly equal proportion to their representation in the school district, with some lags for the Hispanic population and African-American males.

**Table 1. College-going Patterns by Demographic Group:  
Summary for Classes of 2006 through 2011**

Gender/Ethnicity	Graduates	% Eligible	% Used	% Eligible Attended College	% Graduates Attended College
<i>Female</i>	1,666	88.7%	84.8%	96.7%	85.8%
- African American	760	87.9%	84.4%	96.6%	84.9%
- Hispanic	113	88.5%	78.0%	86.0%	76.1%
- Caucasian	746	90.5%	86.5%	97.8%	88.5%
<i>Male</i>	1,593	87.6%	81.3%	92.0%	80.6%
- African American	707	85.9%	79.9%	90.6%	77.8%
- Hispanic	100	88.0%	72.7%	80.7%	71.0%
- Caucasian	734	89.5%	83.9%	94.4%	84.5%
<b>Grand Total</b>	<b>3,259</b>	<b>88.2%</b>	<b>83.1%</b>	<b>94.4%</b>	<b>83.2%</b>

Source: The Kalamazoo Promise, updated June 2012

More important than the racial and ethnic breakdown is the fact that low-income students are using the scholarship at roughly the same rate as middle-income students (see Table 2). (Low-income students are, however, overrepresented at the lower-cost community college level and account for a higher share of students who are struggling once in college.)

**Table 2. Scholarship Use by Socioeconomic Status**

	2006	2007	2008	2009	2010	2011
% of KPS graduates classified as economically disadvantaged	49.4%	52.5%	60.1%	66.7%	63.2%	63.9%
% of Promise-eligible students classified as economically disadvantaged	46.3%	49.6%	58.7%	65.8%	63.0%	63.4%
% of students using the Promise who were at any time classified as economically disadvantaged	44.6%	46.5%	56.1%	63.7%	60.7%	57.1%

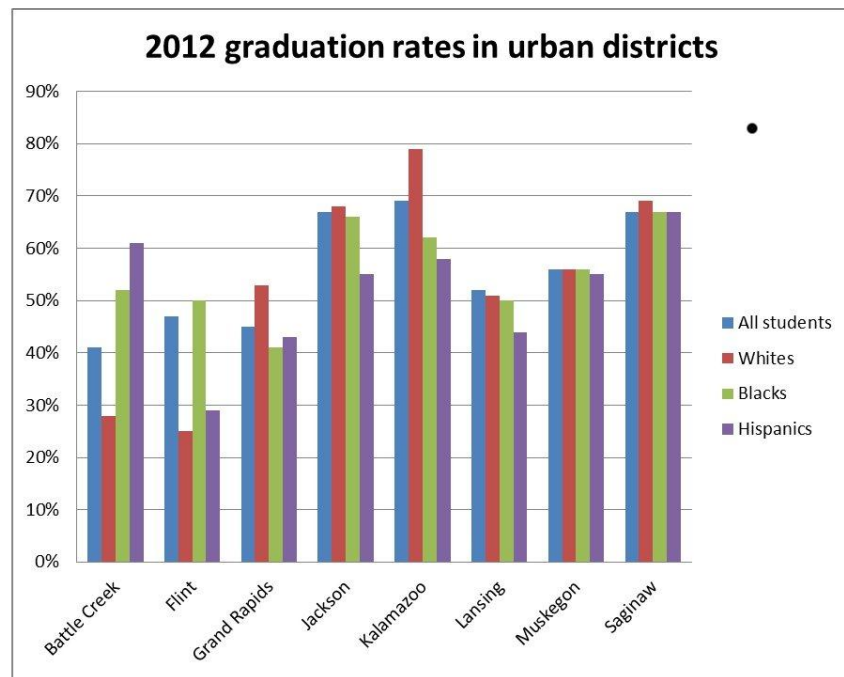
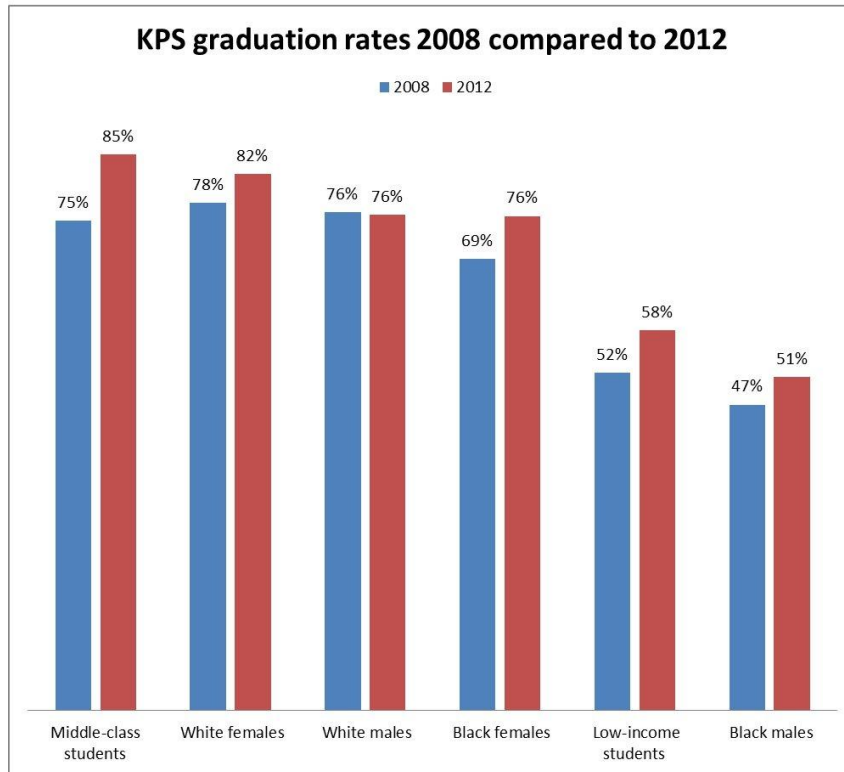
Source: The Kalamazoo Promise, updated June 2012

*Note:* "Economically disadvantaged" refers to students who qualified for federally subsidized meals at any time while enrolled at KPS. Data is biased downward for all categories, and especially for 2006-08 graduates, because of data availability issues and underreporting. The federally subsidized meals rate for all of KPS in 2012 was 69 percent.

Another interesting data point concerns usage overall for the Class of 2006, the first class eligible for the scholarship. Of this group, the percentage of Kalamazoo Promise-eligible students attending at least one semester of college by 2012 stood at 92 percent, compared to the class overall, where the percentage was 84 percent. For subsequent classes, Promise-eligible students outpace the general population in college-going every year. These data suggests that the Kalamazoo Promise has created incentives for more students to attempt some kind of post-secondary education.

***High-school graduation rates.*** Recent state data on high-school graduation rates show a noticeable increase in the graduation rate for Kalamazoo Public Schools. This is the first indication of progress in this area, and it comes seven years after the Kalamazoo Promise was announced. In an article in the *Kalamazoo Gazette*, education reporter Julie Mack proposes two theories that might explain the delayed impact of the scholarship program on graduation: “Struggling students typically dislike school and the lure of a college scholarship doesn't mean much to those teens.” And, “If a student starts high school with academic skills of a fourth- or fifth-grader -- not an uncommon scenario in an urban district -- the chances are very slight that student will start learning twice as fast as his or her peers and catch up in time to graduate in four years.” (Mack 2013) Finally, though, the rates are improving, and in 2012, 69 percent of the KPS students graduated on time, 18 percent were still in school and 13 percent had dropped out. This compared poorly to the state average, but far outpaced an average of seven other urban districts and signified improvement for all demographic groups over four years earlier (See Figures 1 and 2.)

Figures 1 and 2. Graduation Data for Kalamazoo Public Schools



Source: Kalamazoo Gazette (Mack 2013)

***College-going, retention, and completion.*** The Kalamazoo Promise appears to be having an important, although not surprising impact in driving recipients to and through college. Recent data shows that 92 percent of Promise-eligible students from the Class of 2006 attended at least one semester of college, compared to a U.S. average of 63 percent (among adults ages 18 to 24) and 69 percent (ages 25-29). Thirty-five percent of Promise-eligible students from the Class of 2006 had earned a bachelor's degree by mid-2012, compared to a U.S. average of 23 percent. And of students who started at four-year universities, 67 percent completed bachelor's degrees in six years, compared to a U.S. average of 58 percent. (For white Promise students, the completion rate was 73 percent, relative to a U.S. average of 59 percent. For black Promise students, the completion rate was 51 percent, relative to a U.S. average of 38 percent.) The fact that Promise students are outpacing national rates in college-going and completion is more notable due to the fact that they attended an urban, high-poverty district and as such would be expected to lag the national average.

***Shifts in college choice.*** A recent study looked at college choices made by students who attend the Kalamazoo Area Math and Science Center (KAMSC), a highly competitive countywide magnet program for high school students (Miller-Adams and Timmeney 2013). KAMSC provides a good test of the impact of the Kalamazoo Promise because it includes both KPS and non-KPS students of similar achievement levels and because data on college choice is readily available for both the pre- and post-Promise period. The data analysis found that since the Kalamazoo Promise was announced, the percentage of KPS KAMSC students attending in-state public universities almost doubled (the comparison group, non-KPS KAMSC students, saw a slight increase in the same direction, likely a result of families seeking less expensive higher education options during a period of recession). The dramatic increase in Promise-eligible students attending public, in-state institutions is no doubt due to the incentive provided by the Kalamazoo Promise, which can be used only at such schools. This shift has some important economic development implications because graduates of in-state institutions are more likely to remain in that state for their career than if they left the state for college. Accordingly, this shift in college-going patterns among the district's highest-achieving math and science students has positive implications for Michigan's economy down the road (although not necessarily that of the region, unless students choose to return to their home community of Kalamazoo).

*Local institutions.* While high-achieving students appear to have shifted their college choice from private and/or out-of-state institutions to in-state, public schools as a result of the Kalamazoo Promise, many other Promise recipients have opted to stay even closer to home. The two local higher education institutions for which Promise recipients are eligible are Western Michigan University, a public research institution offering four-year and graduate programs, and Kalamazoo Valley Community College, a two-year college offering a broad range of career and technical certificates and degrees, as well as Associate's degrees and strong transfer programs. To date, seven years of graduating classes have been eligible for the Kalamazoo Promise, with 2,400 students using at least one semester of their scholarship and 1,270 students currently enrolled in some post-secondary program. Of these students, almost two-thirds have remained in Kalamazoo, divided about evenly between the two local institutions. Historically, many of the students at these institutions, especially those at the community college, have remained in the area. Assuming job opportunities exist, the higher level of educational attainment provided by the Kalamazoo Promise will contribute to an increase in the region's stock of human capital. (It is worth noting that Promise scholarships can be used not only for Associate's and Bachelor's degrees, but also for a wide array of career and technical training offered at the community college. Availability of technical training is often driven by local workforce needs, with certification programs designed in tandem with employers to fill existing demand.)

Taken together, the above trends suggest that the Kalamazoo Promise is having a positive impact on human capital development in the region, with more high-school graduates, higher rates of college attendance and completion, and a pronounced shift toward local and in-state post-secondary institutions. A fuller picture of the economic impact of these developments must await an examination of where these better-educated individuals choose to live and work.

### *Strengthening the urban core*

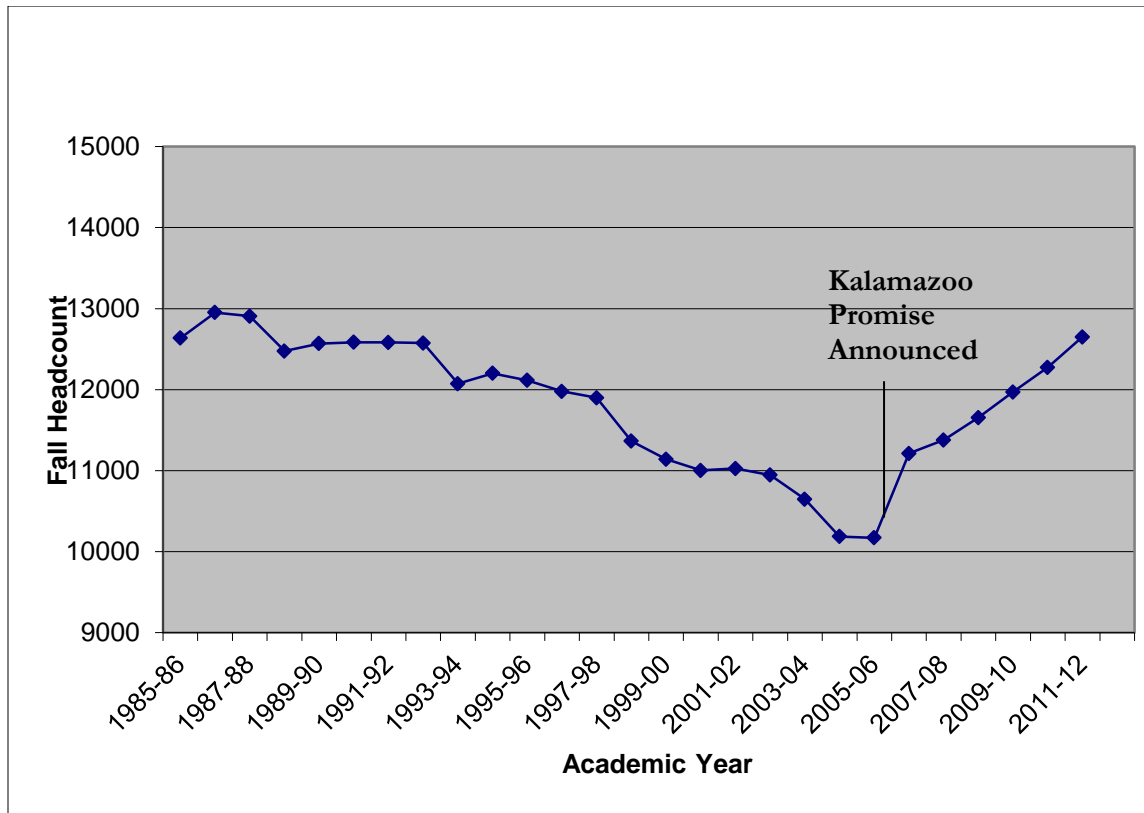
A different set of data suggests that the Kalamazoo Promise is having an important impact on the Kalamazoo Public Schools, the school district that serves the region's urban core. This impact comes from increased enrollment, the new financial resources that flow from it, and an improvement in public perceptions of the school district. The impact of these positive trends is complicated by the fact that the boundaries of the school district encompass not just the City of Kalamazoo, but several neighboring townships, some of which are more suburban than urban in



nature. As a result, growth in the school district does not necessarily translate to growth in the city; however, an improving school district is still an asset to the region’s central core.

The single most pronounced effect of the Kalamazoo Promise to date has been a dramatic increase in enrollment in the Kalamazoo Public Schools (see Figure 3). The magnitude of this enrollment growth – 25 percent since the Promise was announced in 2005 – makes KPS one of the fastest-growing urban school districts in the nation and the only expanding urban district in Michigan. After a one-time surge of new entrants in the year immediately following the announcement of the Promise, enrollment growth has continued at a slower pace, with the fall headcount rising by an average of 220 new students per year. (It is important to keep in mind that without the Kalamazoo Promise, the district would likely have continued to shrink by roughly the same amount each year.) In a recent paper (Bartik et al. 2010), colleagues from the Upjohn Institute show that enrollment growth is being driven more by decreased exit rates from the district than by increased entry rates – an important indicator of stable enrollment and a reflection of long-term attachment of families to the district, most likely one of the donors’ goals.

Figure 3. Long-Term Enrollment in the Kalamazoo Public Schools



Research currently under way by Upjohn Institute economist Brad Hershbein has examined more closely the composition of students enrolling in KPS pre- and post-Promise. Hershbein is seeking to identify the type of students entering and exiting the district, where they are coming from, and where they are going when they leave (Hershbein 2013). His analysis centers on the large cohort entering KPS in September 2006 -- the year after the Promise was announced. He found that about one-quarter of the new entrants came from outside of Michigan, with the others coming from public school districts in the state. (Contrary to the expectations of some observers, new students did not come from charter or private schools.) There is some comfort for regional leaders concerned that enrollment growth in KPS would be purely at the expense of neighboring districts; in fact, only one of the districts in the region, Comstock Public Schools, appears to have been harmed by a Promise-induced exodus. (Comstock had been shrinking in size and losing middle-class families well before the Kalamazoo Promise was announced, but the Kalamazoo Promise has sped the exodus from the district.) The closest district in size to KPS, Portage Public Schools, has not suffered a Promise-induced enrollment decline, but Hershbein's data shows that since the Promise was announced, students are less likely to exit KPS for Portage -- a pronounced trend prior to 2005.

Hershbein has also examined the attributes of students entering KPS. His research shows that new entrants in 2006 and 2007 were less likely than the student body as a whole to qualify for free and reduced-price meals (a proxy for low incomes). These new entrants also had higher test scores than either previous entrants or the student body as a whole. This suggests that the families who initially relocated to KPS in response to the Promise were not a random group, but actually had more attractive attributes (less poverty, higher test scores) than the existing population or previous groups of entrants. These trends have since reverted to the mean and did not change the demographic makeup of the district in any substantial way; KPS's free and reduced-price lunch rate began rising in 2008 as a response to the recession and reached 69 percent in 2012, up from 62 percent when the Promise was announced.

Higher enrollment has brought some important advantages to the district, including more financial resources, which are allocated by the state on a per-pupil basis. Extrapolating pre-2005 enrollment trends into the future and calculating the value of the additional students entering the district because of the Promise yields an estimate of \$28 million in Promise-related state funding

(relative to a total budget of \$131 million).<sup>3</sup> This is not all “new money,” as incoming students require teachers, classrooms, books, bus drivers, and so on. However, the cost of adding students to a district rarely requires an equal level of expenditures; hence, this additional funding has made the pressure of budget-cutting less severe for KPS relative to other urban districts in Michigan, which are experiencing declining enrollment. (Budget-cutting has been driven by falling state expenditures on K-12 education; KPS, for example, has seen its foundation grant decline from \$7,930 to \$7,398 in just four years.)<sup>4</sup>

In addition to providing additional programmatic funding, the enrollment increase has supported other forms of economic activity carried out by the school district. Most important among these is increased capacity at the middle-school level achieved through the construction of a new middle school and the expansion of two existing middle schools. The total cost of these construction activities, which were supported by millage (bond) requests passed overwhelmingly by school district voters in 2006, was \$30.4 million. The middle school was one of two new school buildings constructed by the district (the other was a replacement for an older elementary school building) and constituted the first new school construction in the district in almost forty years. On the hiring front, KPS officials estimate that the district has added 141 budgetary positions since 2005-06 in response to higher enrollment. At an average total compensation for 2012-13 of \$79,421 per employee, this yields an increase in human resources expenditures of \$11.2 million.

One of the most important economic development impacts of the Kalamazoo Promise is more difficult to quantify: an improved perception of the urban public school district that lies at the heart of the region and serves most of its low-income and minority children. The shift in perception is evident not just among parents of KPS students, who are more likely to enroll their children in KPS and less likely to exit the district when they encounter difficulties, but also in the

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<sup>3</sup> This calculation extends to the present the average decline of 200 students per year over the ten years preceding the introduction of the Kalamazoo Promise, creating a counterfactual, “no Promise” district of just under 9,000 students. The difference between this and current enrollment of 12,725 is 4,725 students. Multiplying by the current foundation grant of \$7,398 yields a total amount of \$27.6 million. This does not take into account the costs of serving these new students.

<sup>4</sup> Historical data on the foundation grant by district can be found at [http://www.senate.michigan.gov/sfa/Departments/DataCharts/DCK12\\_FoundationHistory.pdf](http://www.senate.michigan.gov/sfa/Departments/DataCharts/DCK12_FoundationHistory.pdf)

broader community. One way to capture this shift is to look at how the *Kalamazoo Gazette*, the area's only newspaper, portrays the Kalamazoo Public Schools.

Content analysis of articles in the local newspaper shows an increase in the volume and shift in the nature of coverage of the Kalamazoo Public Schools pre- and post-Promise. As Figures 4 and 5 illustrate, the number of substantive *Kalamazoo Gazette* articles about the KPS doubled between a typical, six-month pre-Promise period (January-June 2005) and a comparable six-month post-Promise period (January-June 2008).<sup>5</sup> The number of articles (defined as substantive news articles whose key focus was KPS and excluding announcements, athletic news, editorials, or opinion pieces) doubled over this time frame from 31 to 63. More important was a shift in the nature of the coverage, with 35 percent of the articles coded as positive in the pre-Promise period and 56 percent coded as positive in the post-Promise period. Interestingly, the percentage of negative coverage held steady, with the shift to more positive coverage coming from the "neutral" category.

Figures 6 and 7 analyze the *Grand Rapids Press*'s coverage of the Grand Rapids Public Schools, a comparable school district in terms of demographic makeup and urban location. No similar shift in coverage was detected in these samples that were drawn from the same time period. In Grand Rapids, the number of articles held fairly constant, 38 in 2008 relative to 32 in 2005, and the percentage of positive, negative, and neutral coverage was also steady, with no discernible increase in positive coverage. Additional content analysis from 2009 and 2010 shows a similar pattern of increased and more positive coverage of the school system in Kalamazoo than in Grand Rapids (Miller-Adams 2013).

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<sup>5</sup> These periods were chosen for analysis because no major event, such as the hiring of a new school superintendent or the visit by President Obama to Kalamazoo Central's high-school graduation distorted the amount or nature of coverage.

Figure 4. Newspaper coverage of Kalamazoo Public Schools, 2005

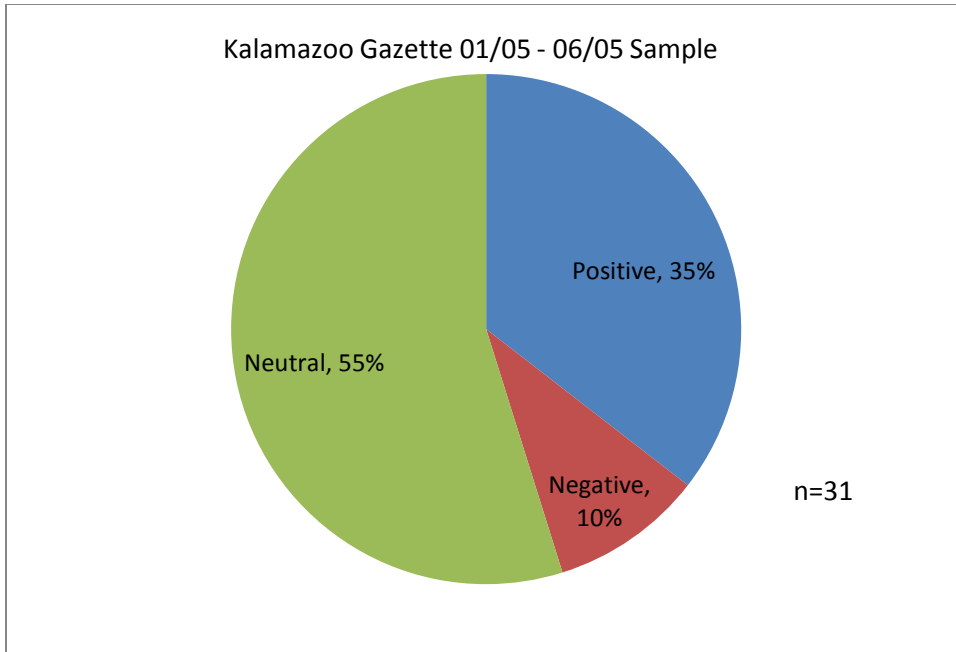


Figure 5. Newspaper coverage of Kalamazoo Public Schools, 2008

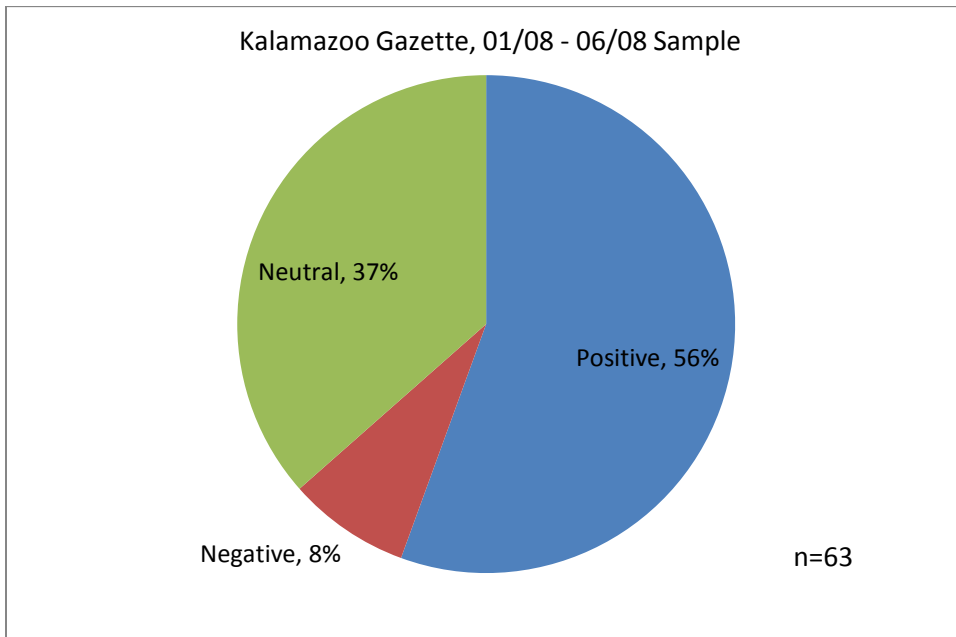


Figure 6. Newspaper coverage of Grand Rapids Public Schools, 2005

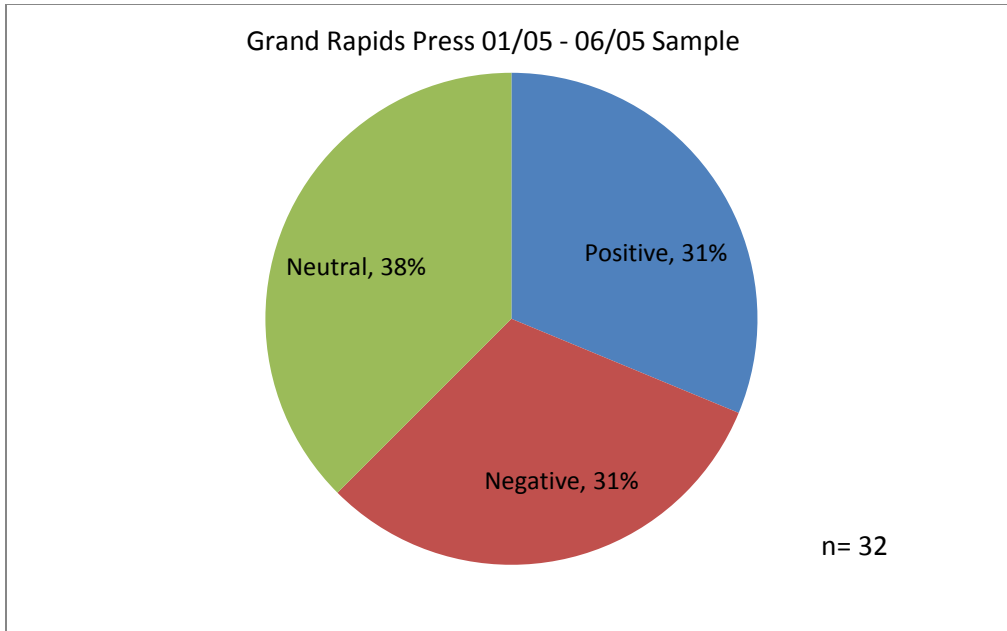
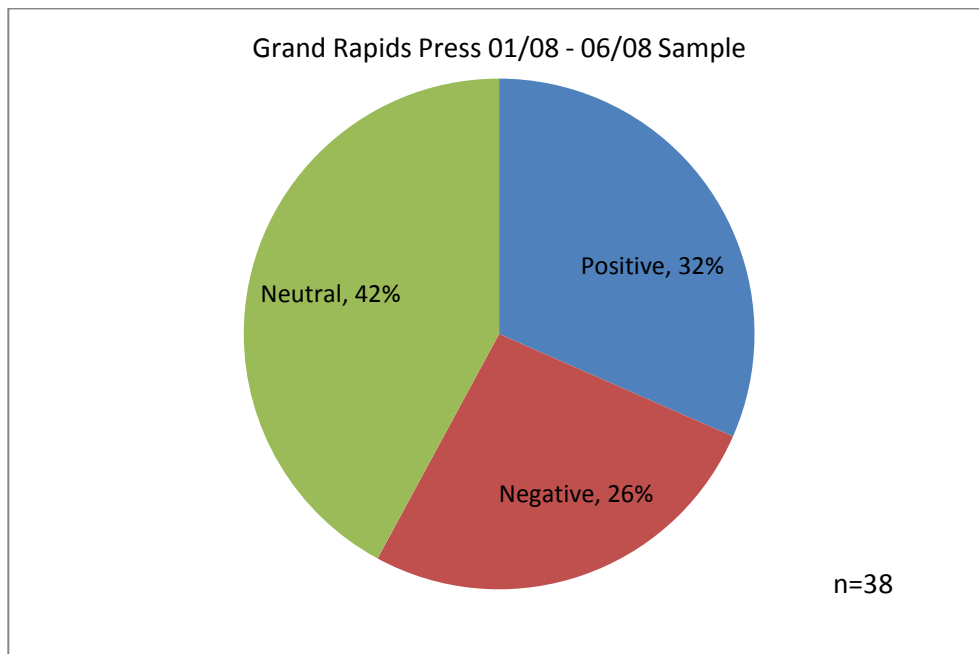


Figure 7. Newspaper coverage of Grand Rapids Public Schools, 2008



As discussed in the previous section, the performance of students in KPS is improving in terms of high-school graduation, college-going, and completion. However, this reality does not necessarily translate into a better reputation for the district, especially among those who are not directly involved with it. For these “outsiders,” KPS’s reputation is filtered through the media, so the tone of local news coverage can substantially affect perceptions of the district. Perceptions matter in decision-making, and they tend to change slowly. The shift in media coverage toward a more positive portrayal of the school district is thus likely to contribute to gradually shifting public views and decisions made by parents, teachers, businesses, and community members that can strengthen or weaken the district. The hope (and likelihood) is that positive media coverage and an improving reality contribute to a virtuous circle where one builds on the other to create positive momentum for future improvements. In many urban school districts the reverse is true, with a negative reputation exacerbating actual problems in the schools (whether regarding achievement, behavior, or school safety), making those problems worse.

And what of the housing market in the urban core? Housing market trends remain one of the more puzzling issues for researchers assessing the impact of the Kalamazoo Promise. According to economic logic, the premium attached to households with children residing within KPS boundaries – the scholarship that their children will receive – should put upward pressure on housing prices and values. Yet there is no evidence to date that this has occurred or even that the market has depreciated at a slower rate than areas outside KPS boundaries. There are several possible explanations for the absence of housing market impact. First, the discount rate for the scholarship is high, especially for families with young children. If you as the parent of a 5-year-old are deciding where to buy a home, the value of the Kalamazoo Promise scholarship is at least 13 years down the road, and you must factor into your home-buying decision the probability that you will live in the same house and send your child to the same school district over that time frame. This reduces the present value of the scholarship and may account for its limited impact on the housing market. Second, the weakness in the regional housing market from 2007 onward, with many houses in foreclosure and strong downward pressure on prices, was likely to have outweighed any positive impact of the Kalamazoo Promise. In a market flooded with low-priced homes, the relatively small number of new homebuyers in the district failed to shift either home prices or values. (This could change now that the regional housing market has tightened – the county’s multiple listing service showed 1,765 residential properties on the market in February

2013, just half the number for sale six years earlier.) Finally, there is no available counterfactual – or even a reasonably good comparable community -- for measuring the impact of the Kalamazoo Promise on housing, making it impossible to know how the housing market would have performed in the absence of the scholarship program.

While housing market trends do not seem to have been affected by the Kalamazoo Promise, realtors are among those who value the scholarship program as a critical economic development tool for the region. For example, Dan Jaqua, a leading realtor, calls the Kalamazoo Promise “one of the greatest economic development tools the region has.”<sup>6</sup> Jaqua Realtors is involved at the corporate level with all the region’s major employers, including the Kellogg Company, Whirlpool, Pfizer, Stryker, and State Farm. According to Jaqua, the biggest recruiting challenge these firms faced historically was a lack of knowledge about the region, including its location. The Kalamazoo Promise “put us on the map,” raising the community’s profile and creating a positive attitude toward it, making recruitment a much easier proposition. It has also made it easier to sell homes within the district, according to local realtors (Miller-Adams 2009:184).

With education at the center of the region’s economic development strategy, Kalamazoo has positioned itself as a progressive community that is able to attract highly skilled employees from around the country. (The announcement last month that Newell Rubbermaid will relocate its design operation – along with 100 high-paying jobs – from Atlanta to WMU’s Business Technology and Research Park is a timely illustration of this.) The region’s appeal to such workers is a positive development whether or not they buy homes in the KPS district. The Kalamazoo Promise works to strengthen the region by making it both “stickier” for existing residents and increasingly appealing to workers and families who might be considering a move to the area. In this respect, the Kalamazoo Promise is only one element of a broader set of educational assets that includes the choice of diverse school districts, the presence of higher education institutions, and large-scale philanthropic investments in education, such as the anonymous \$100 million gift given in 2011 to support a new medical school for Western Michigan University.

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<sup>6</sup> Author’s interview with Dan Jaqua, Jaqua Realtors, March xx, 2013.



There are several other avenues that should be explored to assess the impact of the Kalamazoo Promise on economic development:

- ***Population trends.*** There are some preliminary signs that population decline in the city has slowed, and 2010 census data showed that Kalamazoo County has retained its under-18 population at a much higher rate than the state overall (Between 2000 and 2010, the state's under-18 population declined by 9.7 percent, relative to a decline of only 0.7 percent in Kalamazoo County; see Mack 2011.) Census data needs to be examined in more detail to get a clearer picture of population trends in the Kalamazoo Public Schools district, which includes the City of Kalamazoo and portions of surrounding townships.
- ***Downtown development,*** which is showing positive signs, is another tricky area of analysis because so many causal factors are at work. These include decades of effort by a downtown development authority and the ups and downs of enrollment at area colleges. Even so, the Kalamazoo Promise seems to have added to the momentum to downtown development and should ultimately contribute to the health of core city neighborhoods as a result of higher educational attainment on the part of residents.
- ***Catalyst for related efforts.*** The Kalamazoo Promise has served as an important catalyst for other efforts focused on education and student success, most notably the Learning Network of Greater Kalamazoo, a countywide collective impact strategy that seeks to improve outcomes for young people at each point along the developmental continuum. (Learning Network activities are funded through investments of \$6 million from the W.K. Kellogg Foundation and \$5 million from the Kalamazoo Community Foundation.) It also inspired Kalamazoo Valley Community College to invest millions of dollars in a Student Success Center to support the efforts of all its students. And donor relations officials at the community foundation report new giving around educational goals.
- ***Community alignment.*** One of the most important contributions of the Kalamazoo Promise, although one that is difficult to quantify, is its role in facilitating the alignment of multiple organizations, including the city, the Chamber of Commerce, and Southwest Michigan First (the region's economic development organization) around education as the engine of economic development. For almost a decade, economic developers have worked to position Kalamazoo County as a home for high value-added, knowledge-intensive industry, primarily to capture spinoffs from the pharmaceuticals sector as well

as businesses and entrepreneurs from outside the region. The Kalamazoo Promise supports this knowledge-intensive economic development strategy by putting skills-based training in reach of even the poorest residents, raising the region's national profile more effectively than could any public relations campaign, and strengthening the public school system that lies at the heart of the region. From day one, the Kalamazoo Promise has signaled to outsiders that Kalamazoo is a community that values and invests in education, providing a strong competitive advantage as cities throughout the region seek to transform their identities from rust belt to new economy.

The anonymous donors behind the Kalamazoo Promise were seeking to change the trajectory of the community by making a transformative investment, not in infrastructure or by providing subsidies to business, but in human capital. In this sense, they resolved the debate between whether “place-based” or “people-based” investments are more promising paths to alleviating poverty and revitalizing communities (Crane and Manville 2008). In the words of Carrie Pickett-Erway, now the president of the Kalamazoo Community Foundation, “They set the bar much higher than anyone was thinking. It gives us an opportunity to let go of our short-term, short-sighted objectives and be more progressive and aggressive in thinking about the future. Somebody went in big, and they picked the right thing because it's connected to everything.”<sup>7</sup>

## Conclusion

This paper marks an initial attempt to specify some of the economic development impacts of the Kalamazoo Promise. Seven years after its introduction sufficient time has elapsed to take a preliminary look at how the program is contributing to the local stock of human capital and vitality of the urban core. Almost all of the communities that have created place-based scholarship programs inspired by the Kalamazoo Promise cite economic development as one of their goals, making it critical to examine the empirical evidence about if and how such programs contribute to economic vitality. Yet several methodological challenges make this task especially difficult, for Kalamazoo and elsewhere.

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<sup>7</sup> Author's interview with Carrie Pickett-Erway, Kalamazoo Community Foundation program officer, February 16, 2006.

The first is that the time frame for economic development impacts to materialize is quite long. The track record of the Kalamazoo Promise suggests that the impact of place-based scholarships is felt initially in the school district and by the families who are direct beneficiaries of the scholarship. Rising enrollment in the Kalamazoo Public Schools and the greater sense of urgency to prepare students to make use of their scholarships have had a number of beneficial first-generation effects on the school district and broader community. These include the tangible benefits of rising enrollment, such as more money for the school district (or, in the case of Michigan, less acute budget cutting), new hiring, and new school construction, as well as less tangible yet important developments such as the alignment of community organizations around student success and a strong pattern of local use of scholarship funds. A second generation of results around academic achievement is now emerging, with rising graduation rates, higher college attendance and completion rates across all demographic groups, and improved standardized test scores. The non-school-related effects of the Kalamazoo Promise – including its economic development impact – can be seen as a third generation that has not had sufficient time to materialize. Rising levels of education in the workforce, business relocation decisions, and population growth are developments that generally unfold over a decades-long time frame. In this sense, it is too early to judge the economic development impact of the Kalamazoo Promise and even more premature to evaluate the impact of other, newer programs.

The second challenge relates to the difficulty of drawing conclusions about causality. As one moves away from the direct beneficiaries of the Kalamazoo Promise – students, families, KPS, and local post-secondary institutions – to the broader community it becomes increasingly difficult to identify the Kalamazoo Promise as a causal factor in positive developments under way. Whether one is examining the housing market, business creation, downtown development, or population growth, multiple causes are at work, and the intervention of a place-based scholarship program – even a generous and open-ended one such as the Kalamazoo Promise – can easily be swamped by larger trends, such as changes in the housing market, economic conditions, or the culmination of decades of efforts by local economic development entities. There is little doubt in the minds of most observers that the Kalamazoo Promise has contributed to positive trends in the local economy, but it is virtually impossible to prove this assertion.

A third challenge is the problem of the counterfactual. There is no way to know how local economic development might have evolved in the absence of the Kalamazoo Promise. One can surmise that the local economy would have continued on much the same path, with weakness in the housing market, downtown development struggling to gain momentum, and the urban core continuing to lose middle-class residents. But it is difficult to know how pronounced these trends might have been and whether other factors could have come along to reverse them. In the absence of this counterfactual and given the other methodological constraints mentioned above, the best researchers can do is continue to draw reasonable conclusions from available data while sounding the cautionary note that a place-based scholarship program holds promise, but is in no way a quick fix for a community in decline.

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