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The Power of a Promise

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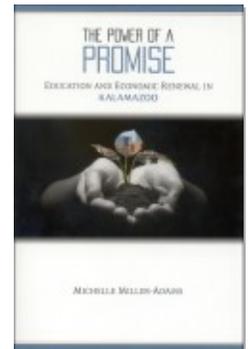
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Prospects for Economic Change

While the Kalamazoo Promise has had an immediate effect on students and the schools, its influence on the local and regional economy is a longer-term proposition. The scholarship program was introduced at a time when economic trends in the state of Michigan were extremely negative, and this broader environment has thus far overshadowed any major economic gains that might materialize as a result of the Promise. In addition, business decisions that could have a sizable impact on the economy almost always unfold over a long time frame, and it is still too early to know if the Kalamazoo Promise will lead directly to new, job-creating investments in the region. Finally, the community alignment and engagement efforts necessary to leverage the Promise, especially on the part of the business community, have been slow to emerge. Even so, the announcement of the scholarship program has had some important initial effects that reinforce encouraging trends already under way and increase the community's attractiveness to outside investors, as well as its appeal to those businesses already based here.

This chapter provides an assessment of the economic implications of the Kalamazoo Promise, both achievements thus far and prospects for the future. Some of these are difficult to quantify, as they involve changes in Kalamazoo's culture and reputation, but it is important to attend to them nonetheless. It is precisely such intangible factors that can shift the attitudes of residents and outsiders away from the specter of urban decline and set in motion developments that lead to positive economic change.

ECONOMIC DEVELOPMENT CHALLENGES

If the Kalamazoo Promise is to serve as a catalyst for regional economic development, its impact must be strong enough to overcome some deeply negative economic trends. Michigan has struggled since

2000 to adapt to the decline of the state's auto industry and the associated manufacturing industries that shaped its economy for 100 years. The numbers paint a bleak picture.

- Economic growth for the state has lagged the national average since 2002. In 2004, Michigan was the only state whose economy contracted, and in 2007, the state ranked 49th out of 50 in terms of growth (Bureau of Economic Analysis 2007). In March 2008, Michigan's seasonally adjusted unemployment rate was the highest in the nation, at 7.6 percent, compared to 4.4 percent nationwide (W.E. Upjohn Institute for Unemployment Research 2008a).
- While median household income for state residents has historically been above the national average, by 2005 it had fallen to average or below-average levels (CRC 2007a).
- Michigan leads the nation in outward migration, especially by young people. The state ranks 49th out of 50 in retaining young adults (ages 18–24), and census data show that the population of 25–44-year-olds declined by 268,382 between 2000 and 2007. One of the nation's largest moving companies, United Van Lines, reported that in 2006 Michigan exceeded all other states in the proportion of residents departing, with 66 percent of the company's shipments outbound (CRC 2007a).
- Even after shedding 24.3 percent (or 217,900) of its manufacturing jobs between 2000 and 2005, Michigan remains heavily dependent on manufacturing. The state's employment location quotient for automobile, light truck, and parts manufacturing is 7.88, meaning that the state's share of employment in this industry segment is 7.88 times the national average (Fulton and Grimes 2006).

Kalamazoo County is less dependent on manufacturing than south-east Michigan, and the economic base of the region has retained its comparative diversity. But growth has been slower, household incomes lower, and unemployment higher than for the nation as a whole. A weak job market is perhaps the biggest constraint on the economic impact of the Kalamazoo Promise, limiting the potential increase in population and related economic growth.

A second challenge in assessing the economic impact of the Kalamazoo Promise is the time frame over which business decisions unfold. According to economic development officials, it routinely takes five to seven years for major investment deals to come to fruition. A number of encouraging economic developments that emerged in the three years after the scholarship was introduced actually originated prior to its announcement. Ongoing downtown revitalization, including the city's first multiplex cinema, and major construction projects, such as the \$30 million Miller Canfield building across from Bronson Park that broke ground in September 2006, have contributed to a relatively positive economic outlook, but these projects all predate the Kalamazoo Promise. Even the Monroe-Brown Foundation internship program, designed to assist with the retention of local graduates, and the KPS bond issue approved in May 2006 had both been in the works well before the scholarship program was announced. Of course, it is quite likely that some of these developments were initiated by the same wealthy individuals responsible for the scholarship program, which was in a planning mode for several years prior to November 2005. It is also likely that the community's leading economic development organizations, including Southwest Michigan First, Downtown Kalamazoo Inc., and the Southwest Michigan Innovation Center, all of which have been extremely active in recent years, number among their board members at least some of the anonymous donors.

The positive economic news that seemed to cascade from the pages of the *Kalamazoo Gazette* in spring 2008, especially the announcement that local bioscience company MPI Research would create 3,300 jobs over the subsequent five years, was a post-Promise development, but it is not clear how directly the scholarship program played a role in corporate decision making. Still, the Kalamazoo Promise has indeed given a boost to the local economy. It is much too early to assess whether the Promise will be seen as the spark that ignited a regional economic recovery, but its initial impact has reinforced positive trends already under way and changed the collective view of the community's economic potential. The effects range in scope from the direct economic impact of the scholarship program on family resources to a substantial increase in national attention and recognition granted to the Kalamazoo region.

MODEST GAIN FROM SCHOLARSHIP FUNDS AND SCHOOL SPENDING

A small but direct impact of the Kalamazoo Promise on the local economy resulted from the decisions of scholarship recipients about where to attend college. Seventy percent of Promise recipients from the class of 2006, the first to receive the scholarship, opted to attend either WMU or KVCC. These individual decisions meant that approximately 60 percent of scholarship funds, or close to \$1 million, flowed directly from the Kalamazoo Promise 501(c)3 organization into local institutions of higher education.¹ The scholarships also affected families who had prepared to finance at least a part of their children's tuition expenses. While the magnitude of this effect is impossible to quantify because of variations in household resources and needs, some families undoubtedly experienced an unexpected windfall from the sudden availability of Kalamazoo Promise funds. Anecdotal evidence and interviews suggest that one result was a reduced need for students or parents to take out loans, as well as new resources for discretionary spending. Again, it is impossible to know where these discretionary funds went, but it is reasonable to assume that at least a portion was invested in the local economy.

Another direct economic impact of the Kalamazoo Promise has come from construction projects supported by the bond issue passed by KPS voters in May 2006. Plans for an infrastructure bond predated the announcement of the scholarship program, but it was the expectation of a Promise-driven enrollment boost that led KPS to increase the size of the request and designate the proceeds for the construction of new school buildings—the first for KPS in 35 years. (The newest building in the district at the time the Promise was announced was Kalamazoo Central High School, opened in 1972; six of the school buildings currently in use were constructed before 1930.) With the bond issue on the horizon, some KPS officials believed it would take at least a year to develop a comprehensive building plan, but others urged putting something on the ballot right away because of the positive momentum created by the Promise. In January 2006, a quickly organized telephone survey of likely voters gauged community support for such a plan. Officials were pleasantly surprised by the results: 92 percent of respondents sup-

ported a bond request for facilities upkeep, 74 percent supported a new elementary school building to replace an overcrowded school on the West Side, and 63 percent backed construction of a new middle school. Millie Lambert, president of the KPS teachers' union commented, "I was really surprised that, given what's going on in this town economically, people are still saying that education is a high priority, and if they have to pay, they'll pay" (Mack 2006j). The bond allocated \$24 million for construction of the middle school, \$11 million for the elementary school, and the remainder for technology and facilities maintenance and upgrades. It was financed at a lower interest rate than previous issues and yielded total savings to the district of \$5.9 million over its 20-year life. Deputy Superintendent Gary Start attributed the favorable financing to "the strong national interest in Kalamazoo, mainly because of the Kalamazoo Promise" (Ricks 2006).

The location of the new middle school was more contentious than its financing. Multiple sites were considered, including a 27-acre downtown parcel once occupied by a paper mill and the site of a costly environmental cleanup, a 227-acre site on the east side that included an area where sludge had been dumped from the city's old wastewater-treatment plant until 1968, and 160 acres of undeveloped land owned by the WMU Foundation on the west side of town just inside the city's boundaries. In October 2006, the district's announcement that the school would be built on the west side site was met with an angry response from some residents and community leaders. In addition to concerns about the limited degree of public input, critics claimed that the decision represented an abandonment of the city's core, the area in greatest need of investment. From the perspective of the district, however, the decision was an easy one. A collaboration with the WMU Foundation, which sold KPS the land (appraised at \$2 million) for the bargain price of \$1 million, and the city of Kalamazoo, which committed to \$2 million in infrastructure investments, as well as nearby housing and commercial development, the deal brought together three of the community's leading public institutions. The new middle school is at the geographic center of KPS, making it accessible to the fastest-growing area of the district, and its location should stabilize residential housing in the nearby Arcadia neighborhood, which is home to a growing number of student rental properties.

In fall 2007, local elections resulted in the approval of school millages in four neighboring districts, including the Portage Public Schools, the region's second-largest school district. In promoting an earlier version of this request, the then Superintendent Peter McFarlane had asked voters to support the Portage school millage as an "extension" of the Kalamazoo Promise, not a reaction to it. "All of the education entities need to take a look at what is necessary to be competitive and to draw attention to the quality that's there . . . We think this is another component of developing this education region here" (Chourey 2007). Even in the throes of an economic downturn and a state budget crisis that is constraining public investment in education, the school bond votes showed "a community that has been willing, over and over again, to dig into its pockets to fund education" (*Kalamazoo Gazette* 2008a).

Support from the region's voters for educational spending was reaffirmed in May 2008, when a countywide millage renewal passed by a 57 percent margin (Mack 2008c). The campaign was notable for the connection made between education and economic development. "For many communities," wrote the editors of the *Kalamazoo Gazette* in urging a "yes" vote on the tax, "the renewal . . . isn't just about gutting school programs and laying off teachers. It's an economic development issue . . . The Kalamazoo area, bolstered by the Kalamazoo Promise and reinforced by fine higher education institutions, has been transforming itself into the Education Community—a place where companies seeking highly skilled, well-educated employees can set up shop and thrive" (*Kalamazoo Gazette* 2008b). Ron Kitchens, the head of Southwest Michigan First, supported this view in urging a vote in favor of the tax: "One of the top priorities for businesses, whether they are already here or considering locating here, is the condition of K-12 education. They never ask if we have average school systems. They want to know their families will have superior opportunities through the public school systems" (Kitchens 2008). The millage, which generates over \$11 million a year for the county's nine school districts, or \$335 per student, had been approved in 2005 by a 51 percent margin. At that time, the measure had squeaked through on the strength of "yes" votes in the urban core; outside Portage and Kalamazoo, ballots ran 2–1 against the tax. This time, the urban vote held steady, but in the rural townships the proportion of "yes" votes jumped from 32 percent to 43 percent. The gains were spread throughout the region, with the percentage of voters

supporting the tax going up in 17 of the 19 municipalities involved in the election despite an energetic campaign by the local antitax group (Mack 2008d). Growing support for school funding even among voters traditionally opposed to public spending of all kinds suggests that voters in the region are coming to understand the critical importance of high-quality education to their economic future and are willing to contribute at a time when state education spending has remained flat or declined. It also lends credence to the idea that the Kalamazoo Promise is not a zero-sum proposition—if KPS gets more, everyone else will get less—but instead can serve as a tool to leverage educational improvement throughout the region. “People were able to get beyond taking a narrow view of self-interest—to me, that’s the story of the millage campaign,” said Tim Bartik, one of the proposal’s chief advocates (Mack 2008d).

THE HOUSING MARKET PUZZLE

Housing market trends are one of the most perplexing issues for researchers engaged in assessing the impact of the Kalamazoo Promise. Unraveling their meaning is especially important, since publicity about the relative strength of the housing market in response to the announcement of the scholarship program has been one of the chief arguments used by advocates for similar initiatives in communities throughout the nation.²

Recognizing its potential to drive home sales in a slack market, area real estate agents were among the first to incorporate the Kalamazoo Promise into their marketing strategies. Within days of the program’s announcement, “College Tuition Qualified” signs were posted in the yards of homes for sale in the district, houses pictured in real estate ads had the words “Kalamazoo Promise” superimposed on them, and typing the phrase “Kalamazoo Promise” into an Internet search engine took one directly to the Web sites of local real estate agents. In September 2006, the Greater Kalamazoo Association of Realtors (GKAR) released data showing that home sales within KPS had outperformed the region for the first time in five years. For the 12 months ending September 30, 2006, sales of homes within the school district were up 6.7

percent, compared to a countywide decline of 5.2 percent; in the two-thirds of the region not within KPS, the drop in sales was 10 percent. Similarly, the median price of homes within KPS rose 3.6 percent while it fell across the region by 1.4 percent.³ Although the gains have since dissipated, these were the numbers that were seized upon by national media and made their way into the lexicon of immediate benefits generated by the Kalamazoo Promise.

Local real estate agents say that the Promise has already altered the dynamics of the local housing market, even if not quantifiably. As John Jackson of Prudential Preferred Realtors recounts, “When I started in 1971, and even until recently, when someone moves here from Ann Arbor or California or New York, I’ll get a call from the relocation director. They’ll say, ‘Pick them up and show them around town.’ So, I’ll pick them up and I’ll say, ‘What is it you’re looking for?’ And they’ll tell me, ‘I want a wonderful old home, I’m looking for character, 3 bedrooms, 2½ baths, *not* in the Kalamazoo school system.’”⁴ (Jackson speculates that the aversion to KPS had mainly to do with social issues rather than the quality of education, noting that when prospective residents could be convinced to visit a district school they would wonder why they had been warned away.) Jackson says that his job and that of other Kalamazoo real estate agents has been made easier by the Kalamazoo Promise, with prospective buyers often now asking to look only at homes within KPS district boundaries.

At the same time, several countervailing trends cast doubt on any positive housing market impact. In the year following the announcement of the Promise, instead of a projected tightening in supply, more homes actually came onto the market, perhaps because many homeowners in the district decided it was a good time to sell. (In September 2006, the GKAR reported that the number of homes listed for sale had risen 14 percent, from 1,848 to 2,133, during the previous year, while sales grew by less than 7 percent.) And the sluggish regional economy exercised a powerful constraint on housing prices. “Although some area experts said they think the local residential real estate market is on its way back up,” wrote the *Kalamazoo Gazette*’s real estate reporter in 2007, “a thorny mix of factors is still depressing the market and financially undermining many would-be home sellers” (Miron 2007a).

Southwest Michigan was largely immune to the housing bubble that drove prices up elsewhere in the nation, and the collapse of the market,

too, has been much less dramatic than in many other regions. Even so, there has been a slowdown in both housing sales and prices. From 2000 to 2005, annual home sales in the Kalamazoo market had fluctuated between 4,243 and 4,954 units, with sales in 2006 of 4,614. In 2007, sales dipped below the 4,000-unit level for the first time in years, to 3,990 (a drop of 13.9 percent relative to 2006). The median sales price of homes in the area also fell, from \$133,000 to \$128,700, while the ratio of the listed price to the sales price declined slightly, from 96.75 percent to 95.98 percent. In all, the value of residential property sales fell 18.2 percent in 2007 over the previous year. Sales of all other categories of property, including land, multifamily buildings, and commercial/industrial sites were also down in 2007.⁵ Another troubling indicator was a surge in the number of homeowners in some stage of foreclosure. In January 2008, Kalamazoo County officials reported that a record number of residents—969, up from 762 the previous year and more than double the total of three years earlier—had lost their homes in 2007 because they were unable to pay their mortgages. Even more hardship was on the horizon, with about 2,400 properties in the county in some stage of foreclosure (Nixon 2008a,b).

At this point any findings about the impact of the Kalamazoo Promise on the real estate market remain inconclusive. A definitive analysis is complicated by several factors: first, it is possible that the extent of the weaknesses in the housing market simply outweighs any potential benefits of the scholarship program. Second, without data from an appropriate comparison group it is difficult to assess how much worse the market might have been in the absence of the Promise. At the same time, city officials and real estate agents claim that downtown office vacancy rates are falling, rental demand is strong, and the small downtown residential market is booming, with only 2 percent vacancy in 2007 and more construction under way.⁶ How much this has to do with the Kalamazoo Promise, how much with ongoing downtown revitalization efforts, and how much with the community's changing demographics (with more young and retired people interested in living downtown) is unclear. In the meantime, outside the downtown district it is a buyer's market, with properties for sale at every price point and housing costs well below the national average.

The mixed picture extends to home construction, where rosy forecasts had followed in the immediate aftermath of the Kalamazoo Prom-

ise. Early excitement by developers was reinforced when a housing development that sat idle for three years sold out in nine months following the November 2005 announcement (Beeke 2006). The area's largest home builder, Allen Edwin Homes, which built the development, made plans to purchase \$7 million of property within KPS boundaries and build 500 new homes by 2009. And Hometown Building Co., a builder from the east side of the state that had recently opened a Kalamazoo division, said it planned to build 75–100 homes in each of the next few years, primarily on property it already owned on the west side of town (Miron 2006). However, these projections were cut back in light of the weakness of the local job market and negative trends in the housing market nationally (Miron 2007b).

The Kalamazoo Promise may have been a factor in where new housing starts occurred in 2006, with the largest number (133) in Oshtemo Township, two-thirds of which lie within the KPS district. The older and denser areas of the district saw fewer housing starts, with only 18 in the city of Kalamazoo and 40 in Kalamazoo Township (Miron 2007c). Building permit data for 2007 mirrored the housing start data, with a growing proportion of new residential permits issued for sites within KPS even as the volume of total permits fell.⁷ Here, too, most permits are for the townships surrounding the urban core, with 338 in Oshtemo and Kalamazoo Townships and 52 in the city of Kalamazoo. A third housing-market indicator may also be related to the Kalamazoo Promise. The taxable value of homes in Kalamazoo County rose to \$8.3 billion in 2008, a 3.96 percent increase over 2007. County officials had anticipated a smaller increase and identified the Kalamazoo Promise as a factor in the stronger-than-expected growth: “What kept the taxable values from going down was all the new residential construction in the Kalamazoo Promise areas,” said Bonnie Payton, director of the county's equalization department. The strongest rise in values came in the townships—Oshtemo with 4.98 percent and Kalamazoo Township with 4.03 percent—while a more modest rise of 3.45 percent occurred in the city of Kalamazoo. Communities outside the district (with the exception of Texas Township, a small portion of which lies within KPS) had slower growth in home values (Killian 2008).

Builders remain optimistic. As Greg DeHaan, co-owner of Allen Edwin Homes, told the *Wall Street Journal* in July 2008, his company hadn't build a single home in the KPS district for 12 years before the

Promise was announced. Now, home sales in KPS account for 20 percent of the company's overall business, with the number of Promise-eligible properties built by Allen Edwin rising from 47 in 2006 to 87 in 2007. "The Promise has just given us this renewed sense of optimism," DeHaan says (Bennett 2008).

RAISING THE COMMUNITY'S PROFILE

One of the most important effects of the Kalamazoo Promise, albeit one that is difficult to quantify, has been a dramatic increase in the national profile of the Kalamazoo region. While the ultimate impact on the economy cannot yet be ascertained, local officials say this development is of great importance to future economic growth. Ron Kitchens cites surveys that consistently identify the top two reasons for business location decisions as, first, learning about the community from someone who lives or works there, and, second, reading or hearing about the community in the media. The Kalamazoo Promise contributed to both, creating excitement among residents who were eager to share the news with friends and associates outside the region and generating intense media coverage as well as a string of awards and honors. "There are 36,000 economic development groups globally all selling the same product: 'Invest here,'" says Kitchens. "Anything that makes a community stand apart is incredibly valuable." In short, the Kalamazoo Promise put Kalamazoo on the radar of the nation's major companies and leading media outlets—something that would have been tremendously hard to achieve in its absence.

A report on ABC World News that aired in September 2006 stands out among the national and international media coverage of the Kalamazoo Promise, which also included feature articles in the *Chicago Tribune*, the *Economist*, the *International Herald Tribune*, the *Los Angeles Times*, the *New York Times*, *USA Today*, the *Wall Street Journal*, and the *Washington Post*, as well as repeated coverage by National Public Radio. The three-minute ABC segment featured families from Arizona and Hawaii who moved to Kalamazoo to take advantage of the program, as well as a visit by anchorwoman Katie Couric and Dr. Brown to Kalamazoo Central High School. One of the program's results was

a surge in phone calls and e-mails to Southwest Michigan First—60 in three days—from business people who had seen the segment. “It’s amazing how many companies are now calling,” Kitchens told the *Kalamazoo Gazette* (Chourey 2006a).

The awards began piling up at the same time that press coverage increased. While not all of these honors cited the Kalamazoo Promise, many were related at least in part to greater national awareness of the community. Several accolades were publicized in the first 18 months following the announcement of the scholarship program.

- *Expansion Management Magazine*, which serves company executives interested in expanding or relocating their facilities, included the Kalamazoo-Portage metropolitan statistical area among 73 communities across the nation on its 5-Star Quality of Life Metros list. The region was the only one in Michigan to be included. The magazine’s quality-of-life indicators are intended to quantify what its editor describes as “employees being able to tap into the American dream . . . being able to afford to own a home, to be able to send your children to good schools, to feel safe from crime, to live in a place with a reasonable cost of living” (Chourey 2006b).
- Partners for Livable Communities, an organization that promotes progressive urban development, chose Kalamazoo as one of three cities to receive its Entrepreneurial American Leadership Award. “We give this award to communities where there are specific programs that we feel are really exemplary and something that needs to be modeled elsewhere,” said Irene Garnett, chief operating officer of the Washington, D.C.–based nonprofit. “[The Kalamazoo Promise] is an economic-development strategy that really hasn’t been used before. We think it’s an example of something that can work in Michigan and other towns in that part of the country” (Mack 2006k).
- America’s Promise, an alliance for youth, rated Kalamazoo as one of the nation’s “100 Best Communities for Young People” based in part on the Kalamazoo Promise. The ratings were announced on ABC’s *Good Morning America*. The 750 communities that applied for the honor were asked to demonstrate their

support for youth, the availability of crucial resources for children, and positive results from community efforts on behalf of youth development (Jessup 2007).

- Kalamazoo was included in “The 6th Annual Fast 50,” 50 portraits of “people and businesses writing the history of the next 10 years” compiled by *Fast Company* magazine. Kalamazoo was the only geographic region to be recognized with this honor, which was based on the Kalamazoo Promise, Southwest Michigan First’s venture capital fund for financing life science start-ups, and community efforts to keep WMU’s engineering school local (*Fast Company* 2007).
- Southwest Michigan First was one of four U.S. organizations honored by CoreNet Global, an Atlanta-based trade association for real-estate executives, for excellence in economic development. Southwest Michigan First received one of two Economic Development Leadership Awards in the Leadership and Innovation category, based on its presentation of the organization’s model of “community capitalism,” which includes the Kalamazoo Promise (Miron 2007d).
- Kalamazoo was named one of the top 10 turnaround cities in the country by the Urban Land Institute. The announcement noted improvements Kalamazoo had made to its downtown with new business, arts, and locally owned restaurants (Nyren 2007).
- The Metropolitan Policy Program of the Brookings Institution commissioned a study of the Kalamazoo Promise as part of its “Blueprint for Prosperity” series. The Brookings researchers proposed a role for the federal government in supporting an expansion to other communities of the education-centered economic development strategy pioneered by the Kalamazoo Promise (Brown, Affolter-Caine, and Dimond forthcoming).

While such honors may go unnoticed by the general public, they have drawn attention to Kalamazoo within business and policy circles and increased the community’s bragging rights. They have also been avidly embraced by Southwest Michigan First and the city of Kalamazoo as marketing tools to recruit new businesses seeking a high quality of life for their employees.

The *Wall Street Journal* returned to the topic of the Kalamazoo Promise in July 2008 with an article reporting on the economic impact of the scholarship program. Citing the positive job news of the past six months, the reporter quoted an official of the California-based Kaiser Aluminum Corp., a firm that recently announced the creation of 150 jobs at an \$80 million office and research center to be built in Kalamazoo. “We are building a sophisticated facility with new technology, and we want well-educated people who will work with us and want to live in Kalamazoo,” said Martin Carter, vice president and general manager of common alloy products at Kaiser Aluminum, noting that the company considered cities in three states as the site for its new facility. “Some of the other sites gave a lot of talk about future education plans, but in the case of Kalamazoo, they already had a commitment to developing a well-educated community” (Bennett 2008). On the other side of the equation—new workers—the reporter included in his account the story of Efeosa Idemudia, a personal banker at J.P. Morgan Chase & Co. in New York who was preparing to buy an \$800,000 home in Brooklyn when he saw an evening newscast about the Kalamazoo Promise. Mr. Idemudia was in Kalamazoo looking for homes a few weeks later. “When I went to college I had to work a full-time job and go to school,” said the father of three. “I want my kids to focus on their education so they can do a whole lot better than I did” (Bennett 2008).

For communities emulating the Kalamazoo Promise, the national media “bang” from their programs is likely to be much quieter than it was for Kalamazoo. However, a community’s commitment to education and its role as a powerful attractor of businesses like Kaiser Aluminum and families like the Idemudias will be a reality even if other communities are pursuing similar goals.

BUILDING AN EDUCATED WORKFORCE

For the Kalamazoo Promise to achieve its economic development potential, the region will need to move into that virtuous circle of economic growth underpinned by a highly educated workforce, as described in Chapter 3. Both sides of the equation are essential: skilled and educated workers who opt to live in the region and employers who

value their labor. In this regard, the Kalamazoo Promise is not only a powerful recruitment tool, but also something that enhances the “stickiness” of the community, defined by Kitchens as “anything that makes Kalamazoo a place where people who have a choice choose to live.”

An exodus of young, educated workers is a critical concern both for the region and the state as a whole. Between 2000 and 2005, Michigan lost 22,000, or 2.2 percent, of its population of young adults ages 18–24. The *Kalamazoo Gazette* (2006b) spoke for many when it commented in an editorial, “It makes us wonder what will become of all the promising young people graduating from Kalamazoo Public Schools with the Kalamazoo Promise college guarantee in their hands. If [these] grads are unable to find jobs here when they finish college, then the ultimate benefit of the Promise will go to the economies of other states.” In its annual economic outlook for 2006, area economists agreed that retaining young people was a critical priority for the region, and that doing so will require a deepening of the manufacturing-to-services transition under way. The W.E. Upjohn Institute’s George Erickcek characterized this change as going from “producing for a living to thinking for a living” (Miron 2005).

One strategy is to provide more support for recent graduates of local colleges and universities who often leave town for larger cities upon graduation. The Monroe-Brown Internship Program is a step in this direction. The announcement of the Kalamazoo Promise led the Monroe-Brown Foundation and Southwest Michigan First to scale up the program, which serves as a vehicle for retaining the community’s intellectual capital. In 2007 and 2008, the program provided paid summer internships to approximately 50 local college students. Interns received a salary, bonus, scholarship funding, and a network of business connections at local firms.⁸ Eighteen companies have participated in the program. “We wanted to create an internship program that would reward students for staying and growing in Kalamazoo . . . These are talented individuals that may have otherwise spent their summers working in other cities, but they have chosen to stay here. We hope they make that decision again after graduation,” said Monroe-Brown Foundation President Bob Brown (Southwest Michigan First 2007). The assumption is that students may end up with job offers from the firms where they were interns, as often happens with similar programs in larger cities.

Plans call for marketing the program to additional firms and seeking an expanded funding base for it.

Another strategy is to promote the community as one that is especially hospitable to entrepreneurs. Much of the effort in this area has focused on positioning southwest Michigan as a home to the life science industry and retaining researchers who were laid off from Pfizer in subsequent waves of downsizing. The Southwest Michigan Innovation Center (SMIC), a business incubator funded by Southwest Michigan First and the city of Kalamazoo and housed within Western Michigan University's Business Technology and Research Park, has played a critical role in fostering entrepreneurship in the life science field. Between its establishment in 2003 and 2008, the center housed a total of 23 start-up companies, not one of which has failed. (Similar incubators generally aim for an 80 percent success rate.) Three of these firms have moved into their own facilities, including drug-development firm Kalexsyn Inc., which built a 20,000-square-foot headquarters and laboratory in the Business Technology and Research Park in 2007 (Mackinder 2008). The *Kalamazoo Gazette* has called life sciences "the still-young, and somewhat unsteady, horse to which economic developers have hitched their growth-industry wagon" (Jones 2007). Many observers would like to see the connection with entrepreneurs in other sectors strengthened. Some envision a support network for young entrepreneurs—even those still in college—that would include a business incubator and venture capital, services now reserved mainly for more experienced business owners or researchers.

A third strategy is to market the community to young people who were raised in or attended college in the region then departed for the enticements of bigger cities. (Chicago seems to be the prime destination for area graduates.) Many of these individuals have since started families and, confronted with high housing prices and troubled public schools in most of the nation's major metropolitan areas, might consider a return to their home community. Lam & Associates has developed a Web site aimed at this population, with the message that the community has changed since they lived here. "Our goal is to attract and retain our 20- and 30-somethings in a community dedicated to improvement and quality of life. We expect to create momentum, and help create new jobs, as we build on our community's most appropriate focus on education as the key to our future," wrote Blaine Lam in introducing his

Web-based campaign, “Share Kalamazoo.”⁹ The school improvement efforts discussed in Chapter 5 are critical to such a campaign; while cities have shown that they are able to attract young people regardless of the problems that plague many urban school districts, good public schools are a must if they are to retain these residents once they have school-age children.

And what of Kalamazoo’s less-educated workers? Trapped in minimum-wage jobs, unemployed or underemployed, does the Kalamazoo Promise offer them something, or does its value lie mainly in expanding the educational opportunities available to their children? Mattie Jordan-Woods, the head of the Northside Association for Community Development and a powerful advocate for economic growth in Kalamazoo’s low-income neighborhoods, stresses that there is nothing automatic about the scholarship program’s impact on either parents or children: “The Kalamazoo Promise does one thing and one thing only: It provides scholarship dollars for any kid who is academically able to graduate [from high school] and go on to college. This creates new opportunities for low- and moderate-income people whose kids are doing well in school, but it does nothing by itself to bring up the academic competitiveness of kids who are struggling.”¹⁰

Like others, Jordan-Woods believes that one-on-one tutoring programs, as well as strategies to address the social problems found in many households, are essential for this group of students, but she also stresses the importance of the physical environment in which low-income children grow up. “You need to have an environment that celebrates education and says that things are happening here. If you change the physical environment of a neighborhood through better housing, nicer buildings, and more playgrounds, businesses will invest because they want to be there,” says Jordan-Woods. And with businesses come jobs for the parents who live in that neighborhood. “When a majority of people [in the neighborhood] are working, it creates an expectation of what the neighborhood should look like.” She says it also raises children’s expectations about their own futures. “When children see their parents and neighbors go to work every day, it increases their appetite for education.”

In this sense, the most commonly understood logic of the Kalamazoo Promise—improve educational opportunities in order to bring about a healthier economy—is reversed. It is economic opportunity that

reinforces the demand for higher education, not the other way around. “Watching your mama get up and go to work, even if she earns only \$9.00 an hour, and not wait on the check every two weeks, is going to make them want to go to college,” says Jordan-Woods. “They’ll want \$13.00 an hour; they’ll want something better.” In her own work, Jordan-Woods remains focused on the economic and physical development of the Northside, chiefly the improvement of the neighborhood’s infrastructure and appearance, and the creation of jobs for its low-income residents. This neighborhood focus is an essential complement to the work of economic development officials to attract high value-added jobs to the region.

The heightened national profile of Kalamazoo and the alignment of local officials around the goal of education-based economic development, both related to the Kalamazoo Promise, began to yield results on the job front in the spring of 2008. The MPI Research expansion, which will include the creation of 400 jobs downtown, where the company will occupy two buildings formerly owned by Pfizer Inc., grabbed most of the headlines. (In a testament to the ongoing role of a few prominent families in Kalamazoo’s history, MPI Research’s chairman and CEO, William U. Parfet, himself a former Upjohn Company president, noted that his grandfather, W.E. Upjohn, had built the buildings and his father had worked in them.) MPI Research will receive property tax abatements on the downtown buildings and will have the opportunity to buy them for the sum of \$1 in 2013 if its job creation obligations have been met. While not referencing the Kalamazoo Promise directly, Parfet said the reasons he chose to expand in the region are the quality of the local workforce and access to higher education institutions that help recruit scientists and other skilled workers to the area and create a pool of local talent. “Seventy percent of the people who work at MPI have at least a bachelor’s degree,” he said. “Low taxes are important, but quality of education is critical” (Mack 2008e). MPI Research and Kaiser Aluminum were not the only companies to announce the creation of new jobs in the Kalamazoo region in the first half of 2008. Four local firms, including Fabri-Kal Corp. and AT&T, plan expansions that together will create hundreds of new jobs (Jessup 2008).

In March 2008, while the unemployment rate for the state hovered at close to 8 percent, the Kalamazoo-Portage area had a significantly lower level of 5.6 percent. The gap, a fairly steady one, is evidence of

the relative diversity of the Kalamazoo region. “The country’s future is not in automobiles,” said Ron Kitchens, commenting on the job growth announcements. “It’s in companies that offer brainpower, knowledge and entrepreneurship When most communities lose their national or global relevance, they never come back. But Kalamazoo has done it over and over again, from sleds to stoves to celery, to paper to pharmaceuticals to medical devices People who have made money stayed here and they become mentors who pull others along” (Jessup 2008). It is reasonable to conclude that such multigenerational wealth and a commitment to the community are also at the heart of the Kalamazoo Promise, whether the precise identity of the donors is known or not. And while the connection between the scholarship program and job creation is not a direct one, the alignment of community leaders around a strategy of education-based economic development is critical to the region’s economic future.

FORECASTING THE FUTURE

The impact of the Kalamazoo Promise on regional economic growth is a long-term proposition, but it is possible to envision how it might come about. To illustrate how the Kalamazoo Promise could contribute to employment and income growth in the region, the Upjohn Institute’s George Erickcek has developed a model based on his 20 years of experience in forecasting regional economic trends for southwest Michigan.¹¹ The model embodies a set of conservative assumptions about likely increases in student enrollment, population growth, employment opportunities, and earnings. While the gains it predicts are modest in the context of the overall regional economy, the forecasting process illustrates how a growing population and increased disposable income resulting from the Promise could brighten prospects for both employment and income growth.

An obvious and immediate effect of the Kalamazoo Promise is to increase disposable income for households whose children qualify for the scholarship. This increase will generate economic activity through increased consumer spending, which in turn will support the creation of a small number of new jobs. Based on assumptions about the annual

outlay for each scholarship round, the college retention rate, and the proportion of new students entering college as a result of the Promise, Table 6.1 shows the projected annual increases in disposable income for the families of Kalamazoo Promise recipients. In 2006, this reached just over \$1 million; by 2017, it is expected to rise to \$6.4 million (in 2006 dollars).¹²

A second, more subtle effect is an increase in economic activity due to the new students expected to enter KPS annually. As shown in Table 6.2, in 2006, KPS attracted approximately 368 new students from outside the county, a number that declined in 2008 but remained positive. The assumption used in the model is that 125 new students will come from outside the county in each year of the forecast period (2007–2017). The impact on the labor force is calculated based on the assumption of an average of 1.8 parents per new student, with 70 percent of these adults entering the local labor market. These assumptions yield a growth in the labor force due to the Kalamazoo Promise of approximately 158 workers per year (see Table 6.2).

The forecast scenario is based on the assumption that the annual increase of 158 new labor force entrants will find jobs either by joining an existing firm at present wage levels or by starting their own businesses. For purposes of the model, and based on the composition of employment in the region, these jobs are evenly divided among the following

Table 6.1 Projected Increase in Annual Disposable Income for KPS Families (in thousands of \$)

2006	1,081
2007	2,157
2008	3,249
2009	4,354
2010	4,647
2011	4,949
2012	5,225
2013	5,481
2014	5,718
2015	5,947
2016	6,184
2017	6,432

SOURCE: Forecast data from the W.E. Upjohn Institute.

Table 6.2 Population and Labor Force Assumptions, 2006–2008

	2006	2007	2008
Net new students in KPS	368	125	125
Net new parents (1.8/child)	662	225	225
Cumulative population increase	1,030	1,380	1,730
Net new labor force participants (70% of parents)	464	621	779
Net population increase by year	1,030	350	350
Net labor force increase by year	464	158	158

SOURCE: Forecast data from the W.E. Upjohn Institute.

industries: banks and other financial institutions, insurance companies, real estate, professional and technical services, educational services, and hospitals. While the new jobs will displace some existing jobs, the net impact will remain positive.¹³

The full economic impact of the Kalamazoo Promise is shown in Table 6.3. At the end of the forecast period, it would be reasonable to expect that 2,221 new jobs had been created as a result of workers coming to the region because of the Kalamazoo Promise (this figure takes into account the displacement effect that comes from competition with the existing local workforce), as well as the creation of 41 new jobs supported by the spending of disposable income of Promise families, for total projected employment growth of 2,262. Similarly, by 2017, \$133.4 million of personal income will have been generated through the earnings of new residents, along with an additional \$8.4 million in disposable income due to the direct effect of the scholarships, for a total increase in personal income in the region of \$141.2 million, or 1.4 percent. Although this is a small amount relative to aggregate personal income in the region (\$10.8 billion in 2006), the results of the model illustrate the multiple dynamics through which the Kalamazoo Promise is likely to affect the regional economy. It is worth pointing out—especially to those outside KPS who wonder if and how the Kalamazoo Promise will benefit them—that the employment and income effects illustrated here are not confined to KPS or the city of Kalamazoo. While families moving to the region to take advantage of the Kalamazoo Promise will need to live within the district where the scholarship program is offered, they can work—and their disposable income can be spent—anywhere in the

Table 6.3 Projected Employment and Income Effects of the Kalamazoo Promise

	Employment			Personal income (\$, millions)		
	New residents	New disposable income	Total	New residents	New disposable income	Total
2005	0	0	0	0	0	0
2006	471	11	481	16.08	1.33	17.41
2007	601	21	622	22.52	2.70	25.22
2008	788	31	818	31.43	4.13	35.56
2009	970	40	1,009	40.91	5.59	46.50
2010	1,092	41	1,133	48.81	6.04	54.85
2011	1,271	41	1,312	59.49	6.47	65.96
2012	1,392	41	1,433	68.48	6.84	75.32
2013	1,571	41	1,612	80.51	7.18	87.69
2014	1,751	41	1,792	93.46	7.48	100.94
2015	1,869	41	1,910	104.20	7.77	111.97
2016	2,045	41	2,086	118.30	8.08	126.38
2017	2,221	41	2,262	133.40	8.40	141.80

SOURCE: Forecast data from the W.E. Upjohn Institute.

region. Another effect not captured by the model but visible in the community is families who are moving to the region before their children reach school age. Ultimately, these children will show up in KPS enrollment figures, but in the meantime their parents are living, working, and spending their money irregardless of district boundaries.

ALIGNING THE COMMUNITY

For the potential economic gains of the Kalamazoo Promise to materialize—for the virtuous circle to take hold—community leaders must focus their efforts around a common set of goals. The critical players include regional economic development officials, city and county planners, downtown development leaders, the regional office of the state-wide workforce development agency Michigan Works!, institutions of

higher education, grassroots economic organizations, and the private sector. It was gratifying in this light to see the cover story of the *Kalamazoo Gazette* on the first Sunday in 2008, and the two-page spread that followed. After two years of covering the Kalamazoo Promise primarily as a scholarship program for district residents, the newspaper was putting the program's broader implications front and center, arguing that the region must leverage its plentiful educational assets in the interest of its economic future. A "to-do list" on the front page laid out four priorities:

- 1) to improve promotion and appreciation of the area's educational assets, particularly in the business community and in Lansing [the state capital];
- 2) to improve ties between local colleges and employers to keep more graduates in the area;
- 3) to improve coordination between educational institutions and community programs; and
- 4) to become a national leader in educating low-income and minority children.

The report went on to list the area's top 10 educational assets, including diverse institutions of higher education, strong K-12 school systems, workforce development organizations, and healthy nonprofit and philanthropic sectors. Especially uplifting was the message from Kitchens, the region's chief economic development official, placing education squarely at the center of Southwest Michigan First's business strategy.

Two other leaders offered more cautionary views. Kalamazoo Public Schools superintendent Michael Rice, a relative newcomer to the community, stressed the need to deploy the community's assets in a more organized fashion. "If someone said to me, what is the one thing we need most, it would be cohesion," said Rice in an interview. Kalamazoo Valley Community College president Marilyn Schlack, who has lived and worked in the region for several decades, took matters a step further, arguing for greater centralization of leadership: "The question is, where do we go from here, and how do we do it? Who takes the lead? I think we need someone who keeps this out in front of us, and says this is your job and that's your job" (*Kalamazoo Gazette* 2007b).

Echoing the interest of the Saturday Morning Group in charging an individual or small steering group with taking the lead, Schlack joins others in the community who believe that progress will not take place automatically—that if you want something to happen you need to make it someone’s job to move it forward.

Adapting to the community’s altered leadership paradigm—a challenge discussed in Chapter 4—is essential if the potential growth and employment benefits of the Kalamazoo Promise are to be realized, but the idea that a single individual or even a small group can in some sense drive the process is unrealistic. One of the truths revealed by the events of the 1990s is that Kalamazoo’s days as a company town are over; no single firm will ever enjoy the same leadership role that the Upjohn Company did in its heyday. Another truth—and one that the Kalamazoo Promise holds the potential to change—is that the community’s social divisions, especially those between a disproportionately large white middle class and a disproportionately large black and Hispanic low-income population, are so entrenched that leadership exercised in one part of town will meet almost reflexively with mistrust on the other side of the metaphorical and actual railroad tracks. The best medicine for what ails Kalamazoo, both economically and in terms of its class divide, is good jobs for workers at a variety of skill levels. Whether these can be generated with the spark of the Kalamazoo Promise depends in part on shifting economic winds that lie outside local control, but also on the wisdom and energy of a broad range of local actors.

Notes

1. Enrollment is not capped at either institution, so Promise students and their scholarship dollars do not displace students and dollars from other sources.
2. See, for example, Boudette (2006) and Associated Press (2006b).
3. Nonetheless, the median price of homes within KPS was still substantially lower than in the county, at \$108,750 compared to \$135,000.
4. Author’s interview with John Jackson, Prudential Realtors, March 1, 2006.
5. Greater Kalamazoo Association of Realtors, Monthly Cumulative Sales Report, December 2007.
6. Figures from Downtown Kalamazoo Inc., reprinted in Liberty (2007).
7. In 2007, 49 percent of new private housing units authorized by building permits in Kalamazoo County were within the three municipalities that make up the bulk of

the KPS district, up from 39 percent in 2005 (W.E. Upjohn Institute for Employment Research 2008b).

8. Those eligible for the program are incoming juniors, seniors, or graduate students at WMU and Kalamazoo College, as well as students going into at least their second year at KVCC. Participants are paid a salary of at least minimum wage for 400 hours of work. Upon successful completion of the internship, each student receives two \$500 bonuses, one from the employer and the other from the foundation. The student also receives a \$2,500 scholarship at the end of each of the first and second semesters following the internship.
9. E-mail from Blaine Lam of Lam and Associates. For more on Share Kalamazoo, see <http://www.sharekalamazoo.com>.
10. Author's interview with Mattie Jordan-Woods, head of the Northside Association for Community Development.
11. My thanks to George Erickcek for lending his forecasting prowess to this chapter.
12. These estimates are based on the following assumptions: 1) The cost of tuition will increase annually, on average, by 4 percent above inflation. 2) The percent of eligible high school graduates taking advantage of the Promise will increase from 72.7 percent in 2006 to 85 percent in 2011 and then remain steady for the rest of the forecast period. 3) The retention rate for purposes of calculating tuition costs is estimated at 90 percent per year during the forecast period. (Note: This is higher than the student retention rate because students going to more expensive four-year universities are more likely to stay in college than students attending less expensive community colleges.) 4) On average, 68 percent of the tuition dollars awarded through the Promise go to families that had saved for their children's education. These savings are now available for consumption expenditures.
13. The annual addition of 158 workers will not be supported completely by sales to customers outside the area; instead employers will compete against existing firms in the county and hence there will be some displacement impacts. On average, each new worker is assumed to be supported by the industry's estimated nonlocal share of business; for example, if 10 percent of the county's insurance carriers' revenues come from nonlocal customers, then 10 percent of the new worker's income will come from nonlocal customers as well. The other 90 percent will come from other insurance companies in the county losing share. This is a measure of the displacement rate.

