CPR Scholarships: Using Private School Choice to Attack Concentrated Poverty, Crime, and Unemployment

By Bartley R. Danielsen  March 2017

Key Points

- Assigning public schools based on residence has been a factor in the middle-class movement out of urban areas. Urban schools have declined in quality, they are often dysfunctional, and the surrounding areas have become blighted.

- In contrast to the Department of Housing and Urban Development’s policy to begin moving poor urban families out of cities and into relatively wealthy suburbs, Community Protection and Revitalization (CPR) scholarships will encourage wealthy and middle-class families to stay in urban areas. This would decrease concentrated poverty, increase economic activity, and reduce crime.

- Unlike current placed-based federal programs, CPR scholarships offer both direct and indirect benefits to the poor, provide incentives for wealthy families to stay in lower-income areas, and produce fiscal benefits to the state.

In the United States, students are typically assigned to public schools based on where they live. This process is convenient for public school administrators, but over time, using residence as the primary factor in school assignment causes families to respond by considering expected school assignments when selecting a home. In short, school assignments that are based on where students live eventually change where students live.

This process is often referred to as “voting with your feet” and leads to a spatial (i.e., geographic) sorting equilibrium in which school quality, family income, economic activity, housing values, and local crime rates are all jointly determined. Areas with bad schools tend to suffer from low incomes, low economic activity, low property values, and higher crime rates.

In the United States, some of the most afflicted areas are in blighted urban centers that have suffered from middle-class flight to surrounding suburbs. The end result is dysfunctional urban schools in blighted parts of the city.

Many observe these problems and incorrectly attribute the plight of urban districts to bad school-district leadership. Bad leadership is not the primary cause of urban schools’ problems. If leadership could solve this problem, some urban district would have already solved it. Further, it is not reasonable to believe that all urban districts always have bad leadership. Instead, the plight of urban districts is a natural equilibrium condition that results when school assignments are based on residence.
Federal Housing Policy and Schools

The link between school quality and neighborhood quality has increasingly influenced federal housing policy. The genesis of housing authorities’ interest in education can be found in the Gautreaux Assisted Housing Program, which traces its roots to a racial discrimination lawsuit the US Department of Housing and Urban Development (HUD) settled. The settlement, the Chicago Housing Authority (CHA) distributed Section 8 housing vouchers to African American families in CHA public housing. Some families were randomly assigned to a suburban location, while others remained in urban neighborhoods.

Life outcomes for families assigned to the suburbs were better. The Encyclopedia of Chicago notes that “those who have moved to the suburbs, seem pleased to be living in safer neighborhoods with quality schools and greater job opportunities. The relative success of the Gautreaux Program spawned similar efforts throughout the country as well as within the Chicago area. What began as a controversial experiment responding to a civil rights lawsuit has become an integral part of federal housing policy.”

Specifically, Gautreaux became a model for the national Moving to Opportunity (MTO) experimental program HUD conducted in the 1990s. Recent research using MTO data finds large lifetime benefits for children who “won” an MTO housing voucher lottery and moved to higher-income census tracts. These children earned 31 percent higher incomes as adults compared to children in a control group who continued to live in public housing in areas of concentrated poverty.

Recently, HUD issued a new regulation designed to “provide all Americans with access to safe, affordable housing in communities that are rich with opportunity.” As a practical matter, the new federal housing policy is to move low-income urban children and their families into suburban areas with higher concentrations of wealthier neighbors.

Full implementation of the new HUD policy will be economically challenging. Approximately 18 million children now live in census tracts with a poverty rate greater than 20 percent, and most of these children live in urban areas. Subsidizing the movement of a large percentage of these children and their families out of poor urban neighborhoods and into relatively wealthy suburbs will require enormous investment. Many more low-income housing units must be built, and the cost of subsidized rent in these units will likely be much higher than in the past because these units will be built in higher-cost communities. Moreover, history suggests that wealthy neighborhoods will use zoning and other strategies in an attempt to drive up the cost of constructing low-income housing, or they will try to ban it entirely.

Fortunately, there is more than one way to alleviate concentrated poverty. While housing policy is designed to move poor families into wealthier neighborhoods, policies could also be designed to induce wealthier families to move into predominantly poor neighborhoods. Education policy reforms could be useful in reaching this goal, and they could do so at a substantially lower cost than HUD’s relocation policy.

Community Protection and Revitalization (CPR) Scholarships: A Private School Choice Solution

While federal housing policy seeks to move poor families into wealthy neighborhoods, a properly structured private school choice program would attract wealthier families into poorer neighborhoods. This program would sever the link between failing district-assigned schools and concentrated poverty, along with pathologies associated with concentrated poverty. Both theoretical and empirical evidence demonstrate that broadly available voucher programs increase economic activity, as measured by property values, in the places where they are implemented.

Evidence also shows that the presence of Catholic schools, and perhaps private schools in general, increases social cohesion, reduces perceived neighborhood disorder, and suppresses crime in the vicinity of the school.

Moreover, several studies find that parental-choice programs reduce crime rates in later years, specifically among minority males. To date, no school choice programs are specifically designed to alleviate concentrated poverty, boost economic activity, and reduce crime. Since no such programs exist, let us name the proposed program in a manner that describes the purposes and benefits of the policy.
Community Protection and Revitalization (CPR) Scholarships. CPR scholarships would be designed to reduce crime rates (protection) and increase economic activity (revitalization) in neighborhoods where the scholarships are offered. Distressed communities would receive CPR scholarships because they have high levels of poverty, as objectively determined using public census data. CPR scholarships should be designed to appeal to higher-income families to prompt these families to reside in high-poverty areas. However, CPR scholarships will also be available to poor families. The scholarships should be available to anyone who lives in a CPR-scholarship zone.

Although wealthier families would also enjoy the benefits of CPR scholarships if they remain in a poor neighborhood, poor families will benefit both directly (through the scholarship) and indirectly when new job opportunities and other amenities are created in their neighborhoods. Although the direct benefit that a poor family receives from a scholarship should be clear, consider the indirect benefits that they will likely enjoy from the retention of less-poor families in the neighborhood.

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Currently, poor neighborhoods often lack high-quality grocery stores.\textsuperscript{14} Even when poor families have the money to purchase fresh produce, the produce is likely to be unavailable or more expensive than in wealthier neighborhoods. A neighborhood that retains more middle-income families is more likely to attract a grocery store. That grocery store might provide 100 jobs for nearby low-income residents.\textsuperscript{15} Moreover, while the grocer is attracted by the presence of middle-income families, the store’s produce also becomes available to poor people in the area. Thus, introducing CPR scholarships not only creates jobs but also can be expected to improve food options in CPR-designated areas.

It is helpful to understand that CPR scholarships might not need to attract many new families to a designated area to be successful. In fact, young, middle-income families often live in lower-income areas until their children reach school age. The low cost of housing attracts them while they are childless, and they accommodate their lives to the area during the early years of child rearing—until bad schools drive them out. If CPR scholarships stop some of these families from leaving the area, the area will gradually improve, even without an influx of new families. In many neighborhoods, giving families with young children a way to stay may prove to be sufficient.

However, new families should be expected to arrive as well. Generally speaking, CPR scholarships would turn the neighborhoods with the worst set of school options in the region into the locales with the best set of options. Although the Fair Housing Act prohibits real estate agents from offering advice or opinions on school quality, buyers value this information and seek it out.

In fact, school assignments are of such importance that they are the only local amenity that is searchable on Multiple Listing Services (MLS) databases. In areas of Vermont that have no assigned schools but grant students tuition vouchers that can be used at either public or private schools, the MLS systems list the assigned school as “choice.” For a recent example, see Figure 1, which provides the description of assigned schools on Realtor.com for the “choice town” of Winhall, Vermont. Real estate agents observe that families prefer the “choice” designation.\textsuperscript{16}

For example, due to persistently declining enrollment, in September 2011 the East Haven, Vermont, school district voted to close its public elementary school and implement the school choice program for all students in the district. The elementary enrollment trend line immediately reversed. The Caledonian-Record reported, “In Fiscal Year 2012, East Haven had 30 students, which inched to 34 in FY13; 38 in FY14; and 45 in FY15.” The school board chair for East Haven noted, “It took about a year, and it started going up,” then “it started snowballing.”\textsuperscript{17}

One can imagine numerous methods for designating appropriate CPR-scholarship zones, and I will describe two federal models shortly. However, we should first discuss some features, or rules, that could undermine the efficacy of CPR scholarships. Unfortunately, these features are
common elements in many current school choice programs: (1) means testing, (2) prior-attendance requirements, and (3) lottery enrollments.

**Means-Tested Choice Programs.** An important shortcoming of many choice programs arises when the program is means tested. Consider the Milwaukee Parental Choice Program (MPCP), a voucher program that has been operating since 1990. Several years after its creation, a Wisconsin legislative audit described the means-testing element of this program. To participate in the MPCP at that time, a child must have been “a member of a family whose total income does not exceed 175 percent of the federal poverty guidelines established by the Office of Management and Budget, which was no more than $29,225 for a family of four for the 1999-2000 school year.”

Families with income levels greater than 175 percent of the federal poverty guidelines could not participate in the program. Since less-poor families could not participate in the MPCP, those who did not want their children to attend a public school in the Milwaukee Public Schools (MPS) system chose between paying for private schooling or “voting with their feet” (i.e., moving to a nearby suburb).

Subsequent data show that less-poor families do in fact avoid living in Milwaukee. Figure 2 shows the fraction of students who were eligible for free and reduced-price school meals in metropolitan Milwaukee school districts during the 2012–13 academic year. The MPS system no longer collects or reports this data, but the 2012–13 data continues to reflect the current distribution of poor students across the metropolitan area. More than 80 percent of MPS students qualified for free or reduced-price meals. In contrast, a ring of school districts surrounding Milwaukee have fewer than 20 percent of their students qualifying for free and reduced-price lunches. These districts are shaded in gray.
Other data show that middle-income families avoid Milwaukee as well. The family flight rate is the percentage difference in school-age children in each district, relative to the number of preschool children. Although approximately the same number of children are age 0–4 as age 5–9 in the overall Milwaukee metropolitan area, there are 10 percent fewer 5–9 year olds than 0–4 year olds within the district boundaries of the MPS. In contrast, the wealthier school districts surrounding Milwaukee have significantly more 5–9 year olds than 0–4 year olds. Positive flight rates denote greater numbers of school-age children, and negative rates denote a shortage of school children.

Figure 3 shows school districts shaded by the family flight rate with the percentage of “excess” 5–9 year olds in the district. Consider the Mequon-Thiensville district, which has 42 percent more 5–9 year olds than 0–4 year olds. This flight rate indicates that families move to Mequon-Thiensville when their children approach school age. Some families move directly from Milwaukee, but others come from outside the Milwaukee area and even from out of state. When families from outside Wisconsin move into the metropolitan area, they avoid the MPS district and find homes in Mequon-Thiensville and other suburbs. Notice that the rank order of colors used for values in this map matches the rank order of colors used for values in Figure 2. A visual comparison of the two maps clearly demonstrates a correlation: negative family flight rates are associated with higher levels of free or reduced-price school meal eligibility.

The MPCP vouchers may have improved education in Milwaukee, but they do not appear to have improved the city itself much. They have not reduced concentrated poverty, and they have not attracted middle-class or wealthier families who are the source of economic vitality. From the perspective of a less-poor family, Milwaukee has not been welcoming, despite the MPCP program’s existence. Means-tested programs such as MPCP cannot be expected to reduce concentrated poverty or spark economic activity.

Prior-Attendance Requirements. Many school choice programs have provisions that require applicants to be enrolled in a public school at the time they apply for the choice program. Prior-attendance requirements are designed to keep families out of the program if they are already attending a private school, but even means-tested programs often have prior-attendance rules. Let us consider the impact this rule will have on a family who is moving to a new city.

Families with children often have budget constraints that make low-cost housing desirable. However, parents are reluctant to sacrifice their
child’s well-being by moving into a neighborhood with inferior district-assigned schools, despite the low home prices in these neighborhoods. Inferior district-assigned schools repel nonpoor families from a neighborhood, despite attractive home prices. However, a school choice program allows families to avoid a bad assignment while enjoying the lower prices available in a neighborhood—if the child can gain admission to the choice program.

A prior-attendance requirement blocks admission for new residents, and many families will be unwilling to sacrifice a year of their child’s education before accessing the choice program. When assigned public schools are driving families out of neighborhoods, choice programs with prior-attendance requirements are unlikely to be useful in solving these neighborhoods’ problems.

Lottery Enrollments. A third shortcoming of some parental-choice systems arises when lotteries are used to determine program participation. Programs implement lottery systems when enrollment demand is anticipated to exceed the level of available funding. Again, consider a family that can afford outside options but might be willing to move into a home in a poor neighborhood under the right circumstances. The family will not want to move to a neighborhood where they are promised only a chance to enroll in a lottery for an adequate school and where losing the lottery consigns their child to a substandard school assignment. Why risk losing the lottery? The family will then be stuck with the outcome they wished to avoid. With lotteries, a family can only avoid this risk by avoiding the unattractive assigned-school district entirely.

While these three policies (means testing, prior-attendance requirements, and lottery enrollments) might be viewed as independent, many school choice programs include all three simultaneously. In combination, they are designed to target benefits to the poor while excluding wealthier families who can exercise other options, such as moving to the suburbs.

Unlike most current school choice programs, CPR scholarships would be designed to avoid family flight to the suburbs because we understand that poor people are better off when they are not isolated by policies that exclude nonpoor families. More affluent neighbors bring jobs and social stability that benefit any neighborhood. A school choice program that concentrates benefits only on the poor will continue to yield concentration of the poor. Inclusive school choice programs that also allow access by wealthier families will yield neighborhoods that are less poor and more diverse.
Federal Models That Geographically Target Concentrated Poverty

Having established a conceptual structure for CPR scholarships, including a list of undesirable features that must be avoided to achieve the program’s goals, we can now consider potential implementation methods. Fortunately, the federal government operates at least two programs that can serve as useful models.

The New Markets Tax Credit (NMTC) Program. The NMTC was established as part of the Community Renewal Tax Relief Act of 2000. The goal of the program is to spur revitalization efforts of low-income and impoverished communities. It provides tax credit incentives to investors for equity investments in certified Community Development Entities, which invest in low-income communities. NMTC projects must be built in qualifying census tracts in which:

- The poverty rate exceeds 20 percent in the most recent census; or
- The median family income in the district is less than 80 percent of the statewide or metro-area median, whichever is greater.

The credit equals 39 percent of the investment paid out (5 percent in each of the first three years, then 6 percent in the final four years, for a total of 39 percent) over seven years.

Since the NMTC is not a refundable credit, the tax credits are not being used directly by low-income people. Instead, the credits are primarily used by businesses who make qualifying investments in low-income census tracts.22

The Community Reinvestment Act (CRA). This act was passed in 1977 because of national pressure to address the deteriorating conditions of American cities—particularly lower-income and minority neighborhoods. Ben S. Bernanke, then-chairman of the Federal Reserve, described the origins of the CRA as follows:

In the view of many, urban decay was partly a consequence of limited credit availability, which encouraged urban flight and inhibited the rehabilitation of declining neighborhoods. Some critics pinned the blame for the lack of credit availability on mainstream financial institutions, which they characterized as willing to accept deposits from households and small businesses in lower-income neighborhoods but unwilling to lend or invest in those same neighborhoods despite the presence of creditworthy borrowers.

Unlike the NMTC, Congress left to regulators much of the detail regarding how low-income census tracts would be designated and categorized. While the regulations surrounding CRA compliance are complex, an important feature of the CRA is that it does not simply require banks to make loans to poor people. Instead, loans, grants, and other investments that are made in low- and moderate-income census tracts are required to satisfy banks’ CRA obligations.

In other words, while the CRA is focused on promoting investment in poor areas, loans need not be restricted to low-income individuals in those areas. As an example, a CRA-qualifying project might include retail shops along with a mix of market-rate apartments and affordable housing. The CRA does not require that poor people are the exclusive direct beneficiaries of the program. The availability of credit in low-income areas is considered desirable, even if most of the direct beneficiaries are not poor.

Notice that both the NMTC and CRA programs are targeted at areas of concentrated poverty, at the census tract level, but the benefits are not provided to only poor people in the tract. The programs recognize that poor people benefit indirectly from improved economic conditions in the local geography, even if the direct subsidies are enjoyed by real estate developers or other nonpoor beneficiaries.

CPR Scholarships at the Census Tract Level

While other methods could be used to establish CPR-scholarship zones, it is probably more politically palatable to mimic elements of the federal programs that have already been structured to define and target concentrated poverty. Let us return to the Milwaukee setting to observe what a geographically targeted program might look like in practice. Recall
that under the NMTC, a census tract qualifies for inclusion if the poverty rate exceeds 20 percent.\textsuperscript{23}

We will adopt this federal poverty-rate threshold, deeming this level of concentrated poverty as socially undesirable and implementing CPR scholarships in these census tracts. Therefore, the shaded areas in Figure 4 will be designated as CPR-scholarship zones. Notice that the shaded areas are almost all in the geography the MPS district covers.

The census tracts have been categorized by the level of poverty to address an important implementation question: What should legislators do if resources are not available to fully fund the program in all the tracts with poverty rates above 20 percent? First, do no harm. Do not institute a lottery, and do not impose a means test. These rules will defeat the intended goal to reduce concentrated poverty and its associated pathologies of crime and joblessness.

Instead, shrink the geography to match available resources. For example, if resources permit, implement CPR scholarships in the highest-poverty areas first, those with poverty rates above 40 percent. When resources allow, lower the poverty-rate threshold to include census tracts with poverty rates above 30 percent. Only after the program is fully implemented in the higher-poverty zones should the program be expanded to include the 20.0 to 29.9 percent census tracts.

Phasing in the program in three steps is intended to be simply illustrative. Three steps are easy to visualize on a small map. In fact, the phase-in could be much more refined. There are 128 high-poverty census tracts in Milwaukee. If 13 tracts were phased in each year, each group being prioritized by poverty rate, all high-poverty tracts would be CPR-scholarship zones within a decade.\textsuperscript{24} Phase-in costs of the program can be controlled by geographically prioritizing CPR-scholarship zones. Thus, means testing, prior-attendance requirements, and lotteries are not needed for controlling costs.

**Phantom Students, Fiscal Neutrality, and a Federal Solution**

From a fiscal perspective, most current school choice programs operate with lower per-pupil funding than the per-pupil costs of competing legacy public school districts. CPR scholarships would almost certainly be structured similarly to ensure long-run state fiscal benefits. However, most states use short-run mechanical budgeting rules that can make an innovation such as CPR scholarships difficult to launch.

Many states allocate district funding on the basis of the previous years’ student enrollment. Thus, fiscal projections for CPR scholarships will
reflect double funding in the first year of the program. The state must fund a CPR scholarship for the student at a private school, but the state also must fund the “phantom student” in the district that he or she attended in the previous year. Since legislators must balance the current budget, a new program is difficult to launch unless it is, at least, “fiscally neutral” in year one.

The transition cost produced by phantom students in the first year is a problem that the federal government is well-suited to address. Although K–12 funding in the United States is primarily provided by state and local governments, the federal government frequently provides grants to fund demonstration projects to help defray the cost of new local initiatives. A state’s year-one fiscal impediment to launching CPR scholarships could be easily overcome by a federal grant that reimbursed the state for phantom students. After the first year, each CPR scholarship would be fiscally positive for the state.

Conclusion

This paper presents a proposal to attack concentrated poverty, joblessness, and crime using geographically targeted CPR scholarships. The proposal borrows heavily from existing federal programs that geographically define and target concentrated poverty without strictly limiting program benefits to low-income beneficiaries. Paradoxically, the success of these federal programs depends on creating appropriate incentives for less-poor persons and businesses to engage with poor people in the geographies in which they currently reside.

Notice that, as compared to the federal NMTC and CRA programs discussed, CPR scholarships probably offer greater benefits to the poor. The federal programs primarily offer only indirect benefits to poor residents. In general, poor families do not claim NMTC tax credits, and they do not receive large CRA loans, which tend to lower borrowing costs for real estate developers and other businesses. In contrast, CPR scholarships directly benefit the poor, because poor children are eligible. CPR scholarships also indirectly benefit the poor through increased economic activity and an improved neighborhood.

We also have discussed how means-testing, prior public school attendance requirements, and lottery enrollment systems—all common school choice program features—ultimately undermine the ability of school choice programs to reduce concentrated poverty. Means-tests explicitly exclude nonpoor families, forcing them to choose schools by relocating to higher-income areas. Prior public school attendance policies would require nonpoor families to enroll children in the very schools that they are seeking to avoid, and lottery programs expose families to an avoidable risk. Nonpoor families who are faced with any of these three restrictions can simply move to a wealthier neighborhood and avoid the risks or constraints. These common school choice policies should be seen as undermining efforts to address spatial sorting and concentrated poverty.

CPR-scholarship programs should avoid these three features. Instead, the geographic size of the eligible CPR-scholarship zone should be limited to match the funds available for scholarships. CPR scholarships are a much less expensive means of addressing concentrated poverty than proposed HUD programs that seek to subsidize low-income housing in high-income areas.

In fact, after the first year, CPR scholarships will be fiscally positive to the state. The program will cost less to operate than the status quo. Moreover, as higher-income families are attracted to high-poverty areas, their presence in the neighborhood can be expected to catalyze economic development, including reducing crime rates, raising property values, increasing the local property tax base, and bringing more and better jobs to the area.
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Notes

1. Dorothy Gautreaux. Chicago Housing Authority was initiated by the ACLU in 1966 and litigation continued until 1976 when the United States Supreme Court ruled that HUD could be required to use the entire Chicago metropolitan area to remedy past discrimination in the city of Chicago.

2. Section 8 vouchers were available to applicants who either lived in CHA public housing or who were on the waiting list for public housing.


9. For purposes of this policy proposal, the term private school choice program means any program that provides public funding for students attending private schools, where funding follows the child. The terms school choice and choice are used elsewhere in this piece for brevity. Acceptable private school choice programs as described in this paper include tuitioning systems (such as those used in Vermont and Maine), education savings accounts, tax credit scholarship programs, and voucher programs such as those used in Paris, France.


13. Another type of geographically targeted scholarship has shown potential in attracting middle-income families. “Promise” scholarship programs guarantee college tuition for students who attended school within a particular public school district. These programs appear to increase property values, particularly in the upper-half of the home price distribution. Unlike CPR scholarships, Promise scholarships have no direct benefit for students who will not attend college, although indirect neighborhood benefits may exist. Also, in contrast to CPR scholarships, funding for Promise scholarships must be in addition to existing K-12 spending. CPR scholarships change the channel through which K-12 education is delivered, but they will probably reduce net education expenditures. For further discussion on the place-making effects of Promise scholarships, see Randall Walsh and Michael LeGover, “Promise Scholarship Programs as Place-Making Policy: Evidence from School Enrollment and Housing Prices” (NBER Working Paper No. 20056, 2014).


15. The website for Publix Supermarkets states that the company has 184,500 employees and 1,126 store locations. Dividing employees by stores yields 163.9 employees per store. Obviously there are non-store employees, but the 100 employee store does not seem unreasonable.
17. Ibid.
19. The income threshold was raised to 300 percent of the poverty level in 2011.
20. Subsequently, the Milwaukee Public Schools system participated in the Community Eligibility Program, which allows the entire district to participate in the FRL program without having to fill out paperwork for each child.
21. Given the income limits imposed by the MPCP voucher program, the percentage of MPCP students qualifying for free and reduced lunches was even higher in 2012-13.
23. A census tract may also qualify if the median family income in the district is less than 80 percent of the statewide or metro-area median, or whichever is greater. However, for simplicity we will construct CPR-scholarship zones based only on the census tract poverty rates.
24. Unlike the CRA and NMTC programs, once an area is designated as a CPR-scholarship zone, the right to receive CPR scholarships in the area should be perpetual. The tool that created the CPR-scholarship zone’s economic revitalization should not be withdrawn simply because it worked. Doing so would reignite the spatial sorting that CPR has alleviated.
25. There is also a phantom student problem for additional students in the program in each subsequent year for any child who was previously enrolled in a district school. First-grade students and children from new families who move into the state during the summer do not create a phantom student funding problem.

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