

AN OUTCOMES-BASED APPROACH TO CONCENTRATED POVERTY

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Purpose Built Communities

In the 2012 edition of *Investing in What Works for America's Communities*, my colleagues Shirley Franklin and David Edwards wrote about the transformation of the East Lake Meadows public housing development in Atlanta and the partnerships and investments that made it successful.¹

A local philanthropist, a tenant association leader, and the head of the local housing authority were willing to take big risks for an even bigger social return: Transforming a distressed neighborhood into a healthy one with a holistic approach that tackled housing, education, and community wellness simultaneously. This approach wasn't about doing more of the same, but about doing virtually everything differently than it had been done in the past.

In 2016, 21 years after the revitalization efforts began, Dr. Douglas Jutte, a pediatrician from California, visited East Lake to see the results of the transformation up close. After spending time in East Lake's Charles R. Drew Charter School, he inquired what accounted for the lack of obesity among the student body. A large majority of the students at Drew qualified for free and reduced lunch and were African American. In his experience as a pediatrician and public health practitioner, communities with similar demographics often experience higher than average rates of obesity. Was there a particular anti-obesity effort? My answer surprised him. I told him that all Drew students learn to play the violin in third grade. I wasn't being glib. When Drew Charter School opened in 2000, obesity was common among students. What changed? It was not one

thing—the entire neighborhood and its institutions had changed through a series of concurrent investments with excellent execution across sectors by best-in-class partners that fundamentally altered the environment in which children were growing up. High expectations, high opportunities, and high support throughout the community resulted in children who were slimmer and healthier than they were just a few short years ago.

Over a 20-year period, the East Lake initiative has successfully reduced the neighborhood's overall crime rate by more than 70 percent, with a reduction of 90 percent in violent crime. The gains in education were even more impressive. Over the same period, the percentage of fifth-graders meeting state standards in math went from a tragic five percent to an astonishing 99 percent. The employment rate went from a mere 13 percent to 100 percent among working-age adults who were not disabled or going to school. Average household income for families receiving rent assistance increased four-fold.² Low-income children in the neighborhood charter school perform at the same or higher levels than non-low-income children in the city and state.³

Purpose Built Communities, a nonprofit, pro bono consulting group, was created expressly to help local leaders replicate the success of the East Lake initiative. The approach used in East Lake to create a healthy neighborhood that includes broad, deep, and durable pathways out of poverty has been codified, and we now call it the Purpose Built Communities model. Central to this approach is the focus on a defined and relatively small geography—what people locally would recognize as a neighborhood. Although we have known intuitively that place matters, we now have research that proves the point. The ZIP Codes in which people are born are the single-biggest predictor of their life outcomes. If people are born in neighborhoods of concentrated poverty, the overwhelming odds are that they will live in poverty for the rest of their lives, and so will their children.⁴

1 David Edwards and Shirley Franklin, "It Takes a Neighborhood: Purpose Built Communities and Neighborhood Transformation," *Investing in What Works for America's Communities: Essays on People, Place & Purpose*, edited by Nancy O. Andrews and David J. Erickson (San Francisco: Federal Reserve Bank of San Francisco and Low Income Investment Fund, 2012).

2 East Lake Foundation, "East Lake Foundation Annual Report 2015" (2015), available at https://issuu.com/eastlakefoundation95/docs/elf_annualreport_2015.

3 Georgia Department of Education, "2013–14 CRCT Statewide Scores" (2015), available at <https://www.gadoe.org/Curriculum-Instruction-and-Assessment/Assessment/Pages/CRCT-Statewide-Scores.aspx>.

4 Raj Chetty and Nathaniel Hendren, "The Impacts of Neighborhoods on Intergenerational Mobility: Childhood Exposure Effects and County-Level Estimates," Harvard University and NBER (May 2015), available at http://www.equality-of-opportunity.org/images/nbhds_paper.pdf.

The Purpose Built Communities model disrupts this cycle of poverty by transforming neighborhoods so that people can reach their full potential. Executed by local leaders with strategic and technical assistance from Purpose Built Communities, these initiatives bring new investments, best-in-class partners, and an insistence on excellence in the execution of all strategies to neighborhoods that have suffered chronically from disinvestment and hopelessness. Within a clearly-defined neighborhood, local leaders and their partners develop mixed-income housing, create a cradle-to-college education pipeline, and provide community wellness programs and facilities. These strategies are all guided by a community quarterback organization, a nonprofit whose sole mission is to focus on the overall health of the neighborhood, coordinating efforts among best-in-class partners from the private and public sectors and attracting the necessary resources to bring the highest level of quality to each of these activities and investments. It is the role of the community quarterback to hold partners accountable and maintain high standards in execution.

Too often in community development efforts in neighborhoods of concentrated poverty, marginally better outcomes are deemed satisfactory. In the Purpose Built Communities model, “good enough” is not good enough! By focusing on a specific neighborhood geography and demanding excellence from everyone involved, breakthrough outcomes become possible over the long term. In our experience, it takes at least ten years for breakthrough outcomes to materialize—the kinds of outcomes we see at East Lake—and it takes leadership in the form of a community quarterback committed to long-term success.

We recognize that all neighborhoods are intrinsically local, and therefore our model must be highly adaptive to meet the needs of local communities around the country. We believe that our model could be adapted for use in approximately 825 urban neighborhoods around the country. However, we don’t believe it is a satisfactory strategy in neighborhoods where the larger region lacks economic vitality, nor do we have experience to know that it will work in rural areas. Our model is a neighborhood intervention strategy, not a regional economic development strategy.

We believe housing that serves families across a very broad range of incomes is critical to community vibrancy. Housing can serve not only as

a platform for stability for low-income residents, but also as a catalyst for growing social networks, services, and infrastructure that ultimately benefits all residents. The introduction of high-quality, multi-family developments with rents at various levels of subsidy and market rates help create mixed-income neighborhoods that attract new services, jobs, and private investment. For the lowest-income residents, a mixed-income environment creates social connections, which benefit both children and adults and seldom exist in low-income housing developments. Many of these developments have work requirements as part of their leases, with exceptions for those who are in school, elderly, or disabled.

We’ve seen successful adaptations that are an improvement on what was possible in East Lake in the mid-1990s. For example, East Lake relied on a housing mix of 50 percent market-rate rental homes (no restrictions on either income or rent) and 50 percent deeply subsidized by the Atlanta Housing Authority. However, other initiatives we support are using a more refined mix that is based on one-third of the rental homes being available at true market rates, one-third for rent-restricted low- to moderate-income families, and one-third deeply subsidized through project-based assistance from a local housing authority. This mix creates a better financial model for the developer while creating a more economically diverse community. The lowest-income families, who might be worried that they can never make the jump from deeply subsidized to market rents, see the rent-restricted units as an achievable stepping stone as they work to gain financial stability and greater wealth. Other initiatives have demonstrated that having a significant component of rental homes available at true market rates is important for destigmatizing the neighborhood. Having a mere ten percent of the rental homes available at market rates will not attract additional investment to the community or result in the neighborhood’s being perceived as a neighborhood of choice—something we believe is essential for creating the conditions that will attract additional investment into neighborhoods that are desperate for it.

Although the East Lake initiative focused on developing mixed-income rental housing, many of the Purpose Built Communities network members include a homeownership component as well. In Birmingham, in addition to new, beautiful townhomes available to low- and moderate-income families, the community quarterback is developing new, single-family

homes that will be available at market rates. This strategy was employed simply because the state of Alabama made mixed-income rental housing almost impossible to finance. The community quarterback also raised funds for a single-family home-improvement program and renovated more than 65 homes for homeowners who would not have been able to afford those improvements, many of which were desperately needed. They repaired roofs, renovated kitchens, replaced heating and cooling systems, reattached porches to houses, and repaired dilapidated plumbing. This program largely benefited longtime homeowners who now have improved homes in an improving neighborhood.

Another innovation in mixed-income housing comes from the world of philanthropy. In several communities, local foundations are making significant investments in housing. Often, these investments are not designed to finance the affordable housing component, as one might expect, but are, in fact, used to help subsidize the market-rate housing, where financing is harder to secure. Frequently in the form of program-related investments, these investments in housing can be used to help reset the market. When they are repaid, often after 40 years, the funds can be used for other needs in the community.

On the education side, our network members (those community quarterbacks who have demonstrated both capacity and commitment to implementing this model) continue to push the envelope to create excellent, neighborhood-serving education pipelines in their neighborhoods. For example, the Charlotte Mecklenburg Housing Authority invested \$5 million to support early learning at Renaissance West. This money wasn't put into the capital structure of the early learning facility, as might have been expected. Rather, the housing authority specifically contributed these funds to close the quality gap in providing excellent early learning for low-income children in the community. We know what it costs to deliver high-quality early learning that will prepare all children for success in kindergarten and beyond, and the public funds available are simply inadequate to meet the need. This creative, upstream investment will pay dividends long after children have moved beyond early learning and into the K-12 system. We've helped community quarterbacks negotiate memorandums of agreement with local school systems to bring charter-like flexibility to traditional public schools. Omaha Public Schools has worked

with 75 North, the local community quarterback, and our sister program, Purpose Built Schools, to reconstitute a chronically underperforming elementary school. A year-long principal fellowship and ongoing support during the first year of the new principal's tenure has set the school on a new trajectory. One of the reasons we believe this approach will be effective is the complete buy-in and participation of Omaha Public Schools' leadership. Without that deep partnership and commitment, this approach would not likely be sustained beyond the tenure of the new principal. The deep commitment of Omaha Public Schools' central office staff and their board makes us optimistic that the approach is sustainable beyond the tenure of any one person. Of course, this is a marathon and not a sprint, so we really won't know for several more years how successful this approach will be.

We also have evidence from East Lake now that demonstrates that high-quality education sustains not only the human-capital transformation but the real-estate revitalization as well. In fact, as Drew Charter School has sustained its reputation for excellence and built out a new high school, more people are drawn to the neighborhood, and parents who live outside the neighborhood want to get their children into Drew. In fact, the school had a waiting list last year of about 2,500 children, most of whom lived outside of the East Lake neighborhood. Because children who live in the Villages of East Lake are given first priority to attend Drew Charter School, rents in the market-rate apartment homes in the Villages of East Lake are higher than they have ever been, despite the fact that the property is now almost 20 years old. Families pass up newer, shinier homes so they can live at the Villages of East Lake because they want their children to be part of the East Lake education pipeline. Although the market-rate rental homes attract higher-income families, low-income families continue to live in the Villages of East Lake and pay rent based on their income. As Drew Charter School becomes a more mixed-income school (Drew's target is for 65 percent of students to come from low-income families; approximately 60 percent do today), we are seeing significant growth of social networks—not just for students but for their parents as well. We know that social networks are an important tool that people use to get their next job or learn about a new opportunity. The combination of an excellent mixed-income school and high-quality, mixed-income housing creates a fertile environment for new relationships and opportunities.

Our network members and their partners continue to adapt the model on the health and wellness front as well. In East Lake, the YMCA was one of the first-in partners. Although they had been serving the neighborhood for years, their facility was closing because it had outlived its useful life. The YMCA jumped at the chance to become a founding implementation partner in East Lake, and in addition to serving as the tip of the spear in community building, it created a wonderful health and wellness center that continues to bring people together across race, income, religion, ethnicity, and gender. In Fort Worth, TX, the YMCA partnered with the city to build a new YMCA, including a city-financed outdoor pool that the YMCA will manage. In Spartanburg, SC, the Mary Black Foundation—a health-conversion foundation—has invested broadly in the initiative, including in the new early learning facility and in the community quarterback itself. The city of Spartanburg is building a first-rate health and recreation center in the community. Spartanburg Medical Center, with about a half-billion dollars of construction planned over the next decade, has developed a workforce development program to hire people from the Northside neighborhood in construction trades. Spartanburg Medical Center also has revised its background standards and training protocols to hire people who historically would not have qualified and is paying these trainees well during the training period. Working with the Goizueta Business School at Emory University, the East Lake Foundation piloted a new entrepreneurship program called Start:Me that is now being replicated in Spartanburg and other communities. The Bayou District Foundation, the community quarterback in New Orleans, has just opened a new, tournament-quality golf course in City Park. It will serve triple duty as a revenue generator for ongoing programs in the Bayou District, an economic engine supporting tourism in New Orleans, and the home of the First Tee of New Orleans, a youth development program that uses golf as a platform to deliver its curriculum.

As we have worked with local leaders to customize our model to meet the needs of their communities, we have experienced an expected tension between our desire to see the model executed with fidelity and the desire of local communities to customize, sometimes beyond where we feel comfortable about the ability to deliver exceptional results. For example, one school district unexpectedly pulled back on its commitment to operate a school on an extended-day model, which had been part of the

plan from the start and is necessary to deliver the full school design that had been planned for the past three years. Although we will continue to support the school and the community, we are less certain about the ability to deliver dramatically-improved outcomes for students.

We have developed a performance scorecard to measure the impact of investments and provide insights to ensure ongoing improvements. All network members agree to measure certain metrics around student achievement, safety, productivity, neighborhood health and safety, and income and property values. Most network members have additional metrics that are meaningful to their work locally. Although it is much too early to know whether each network member will be successful, the preliminary data are very positive.

As of this writing, there are 16 Purpose Built Communities network members in 16 different cities across the United States. They include: Atlanta, GA; Birmingham, AL; Charlotte, NC; Columbus, OH; Fort Worth, TX; Houston, TX; Indianapolis, IN; Kansas City, MO; New Orleans, LA; Oakland, CA; Omaha, NE; Orlando, FL; Raleigh, NC; Rome, GA; Spartanburg, SC; and Tulsa, OK. Our goal is to add three or four more high-quality initiatives every year, and we have developed a pipeline of prospects to meet that goal.

As of January 2017, at least part of the educational pipelines of 13 of the 16 network members is operational; this includes 39 schools (including eight early learning centers), with a total of 17,338 students. Across the network, 2,194 apartment rental homes, serving 5,254 residents, are occupied by families across a broad range of incomes. There are another 612 apartment homes under construction, as well as three additional early learning centers and a new K-8 elementary school. All 16 network members are currently executing initiatives to support health and wellness for their residents.

Safety has improved dramatically in the Bayou District in New Orleans, along with incomes and employment rates for families receiving rental assistance. Young children have access to high-quality early learning at the Educare New Orleans, the first Educare Early Learning Center in the Deep South. A new K-8 KIPP school will open in the Bayou District in

July 2018. Other outcomes will take a few more years to bear fruit, but early progress is encouraging.

What do the outcomes in East Lake and the early data from other network member initiatives mean? First, the scale of the investments is necessary to help neighborhoods that have suffered from decades of disinvestment catch up with neighborhoods that have enjoyed more consistent investment. Tinkering around the edges of neighborhoods suffering from profound generational disinvestment won't create transformational outcomes. The Selig Center at the Terry School of Business at the University of Georgia looked at the economic impact of the East Lake revitalization in 2007 and determined that the initial \$125 million invested in the initiative was recouped in just 18 months of operation.⁵

More important, the outcomes and return on investment from this approach beg another question: Who would be willing to pay for the outcomes that our model delivers? Who would be willing to pay for a solution to the costs associated with concentrated poverty? Clearly, local and state governments, the federal government, and public school systems should be willing to pay for the outcomes because the costs incurred in poverty alleviation, safety, and special education, for example, should all drop dramatically. Tax revenue, through increased property and income taxes, should increase. Investments at scale in our model will save all levels of government money and could ultimately reduce the tax burden.

Likewise, foundations, particularly health-conversion foundations, may also be interested in exploring how they could buy these outcomes.

Hospital systems, health insurance companies, and others in the business of improving health should be motivated to invest in neighborhood-level improvement. Despite the fact that our work was not designed as a health intervention, we have successfully moved the social determinants of health for entire communities, which should result in lower costs associated with delivering medical care. Academic outcomes, incomes, housing stability, and safety have improved, all of which predict better outcomes

at the community health level. These outcomes have value to hospital systems, insurance companies, and others in this field. The challenge now is to measure the impact, quantify the value, and create mechanisms to appropriately allocate risk and reward.

Although the idea of selling a solution to concentrated poverty is alluring, the genius is in the details, all of which still need to be fleshed out. Before taking this idea to market, we will want to better understand any additional data that need to be collected and determine if a neighborhood intervention strategy can reach the scale necessary to make this kind of investment worthwhile for a buyer of better community outcomes. Our approach typically impacts about 15,000 people per neighborhood, and we have yet to determine whether that scale is sufficient.

At Purpose Built Communities, we are still learning what is possible and how quickly transformational outcomes can be achieved. With more high-caliber work, study, and evaluation, a place-based approach to eradicating poverty—by selling the outcomes to those who would benefit economically from the results—could emerge sooner than we think.

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⁵ Selig Center for Economic Growth, "Economic Revitalization of Atlanta's East Lake Community: A Chance to Succeed" Terry College of Business, University of Georgia (Fall 2008), available at https://www.terry.uga.edu/media/documents/selig/east_lake_study.pdf.