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FOOD FOR THOUGHT:

Building a High-Quality School Choice Market

By Erin Dillon

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The neighborhoods of Southeast Washington, D.C., are among the poorest in the city. There, the grocery stores, banks, restaurants, and other institutions that suburbanites take for granted have long been in short supply. In recent years, however, government and nonprofit agencies have begun turning things for the better. A brand new, government-subsidized shopping center recently opened on Alabama Avenue, providing one of the few full-service grocery stores in the area, along with a new sit-down restaurant and mainstream bank branch.

But reformers are finding that such initiatives won't fix decades of market dysfunction overnight. Not far from the new Super Giant grocery store and Wachovia Bank are older businesses that continue to draw a steady stream of customers—corner stores that sell little fresh food, fast-food outlets that serve meals low in nutritional value, and tax preparation firms and check-cashing outlets that charge high fees. Markets are complicated, and improving them requires more than just creating incentives for new providers to set up shop.

This is equally true in the market for public education. The growing charter school movement has spurred the creation of new education organizations like the Knowledge Is Power Program (KIPP), which recently opened a shiny, new 85,000-square-foot facility four miles north of the Super Giant. KIPP has become a national model of high-quality, urban education, posting impressive achievement gains with low-income student populations.¹ Sixty-six new KIPP schools have opened in 19 states and the District of Columbia in the last 15 years. KIPP is what school choice proponents claimed would happen with market-based reforms in education: entrepreneurial educators successfully teaching the students who need help the most.

But KIPP is an outlier among its peers—many other charter schools in the district have been unable to achieve such impressive results. Just around the corner from KIPP, a recently restructured charter school shares space with a church in a small, unimposing brick building. Over the door hangs an easy to miss sign with the school's new name—The Howard Road Academy of Excellence. The previous charter school occupying the

space gave up its charter after the D.C. Public Charter School Board threatened to shut it down due to financial mismanagement. That school also posted some of the lowest student-achievement scores in the city, with just 13 percent of students scoring proficient on the city test.² Its failure serves as a warning to those relying on the free market alone to improve education in low-income, urban neighborhoods.

And while choice advocates predicted that the increased competition from charter schools would produce substantial improvements among nearby traditional public schools, this often has not been the case. Despite the fact that over 20 percent of the public schools in the neighborhoods surrounding KIPP are charter schools, the traditional public schools in the area still post some of the lowest student-achievement results in the city.³

Government programs that bring in private sector firms like Giant or nonprofits like KIPP can increase the supply of market options in low-income communities. But such subsidies will not, in and of themselves, ensure that all of those options will be high-quality. Nor will they guarantee that consumers will make good choices and utilize the newer, better options that come along. Functioning, well-designed markets improve higher-quality supply *and* higher-quality demand.

Reformers working to improve banking and food services in the district's low-income neighborhoods and around the nation have already learned these lessons. In recent years, they've moved aggressively to provide sophisticated market analysis to private sector firms, making the case that poor neighborhoods represent an untapped

source of profits. They've forged strong connections with local community organizations that reach out to new consumers and help customize services to meet local needs. They've provided crucial start-up funds for small businesses and have encouraged these businesses to be flexible in how and where they serve residents. And they've worked hard to build knowledge and expertise among the consumers who drive demand.

To be sure, the for-profit retail and nonprofit education markets are not identical. But many of the strategies used by reformers to improve markets for banking and food services could nonetheless benefit public education. As district and community leaders, charter school authorizers, and policymakers expand the marketplace of schools, they would be well-served by learning from these innovations. Nearly 20 years after the first charter schools were founded, it has become increasingly clear that opening up markets to new providers is only the first step in dramatically improving the supply and demand for great public schools.

FREE MARKETS ARE NOT ENOUGH

Early advocates of school choice argued that increased choice would unleash market forces, including parental demand for good schools, entrepreneurial interest in building better schools, and competition among schools to serve students. Low-income, urban neighborhoods that have long suffered from low educational achievement, they said, would benefit the most from choice-based school reforms, as families wielded their new consumer power to drive improvements in their children's education. But the past two decades of choice reforms have demonstrated that choice alone is insufficient to drive large-scale improvement. School districts have proven remarkably resistant to competitive pressure, parental demand has not culled poor-performing schools, and it is far more difficult to start and grow successful schools than originally envisioned. The KIPP's of the world are more the exception than the norm.

As a result, some school choice proponents have backed away from their claims about the power of markets. In early 2008, Sol Stern, a staunch advocate of market-based reforms and senior fellow at the conservative Manhattan Institute, shook the school choice world

by claiming that "markets in education may not be a panacea."⁴ Other choice advocates, including long-time voucher proponent Howard Fuller and Chester E. Finn Jr., president of the conservative Thomas B. Fordham Institute, have expressed disappointment in recent years with the inability of choice-based reforms to produce substantial increases in student achievement.⁵

But this failure is not necessarily an indictment of the power of markets. Rather, it reflects policymakers' scant attention to establishing the complex market features necessary to maximize the impact of choice-based reforms. Early choice advocates "romanticized" school choice by promising stellar results without paying sufficient attention to designing functioning school choice markets and fostering genuine competition, argues Frederick Hess, director of education policy studies at the American Enterprise Institute.⁶

Even Washington, D.C., which boasts the second highest charter school market share in the country, with 36 percent of its public school students enrolled in charters, continues to struggle with school quality. Between charter schools, a policy that allows out-of-boundary enrollment, and a five-year-old voucher program, the city is full of school choice options. But many residents of the district, particularly those in Southeast, are still looking for better educational options (see "Mapping the Options" sidebar on page 6). As one resident stated, "Do we have a choice for what we want? No. Do we have a choice for better schools? No. Do we have a choice for the same old thing? Yes. That's all."⁷

Hess and others have pointed to national examples of success like Silicon Valley and Google to show the importance of encouraging entrepreneurs, rewarding success, and supporting research and development—all areas that are lacking in the education marketplace.⁸ But these national examples don't provide clear strategies for local district leaders, school operators, or charter school authorizers looking to develop a more dynamic and effective market in their communities. They also fail to address the details of market design in the context of the low-income neighborhoods that many policymakers and choice advocates seek to serve. And given the experiences of many low-income neighborhoods with "free markets" that left them with convenience stores instead of grocery stores, check-cashing outlets instead of banks, and limited retail as malls flourished in the suburbs, it is clear that there are unique challenges to utilizing market forces to improve the quality—and not just the quantity—of options in these communities.

Quality vs. Quantity

Contrary to popular thought, market failures in inner-city communities aren't simply a matter of income. Despite having a lower median income, many of these neighborhoods outspend suburban communities because there are simply more customers. For instance, the South Shore neighborhood in Chicago, with a median family income of only \$22,000, has nearly twice the per acre retail spending power of Kenilworth, an affluent Chicago suburb with a median income of \$124,000.⁹

Yet, even with such purchasing power, many of these low-income, urban neighborhoods lack investments from supermarkets and banks. A 2006 study by the Brookings Metropolitan Policy Program analyzed 12 major metropolitan areas across the United States and found that there was one mid-sized or large grocery store for every 69,055 residents in lower-income neighborhoods, compared with one such store for every 29,005 residents in moderate or higher-income neighborhoods.¹⁰ The Brookings study also found that a substantial number of these neighborhoods had no access to mainstream banking, but high-priced financial services businesses, like check cashers, short-term loan providers, and tax preparation firms, tend to be more densely concentrated in lower-income neighborhoods (see Figures 1 and 2).¹¹

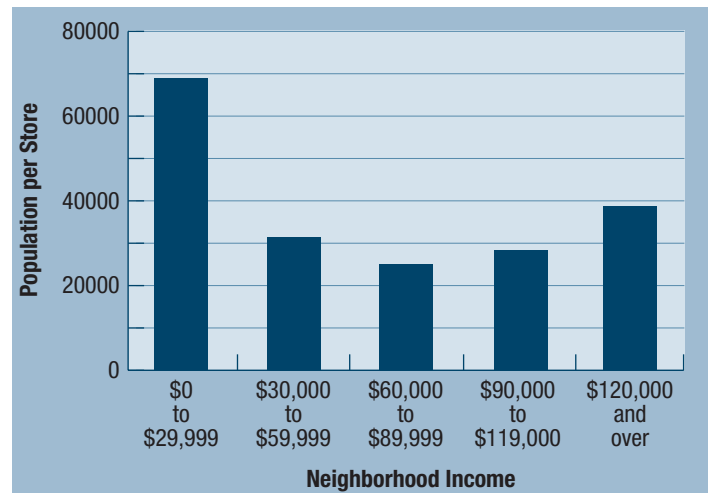
The problem for these communities is one of quality, not quantity. It isn't that these communities don't have access to food—there are plenty of fast-food restaurants and corner stores selling chips and soda. The problem is that residents lack access to *fresh, healthy food*. Similarly, these neighborhoods have access to check cashers and short-term loan providers for their financial needs, but they don't have equal access to the savings and checking accounts that will allow them to build wealth. The situation in education is much the same—there are schools in these neighborhoods, including some charter schools, but many aren't very good.

IMPROVING MARKET ANALYSIS

One of the biggest roadblocks to new grocery store development in low-income, urban areas is inaccurate information about the actual demand and profit potential in such areas. Retailers typically rely on market analysis to determine if they should invest in a neighborhood, and

much analysis of potential markets is built on information from the U.S. Census and the Bureau of Labor Statistics' Consumer Expenditure Survey. The Census tracks information on population density and consumer income, and the Consumer Expenditure Survey tracks consumer buying habits on a national level.

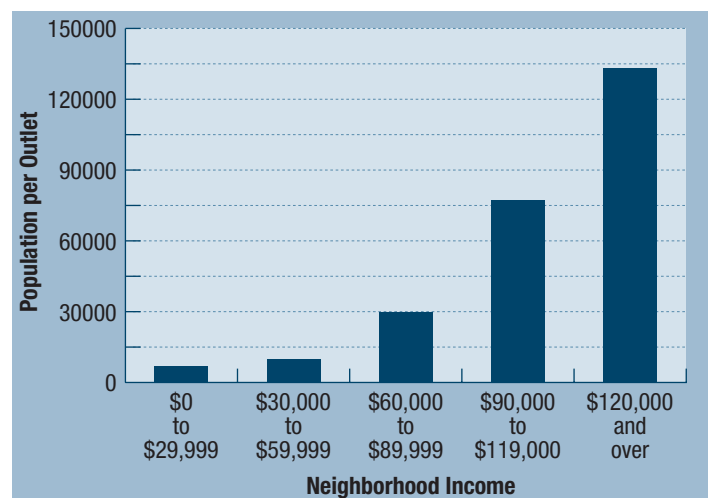
Figure 1. Population per Mid-Sized and Large Grocery Store, by Neighborhood Income



Note: Data represent the average for the 12 metro areas profiled in the report.

Source: From *Poverty, Opportunity: Putting the Market to Work for Lower Income Families* (Washington, DC: The Brookings Institution, Metropolitan Policy Program, 2006).

Figure 2. Population per Check Casher and Short-Term Loan Provider, by Neighborhood Income



Note: Data represent the average for the 12 metro areas profiled in the report.

Source: From *Poverty, Opportunity: Putting the Market to Work for Lower Income Families* (Washington, DC: The Brookings Institution, Metropolitan Policy Program, 2006).

But these sources drastically underestimate inner-city buying power.¹² U.S. Census income data fail to account for the informal, unrecorded economy that exists in these neighborhoods. Researchers have found that consumers making less than \$10,000 reported expenditures equivalent to 250 percent of their income. Moreover, these federal sources focus on national behaviors, not local analysis. Information from national-level surveys is difficult to apply to low-income areas, because these areas are often underrepresented in national samples. The result is market information that is insufficient to drive business investments to the inner city.¹³

More Alike Than Different: Schools, Grocery Stores, and Banks

The parallel between public schools and retailers is not exact. As primarily government-funded nonprofit enterprises, public schools inherently are better positioned than for-profit retailers to enter riskier markets. Schools' survival, particularly in a school choice setting, may depend on filling seats, but schools don't need to maximize profits, giving them more motivation and flexibility to enter low-income communities. Charter schools, for instance, tend to locate in large, urban areas with low student-performance levels and high demand for better options.* Moreover, family income is less important to schools than it is to for-profit businesses because each student comes to a school with a government allotment of funds, giving families substantial purchasing power in the public education market.

In some instances, it is harder for schools to succeed in these markets. Schools face hiring challenges in finding qualified teachers and talented school leaders. And, even in communities with demonstrated demand for better schooling options, there may be few quality school models available to open a whole new school. There are political challenges as well, such as statutory caps on the number of new charter schools in a state.† And often, fundamental changes in the way school districts operate, including changes in funding systems and school oversight, are necessary to get choice right.‡

But even if such obstacles are eliminated, marketplace challenges remain. Here, schools and for-profit retailers are more alike than different. Both face marketplaces with inaccurate and limited information about the needs and assets of a community; limited information for families about the quality of options and the impact of choices on future health, wealth or educational development; and limited financial incentives and investment to start, sustain, and improve options, whether it be full-service grocery stores, mainstream banks, or good schools and supplemental education services.

*Todd Ziebarth, *Top 10 Charter Communities by Market Share* (Washington, DC: National Alliance for Public Charter Schools, October 2008).

†Sara Mead and Andrew J. Rotherham, *A Sum Greater Than the Parts: What States Can Teach Each Other About Charter Schooling* (Washington, DC: Education Sector, September 2007).

‡Paul Hill and James Harvey, *Doing School Choice Right: Preliminary Findings* (Seattle, WA: Center on Reinventing Public Education, April 2006).

'Drill Down' Data

Those who have been successful in recruiting business development to inner-city neighborhoods have relied on alternative market analyses, such as the nonprofit organization Social Compact's "Neighborhood Market Drill Down." Social Compact's Drill Down analysis doesn't provide the type of "deficiency" data often used to describe inner-city neighborhoods, such as poverty rates, crime, and unemployment, but focuses on "asset" data, such as retail expenditures, neighborhood diversity, and aggregate income levels, which reflect both the median income of residents and the population density of the neighborhood.

Social Compact's analysis of the Anacostia and Columbia Heights neighborhoods in Washington, D.C., was a vital component of the city's efforts to bring retail into underserved neighborhoods, helping attract a \$140 million development to Columbia Heights that includes plans for an organic grocery store.¹⁴ The analysis looked at tax assessor, building permit, and vehicle registration data to measure population size, rather than using Census data. And to assess neighborhood buying power, Social Compact used Consumer Expenditure Survey data along with information on bill payment patterns, aggregate retail sales, and households without formal banking relationships. As a result, the organization's buying power estimates were nearly 50 percent higher than those using traditional data sources.

In the educational marketplace, accurate and detailed information about a community and its educational needs is just as important to spur the development of quality school options. While it is clear that there is demand for better educational options, particularly in low-income, urban neighborhoods, what is missing is a more sophisticated understanding of that demand.

Fortunately, the amount and availability of information on school performance has increased dramatically in recent years. The general public can now access annual reports detailing school attendance, test scores, and graduation rate data, often broken down by students' race, income, and gender. This information is often sufficient to determine if there is demand in an area for a new school—if nearby schools are low-performing, school operators can often assume that demand exists for a new option. It can be used by charter school authorizers in assessing where new schools are needed or by school districts deciding where to open new schools.

But school performance reports still don't provide all the information needed to maximize the quantity and quality of new education providers. Absent information on the availability and quality of after-school services, tutoring, child care, and even students' health care, performance reports are insufficient for designing a market that does more than just plug low-performing holes in school districts.

Some education organizations are starting to fill in these gaps. Communities in Schools (CIS), a national organization that coordinates community providers to assist schools, uses a comprehensive community needs and assets assessment as an early step in the process of determining which services communities need, which are already being used, and how existing services could be better utilized. This assessment is then repeated annually and the results feed into decisions about CIS operations at each school site, including which services will be provided and how those services will be delivered. CIS brings together providers across multiple types of services, from health care to volunteer tutoring, in an effort to address students' needs and help schools improve academic performance and reduce high school drop-out rates.

Much like Social Compact's strategy of using multiple sources of data, CIS examines a range of data about each school and community, including assessments of student performance from the school system and information on community and student demographics. This information is combined with focus groups and structured interviews with members of the school community, including teachers and parents, and other stakeholders, including community providers and leaders. By conducting an in-depth assessment of each community before starting work and updating that information annually, CIS is able to better target its resources and identify the highest priority services.¹⁵

Districts, charter school authorizers, and school operators looking to open a new school would benefit from a similarly comprehensive analysis of the educational needs and assets in communities. Such analysis would allow officials to take advantage of a neighborhood's positive features while also addressing its needs, helping determine not only where schools should be located, but what types of schools are needed and the community connections that can be harnessed to help new schools succeed. Just as district officials, authorizers, and new

school operators need to understand if a community is struggling with high school graduation, math achievement, or truancy, they also need to know whether the community has, for example, a strong after-school program, an active parent organization, or community-based organizations able to offer tutoring and academic support services.

Mapping the Market

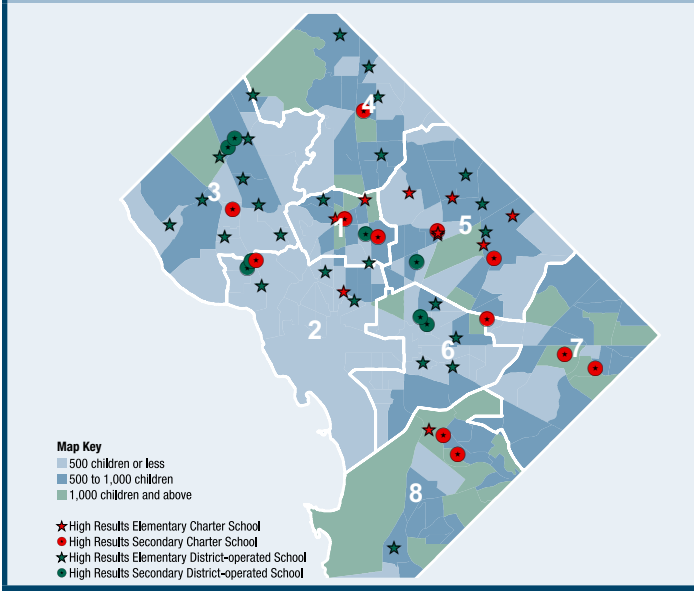
Comprehensive and accurate information about a community can also galvanize the community to press for new business investment. After presenting community and city leaders in Philadelphia with information showing the impact of inadequate access to fresh food on local residents' physical health, the Food Trust, an organization that advocates for access to healthy food, was able to create demand for new supermarkets.¹⁶ The Food Trust's 2001 report mapping diet-related illnesses, such as diabetes, obesity, and heart disease in Philadelphia and linking those illnesses to the unequal distribution of grocery stores throughout the city helped build support for a statewide financing initiative to recruit grocery stores into low-income, underserved areas in Pennsylvania.¹⁷

Mapping the educational marketplace can provide school operators and district leaders visual evidence of where education reform dollars should be spent, where new educational options are needed, and where community partners are available. And it can spur community leaders to support new school options in the neighborhood by demonstrating how high-performing schools are unequally distributed across the area. As one Pennsylvania state legislator said in response to the Food Trust's report, "I already knew that there was a problem. The map just made it real. ... It was like an exhibit in a courtroom."¹⁸

Some cities are already using data and maps to drive the supply of new schools and build demand. In 2004, IFF (formerly the Illinois Facilities Fund) published a report mapping school performance against neighborhood locations and student enrollments. The report identified the top 25 communities in need of high-performing school options and helped inform the process Chicago officials use to recruit new school operators into high-need neighborhoods.¹⁹ Just as data on the health status and lack of fresh foods pushed Philadelphia leaders to bring grocery stores into underserved neighborhoods,

Mapping the Options

Washington, D.C., has the second highest charter school market share in the country, with 36 percent of its public school students enrolled in charters. But residents in the city's Southeast area, particularly in Wards 7 and 8, are still looking for better options. This area houses only two high-performing elementary schools, despite having the highest concentration of school-age children in the city.



Source: Data on high-results schools come from 21st Century Schools Fund, Brookings Institution, and Urban Institute, *Quality Schools and Healthy Neighborhoods: A Research Report* (Washington, DC: DC Office of the State Superintendent of Education, September 2008). Data on child population are from the D.C. 2000 Census Tracts data set, available at the Office of Chief Technology Officer, D.C. Geographic Information System.

the IFF report was able to clearly present data on the lack of quality educational options and help target city and community responses.²⁰

COMMUNITY CONNECTIONS

Numbers are just the beginning of truly understanding the needs and assets of underserved neighborhoods. Reformers also need on the ground details about community needs and preferences. As the grocery industry has learned, this niche-specific information is crucial to a successful business, particularly for those operating in neighborhoods with changing ethnic populations and changing demands for food products. Detailed information about community needs and wants helps stores understand their customers and the community decide which store will be the best neighbor.

Unique Partnerships

On the ground community analysis and involvement has led to the success of the NCC Pathmark grocery store in Newark, N.J. The store is the result of a unique partnership between the New Community Corporation (NCC), a faith-based community development corporation, and Pathmark, a retail grocery chain. When it opened in 1990, it became the first supermarket to open in the community in a generation.²¹ During the 1960s and 70s, supermarkets left inner cities like Newark in droves as people moved to the suburbs. The suburbs offered large supermarket chains more space at a cheaper price, allowing them to build parking lots and stock more food.²² With slim profit margins, volume is key to success in the grocery store business, and the suburbs offered the perfect venue for a new, larger grocery-store format—more shelves could be stocked with more items, and large parking lots allowed customers to load their cars with multiple bags of groceries. This trend continued into the 1990s, with the end result being urban “food deserts,” or communities with little access to fresh, nutritious foods.

Pathmark and NCC entered into an unusual joint ownership agreement in order to maintain community involvement in the store. In exchange for a substantial initial investment, NCC gained input into the store's operations and subsequently fulfilled its mission to establish a store rooted in the community. The arrangement has benefited Pathmark by creating a sense of ownership in the store among residents. Pathmark has been able to better understand its customers and offer products and services that both increase sales and meet the needs of residents. “In inner-city neighborhoods ... if you have a community group that supports your efforts and is willing to fund some of the project and share the risk, the store has a significantly greater likelihood of success,” said Pathmark's director of public affairs and government relations in a 2002 profile of the NCC-Pathmark partnership.²³ NCC also contributed to Pathmark's success by helping to screen and recruit employees, saving Pathmark on hiring costs and ensuring that a large percentage of employees were from the neighborhood.

Strong community relations are essential for grocers looking to invest in inner-city neighborhoods because the perceived desertion of the inner-city by supermarkets has left many residents in these areas feeling distrustful of new grocery stores seeking to enter their community. Thus, as

grocery stores like the NCC Pathmark store have begun to re-enter inner-city neighborhoods, they have had to learn some key lessons about establishing a successful store. Stores need to be highly attuned to customer feedback—getting out into the community, providing opportunities for customer input and suggestions, and establishing strong relationships with community-based organizations. They need to allow more flexibility in operations to accommodate diverse customers—the cookie-cutter approaches that work in suburban areas no longer apply. Such strategies have helped stores adapt to changing customer needs, overcome some of the distrust of new retail development, and become a central part of the neighborhood—all of which can boost sales, lower crime, and improve hiring and training.²⁴

Charter schools in particular must market their school to the community and gain support during the school planning stage. That means reaching out to community leaders and establishing a channel for community input. School choice reforms are often *premised* on the idea that choice will provide communities with a louder and more influential voice in educating their children. Yet, despite this focus on community in the rhetoric about choice-based reforms, discussions on the role of market forces in fostering a quality education system rarely touch on the role community involvement plays in developing a successful educational marketplace.

Lessons From Oakland

The lessons learned from the NCC-Pathmark partnership—form strong community relationships and regularly get feedback from residents—are relevant to school reform. The experience of Oakland Community Organizations (OCO), a community organizing and advocacy group in Oakland, Calif., highlights the valuable role a strong community organization can play in implementing and sustaining successful school reform.

OCO initiated a campaign in the late 1990s to address severe overcrowding in Oakland’s public schools, much like NCC initiated efforts to bring a supermarket to Newark. Seeking to increase the number of quality school choices available to Oakland families, OCO organized the community in support of charter schools and, ultimately, small schools reform, which created new school options in Oakland by breaking up existing, large schools into smaller, autonomous schools. OCO began its efforts

working outside of the Oakland Unified School District (OUSD), but ultimately, along with a partner organization, the Bay Area Coalition for Equitable Schools (BayCES), worked with the district to implement a districtwide small schools policy. OCO played an essential role in bringing the community’s voice to the policymaking process. Also, through its organizing efforts and connections with parents, schools, teachers, and students, OCO helped implement and sustain the policy.²⁵

Just as NCC leveraged its community connections to help build a successful grocery store in its community, OCO has created new school options in Oakland. Involving the community as OCO did can mitigate inevitable resistance to change and help sustain reforms through changes in district leadership. It may also lead to better results in the classroom. While research on the effectiveness of small school reforms in other districts shows mixed results, Oakland’s small schools initiative has shown improved student achievement, lower drop-out rates, and teacher and student reports of improved school climate and stronger professional cultures in schools. OUSD credits OCO with maintaining the energy needed to sustain the reform, especially through times of fiscal and political uncertainty, and for the ultimate success of the small schools initiative.²⁶

For a school choice marketplace to truly meet neighborhood needs, it is critical that the community participates in the marketplace as both supplier and consumer. Districts should do more than just solicit community input during the initial process of recruiting and opening schools; they should also create and sustain avenues for community organizations and members to start their own schools and develop partnerships with school operators. OUSD, in response to the positive results from OCO’s community engagement efforts, institutionalized community feedback by creating a Chief of Community Accountability position responsible for including community input in district planning.²⁷

FUNDING FLEXIBILITY

Good information and strong community support are two critical resources to developing a supply of good schools, but without the financial resources for start-up and capital costs, policymakers will find it difficult to recruit new school operators. In the case of grocery stores,

government intervention in the form of tax incentives and community investment funds have prompted operators to take the risk of building new stores in low-income neighborhoods.

Pennsylvania's Fresh Food Financing Initiative is one of the best examples of how government incentives can successfully stimulate development in low-income areas. The Food Trust's report on the lack of access to fresh foods and the associated detrimental health effects jump-started the initiative. Following the organization's advocacy efforts, the state allocated \$30 million to a fund to meet the financing needs of new supermarket operators. The state money was leveraged 3:1 by The Reinvestment Fund, a community development bank, through private funds and the New Markets Tax Credit, a federal program that encourages investments in low-income areas.²⁸ The initiative uses this pool of money to provide start-up grants and loans to grocery store operators to locate in underserved communities. And this funding is flexible—the Fresh Food Financing Initiative helps grocery stores at multiple stages of development, from pre-development planning costs and construction to work-force development.

So far, 68 grocery stores have opened or have been renovated, providing 400,000 more residents with access to fresh food.²⁹ Twenty-three of the stores opened in Philadelphia alone, where the highest income areas had 156 percent more food markets than the lowest-income areas. All of the grocery stores are independent operators, either single stores or locally owned chains of two to 17 stores.³⁰ The overwhelming presence of independent operators was not by design. But it appears they were the ones who needed the support and were willing to take the risk of locating in a new community. This suggests that the biggest obstacle for large chain stores isn't capital costs, but is the willingness to adapt business models and take the risk of operating in low-income areas.³¹ Large supermarket chains may have the money to invest in new stores, but often don't have the flexibility to adapt to community needs in order to be successful.

While schools do not need to turn a profit to be successful, they do, much like a new business, require investments in facilities and start-up funding to plan, hire staff, and purchase supplies. A school may have an excellent educational plan, but without adequate financial support in its first years, it is unlikely to thrive and grow. Incentives in the form of financing and planning

support are an important tool to recruiting high-quality school operators and to ensuring that those schools are ultimately successful. The federal government provides charter schools with a valuable source of start-up funding through the Charter Schools Program, which provides grant funds to states to support the planning and start-up of new charter schools.

Several states also provide such funding. New York State provides grants of up to \$200,000 for charter school facilities costs through the Charter Schools Stimulus Fund. Charter schools in California can apply for up to \$250,000 in low-interest loans for start-up costs through the Charter School Revolving Loan Program. Independent, nonprofit groups have also stepped in to provide funds for charter schools—the IFF provides charter schools with low-cost loans and financing through tax-exempt bonds as part of its Charter Schools Capital Program, and the Innovative Schools Development Corporation, a nonprofit organization in Delaware, has expanded its programs beyond providing financing to charter schools to include incubator services to assist with the application process and planning of new schools.

In the world of school choice, charter schools are usually the new operators entering an underserved community. Even large charter management organizations face challenges in finding start-up funding and financing for facilities. But the independent, one-off charter schools face the biggest challenges—these schools don't have the track record, fundraising capacity, or credit to gain access to large loans or grant funds. And yet, like independent grocers, they may have the flexibility and community ties needed to locate in an underserved area, and they may best understand the educational needs of that community. Policymakers should ensure, through loan and grant fund programs, that independent schools have the financial support they need to enter the education market. Adequate financial support will help to ensure that new educational options are based on the quality of proposals, rather than which schools or programs have the money needed to get started.

Supporting Niche Providers

Nonprofit financial organizations can be important intermediaries in getting access to start-up funds for new schools or education providers. Organizations like IFF or The Reinvestment Fund, which supports charter school

facilities development, along with the Pennsylvania Fresh Food Financing Initiative, are examples of organizations that are able to leverage public incentives like the New Markets Tax Credits and the Department of Education’s Credit Enhancement Program to encourage private investments in new school development. These intermediary organizations are critical to the development of a strong supply of new education options at the local level.

Financing options, however, aren’t always enough to recruit a new school operator, or, as the Food Trust found, to spur grocery store investment in a community. Some communities are too small to warrant a large, full-service supermarket, and others don’t want a large grocery store to open in their neighborhood. And in some cases, physical space might not be available—both full-service grocery stores and schools generally require large, specialized spaces, and sometimes it is impossible to find a suitable location. Even with the best information about community demand, school operators may be unable to find the space to open a new school in every needed location.

Thus, The Food Trust utilizes multiple strategies beyond just building new, full-service grocery stores for achieving their ultimate goal—bringing fresh food to underserved areas. The Food Trust supports, through the Fresh Food Financing Initiative and other programs, projects to establish farmer’s markets, community co-ops, and improvements to existing grocery stores.³² The Food Trust also provides technical support to corner stores as part of its Healthy Corner Store Initiative, helping those stores sell more fresh fruits and vegetables by consulting with them on strategies for stocking and profiting from fresh foods, getting the necessary equipment for storing fresh foods, and by promoting the new offerings and launching information campaigns in the neighborhood and nearby schools to promote interest in and demand for fresh foods.

Rather than focusing solely on new, “whole school” solutions to serving communities, policymakers can learn from the efforts to bring fresh foods into low-income neighborhoods—and the flexibility needed to be successful. While a neighborhood may not be able to get a new school to open, it can still improve educational options and student achievement by supporting a broader range of strategies. As Hess and Bruno Manno, of the Annie E. Casey Foundation, describe in the 2008 *Hopes, Fears, and Reality* publication about charter schools, the current emphasis on “whole school” operators—operators

that provide a fully functioning school, from classroom instruction to lunch service—excludes the potential value in creating a more dynamic marketplace for smaller, niche providers that can build expertise in one area, such as tutoring companies, after-school programs, or textbook and curriculum providers.³³

Many of these alternative providers already exist and operate in the school system—tutoring companies provide students with additional support through federal funds for supplemental educational services, many states have invested in virtual schooling, and states and districts have experimented with different pathways to a high school diploma for those students at risk of dropping out. But these services are rarely seen as part of a larger education marketplace and do not receive the same attention or financial support as “whole school” solutions. Data that provide a richer, more nuanced understanding of student and family needs can help district leaders and funders target resources not just to schools, but smaller, niche education providers that can be opened, expanded or improved to address specific community needs, such as preventing high school drop-outs or improving math achievement. By effectively supporting and utilizing niche operators, community leaders can create a more nimble source of innovation and responsiveness in the education market.

INFORMED DEMAND

Discussions about quality in markets often focus on the supply-side—how to build high-quality options. But equally important is building high-quality demand—the ability of consumers to identify and select good options.

While convenient access to mainstream banks remains an obstacle for many low-income, inner-city neighborhoods, the primary obstacles to mainstream banking lie in the complicated nature of consumer demand—lack of information about the true costs of fringe banking services, a distrust of mainstream banking, and the belief that mainstream banking services aren’t designed to serve low-income customers.

It is more expensive to use fringe banking services like check-cashing outlets, short-term lenders, and pawn shops instead of mainstream banks to carry out day-to-day banking needs like paying bills and accessing credit.³⁴ But unbanked individuals—people who do not

participate in mainstream banking—continue to use these services despite the higher cost. Often, it is because they aren't aware of the lower cost options available or simply do not want to interact with banks. The 2007 Federal Reserve Survey of Consumer Finances found that the most common (25 percent) reason families gave for not having a checking account was that they did not like dealing with banks. Respondents also felt that they couldn't use a checking account: 19 percent reported that they didn't write enough checks; 10 percent reported that they didn't have enough money, or were deterred by the costs; and 12 percent reported that service charges were too high.³⁵ Issues of trust, usefulness, and cost clearly outrank convenience as a primary reason families remain unbanked—less than 1 percent reported that inconvenient locations or hours were the primary reason for not having a checking account. (See “Softer Side of Demand” sidebar on page 11.)

Some may argue that the presence of fringe banking services is actually an example of a market working quite well—these services are responding to the demand for non-mainstream banking options and are providing convenient access in areas with large customer bases. And fringe banking services provide quick, convenient access to funds for individuals whose finances don't fit the mainstream banking mold. These services are marketed to low-income individuals and may actually be less costly in the short-term than the overdraft and account maintenance fees charged by some banks. But over the long-term, the ability to accumulate wealth through mainstream checking and savings accounts far outweighs the potentially lower, short-term costs associated with fringe banking services.

The challenge, then, in developing a better marketplace is to build demand for mainstream banking services by accurately communicating the costs and benefits of fringe and mainstream banking to “unbanked” customers, and by using better information about mainstream banking services to break down the trust barrier that keeps many unbanked families from opening a checking account. Banks also need better information about the needs of low-income customers—this information can help banks develop products that compete with fringe banking services and effectively market those products to unbanked customers. Through a combination of community, private, and public sector initiatives, advocates have been able to create a better functioning and more competitive market for financial services in low-income neighborhoods.

Breaking the Knowledge Barrier

The city of San Francisco, for example, in collaboration with a local nonprofit, the city's financial institutions, and the Federal Reserve Bank of San Francisco, launched “Bank on San Francisco” in 2006 in an effort to expand access to mainstream banking services among low-income residents. Bank on San Francisco provides low-cost checking accounts to unbanked households and also provides financial education to help individuals learn how to manage bank accounts.

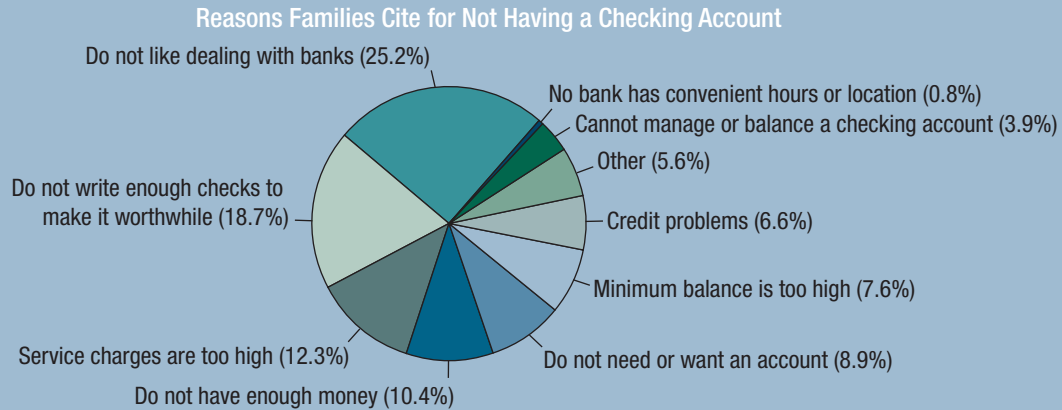
The initiative also included an advertising campaign to inform unbanked individuals about the costs of using fringe banking services and the benefits of checking and savings accounts, using slogans such as “Check Cashing Drains Savings,” “Check Cashing Rips You Off,” and “Check Cashing Shrinks Your Paycheck.” The advertising campaign also used catch phrases to promote the new initiative, including “Now You Can Open a Bank Account” and “Everyone Is Welcome,” in an effort to combat some of the reluctance among this population to trust and use mainstream banks. Banks benefit from the marketing campaign associated with the initiative, get access to research and guidance on the types of accounts that will benefit and attract unbanked individuals, and get credit under the federal government's Community Reinvestment Act, which encourages banks to serve low-income neighborhoods.³⁶

There were approximately 50,000 unbanked residents in San Francisco when the initiative began, and by the end of 2007, Bank on San Francisco had opened 11,000 new accounts. The accounts are doing well, with an average balance of \$850.³⁷ The program has been so successful that the National League of Cities decided to expand the initiative into other cities, with the goal of making it a national model.³⁸

In a school choice market, as in banking, lack of knowledge can lead consumers to make poor schooling decisions. Research indicates that parents can be very active choosers and gather information through school visits, attending school fairs, talking with other parents, and through official reports on school performance, particularly in “mature” school choice markets, where choice among public schools is well-established. But research also shows that the lowest-income parents, who may not have access to well-informed peer networks, engage in less extensive data gathering and base their choices more on school familiarity and proximity than measures of academic quality.³⁹

The Softer Side of Demand

According to the 2007 Survey of Consumer Finances, 10 percent of families reported not having a checking account. Among these families, the majority (63 percent) are in the lowest income quintile. Yet, not having enough money was cited by only 10 percent of these families as the reason for not having a checking account. The most common reason was that they do not like dealing with banks.

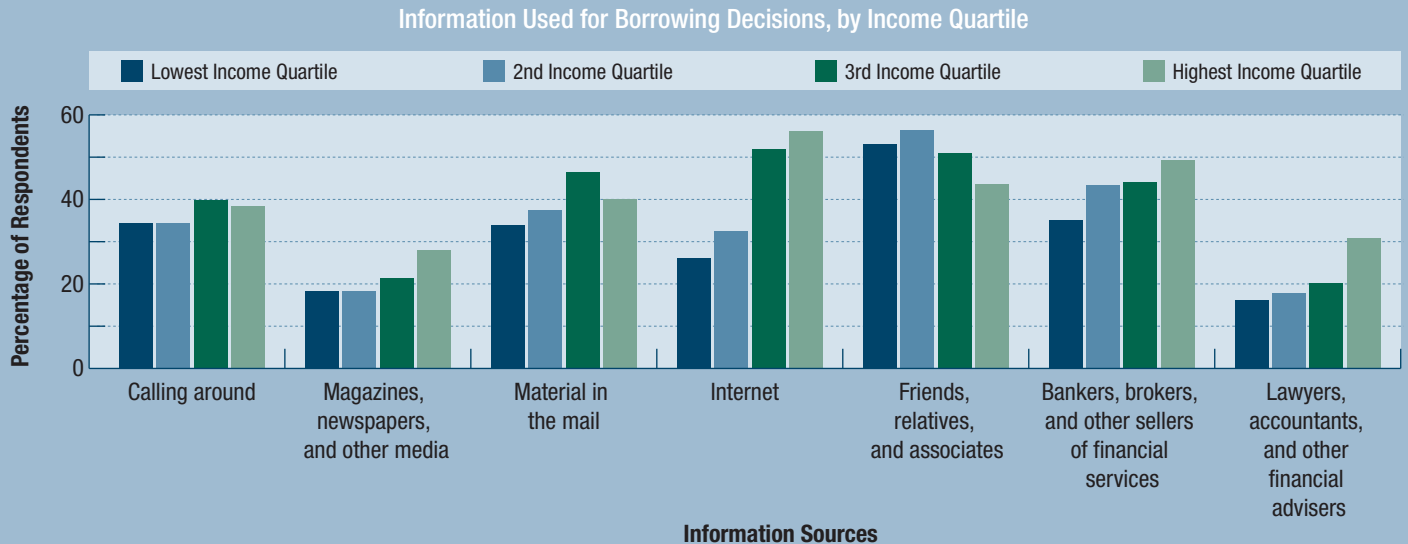


Source: Brian Bucks, Arthur Kennickell, Traci Mach and Kevin Moore, *Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances* (Washington, DC: Federal Reserve Board, February 2009).

As the Survey of Consumer Finances indicates, people make decisions based on a range of factors, from hard numbers to familiarity and trust. Research on school choice shows similar patterns in decision-making—parents do look at official data on school performance, but they are also likely to rely on “softer” information sources, including social networks and familiarity with the school.

The Survey of Consumer Finances also asked about the information sources people rely on to make financial decisions, and the results highlight the importance of social networks in that process, particularly for lower-income groups.

Friends, relatives, and associates were the most common source of information on borrowing decisions for respondents in the lowest two income quartiles. While social networks remain an important source for respondents in the top income quartiles, those respondents were more likely to mention other sources as well, including financial professionals, the Internet, and written materials.



Source: Author analysis of data from the 2007 Survey of Consumer Finances, using the Federal Reserve Board Tabling Wizard.

Clearly, the information sources people use to make financial decisions will differ from the information sources used to make schooling decisions. But the survey highlights the importance of identifying where families, particularly lower-income families, are getting information. Knowing the most important sources of information and how those sources vary based on family characteristics will help choice advocates, school leaders, school districts, and states create targeted and more effective outreach and public information campaigns.

Some school districts have created parent information centers and hold annual school fairs, and information about school performance is increasingly available online and through school report cards. But parents still often rely on “softer” information and practical realities about schools, like their familiarity with the school, the school’s physical appearance, and opinions from other parents. Previous research on school choice has found that parents’ social networks are an important and influential source of information about school options.⁴⁰

While valuable, the softer information is unlikely to drive academic quality in a marketplace and is more likely to lead to inequities in the market, as social networks, proximity to schools, and familiarity with schools skew the choice set from which parents select a school.⁴¹ Parents with more knowledgeable social networks or who are in closer proximity to a high-quality school are likely to gain access to higher-performing schools. And among low-income families, who may not have a social network that is as well-informed or well-connected as moderate or high-income families, choices may be more limited and of poorer quality.

With the Bank on San Francisco initiative, it was not enough for banks to simply offer a better product for low-income customers. The city also had to encourage and help banks reach out to those customers to inform them of the available products and break down some of the trust barriers that kept unbanked customers from opening accounts. Choice advocates need to launch similarly proactive public outreach campaigns targeted especially to low-income families to help inform parents of their ability to choose a school and promote the use of information on school performance, like test scores and graduation rates, in decision-making. This outreach can encourage parents to participate in school choice and teach parents about what they should expect from quality schools. It can also help to counteract some of the inequities that arise when parents’ and children’s choices are limited by their experiences and social networks.

The Black Alliance for Educational Options (BAEO), an organization that advocates for increased school choice, has adopted a proactive approach to both inform parents of their options and promote specific school choice initiatives. BAEO has used radio and television advertisements as well as on the ground tactics such as distributing flyers and reaching families in churches and community gathering places. As part

of its campaigns, BAEO has used slogans like “School Choice Is Widespread, Unless You Are Poor” and “Give Parents a Choice, Give Children a Chance” to promote choice among low-income parents, and it has used grassroots organizing strategies to inform parents of their right to transfer schools under the federal No Child Left Behind law. While their methods and message have been controversial, these campaigns have been successful in increasing interest in choice initiatives.⁴²

Flexibility in Location, Services

In addition to educating customers, banks have found that they need to be flexible in where they locate and with the services they provide in order to be successful in inner-city, low-income communities. Convenience is an important factor in driving demand in these neighborhoods because of the proliferation of fringe banking services. Yet, opening a new branch can be costly and risky because residents may distrust or resist new banking institutions entering their community. In response to these challenges, some companies have used alternative strategies to reach unbanked customers, including partnering with existing retail outlets such as grocery stores, designing new products for their low-income customers, and even combining fringe banking services with more traditional mainstream services.⁴³

The Union Bank of California, for example, designed a new retail brand called Cash & Save, which combines check-cashing services with banking products such as savings and checking accounts. Union Bank began opening its Cash & Save locations in 1993 and found that by 2001 40 percent of its regular check-cashing customers also used the mainstream banking services.⁴⁴ But Union Bank didn’t stop there. Seeing an economic opportunity in inner-city areas, it partnered with a credit counseling organization and an existing check-cashing outlet to expand its reach and offer mainstream banking services to more unbanked, inner-city neighborhoods. Several banks and credit unions have replicated this strategy of combining services.⁴⁵

Another important way to target customers is to locate banking services in the places they already go, like grocery stores. According to the 2008 Center for Financial Services Innovation Underbanked Consumer Study, 31 percent of unbanked respondents listed supermarkets as their preferred outlet for financial transactions, higher

than any other category.⁴⁶ Banks have responded to this information and are increasingly located in grocery stores and other retail outlets. The strategy benefits both the stores, who can draw customers by offering banking services, and the banks, who profit from the cross-marketing.⁴⁷ Wal-Mart, for example, began opening money centers in its stores in 2004. According to Wal-Mart, 20 percent of its customers don't have checking accounts—roughly 27 million people.⁴⁸ Wal-Mart saw the profit potential of serving these individuals in a location they already visit and trust and began offering financial services designed and priced to meet the needs of its unbanked customers.

Flexibility in location and services is a strategy that can benefit education providers as well. Just as banks can offer their services in grocery stores or neighborhood check-cashing outlets, education providers, including schools of choice, can reach out and offer alternative versions of their services in community centers or even neighborhood schools through partnerships. This can include after-school programming, tutoring, and adult programs, or possibly partnering with another school to provide a particularly innovative math or science curriculum.

The key element to introducing a wider range of options and getting individuals to take advantage of those choices is to reduce, as much as possible, the barriers to participating in choice. And for families who are unfamiliar with school choice, or who are reluctant to choose a school other than the nearest option, alternative, less risky choices may be effective stepping stones. Rather than a family needing to make the large and difficult investment of transferring to a new school, they could start small with supplemental services or after-school programming, thereby accessing choice with a lower investment. This strategy also encourages more diversity in education options and expands the definition of school choice from only brick-and-mortar schools to include part-time programs, virtual learning, after-school, and tutoring.

20 YEARS LATER

An equitable and high-quality school choice marketplace requires direct action on the part of school district leaders, community organizations, individual schools, and families. District leaders and community organizations need to ensure that schools, charter school authorizers, and

communities have the information they need to determine where high-quality schools are absent and which schools best fit with community needs. These organizations can also leverage financial support for new schools to open. In neighborhoods where an entire new school may not be needed or wanted, community leadership can partner with district leadership to determine the educational assets that will best help student achievement—tutoring, after-school activities, or in-school academic support. And individual schools can work in concert with community leaders and organizations to build the strong community connections necessary for a sustained and successful school.

Leaders also need to take steps to promote informed choice among parents, focused on school quality. If moderate and higher-income parents have better information and are making more sophisticated choices, it is virtually guaranteed that the school choice market will be inequitable and quality will suffer. In addition, an education marketplace doesn't need to be confined to brick and mortar schools—lower investment forms of choice, including tutoring and after-school programs, can be used to meet student needs and provide an entry point for families utilizing choice in the public education system.

Nearly 20 years after the school choice movement was launched, advocates have yet to witness choice as a panacea for the problems of urban education. The reality is that supply and demand are more difficult to manufacture than originally conceived and are unlikely to fully develop on their own. When families don't have, or don't use, information on school quality, there is little competitive pressure to improve the academic quality of schools—and the result, as we have seen in some cities, is long waiting lists for low-performing schools of choice.

The argument for school choice hinges on both having high-quality options and building demand for academic quality. In order to pressure all public schools to improve and to raise student achievement overall, school choice reforms need to not just increase the supply of *any* schools. They need to increase the supply of *good* schools, and parents who know how to find them.

RECOMMENDATIONS

As district and community leaders approach the prospect of an expanded marketplace of schools, they would be well-served by examining the experiences of industries already operating in inner-city communities and incorporating the following strategies for proactively developing a functioning market.

- **Map the quality of the education market**, including both neighborhood needs and strengths, and update this information annually. This can help leaders recruit new education providers to needed areas, build awareness in communities of their own needs, and better target interventions.
- **Establish a financing initiative** to bring new schools and education providers to communities that need them. By providing start-up and capital funds to schools, districts and community organizations can eliminate barriers to entry, particularly for independent schools and providers, and can tie this financing to the quality of proposals, thereby building in an incentive for high-quality supply.
- **Initiate a coordinated information campaign** to build knowledge of school choice and available options and to help guide parents on the best sources of information about school quality. An information campaign should target low-income families and should include mass media efforts, as well as on the ground outreach at community gathering places.
- **Think outside of the schoolhouse.** Communities can meet their need for fresh food through a variety of outlets, not just large, capital-intensive grocery stores, and banks can locate in places that are convenient and trusted by residents. Similarly, education providers and school districts can be creative in how they reach and serve low-income, inner-city families. Rather than investing in a new school, which can be expensive and even unwanted, some neighborhoods can be served through alternative providers or by supplementing and improving existing school services.
- **Start small.** Thinking outside of the schoolhouse can also help to build informed demand among families. Rather than asking parents and students to make the big investment of changing schools, a complicated and stressful decision, other, smaller options can be available to serve students. These smaller investments

can introduce families to the idea of school choice and begin to build consumers who can make sophisticated and informed decisions about academic quality and educational needs.

- **Make sure the community is involved**, at the school, local and/or district level. Wherever the initiative comes from, strong community partnerships are critical to ensuring that new schools and new education providers are successful. Community involvement is also essential to providing important on the ground information about community needs and wants, which can supplement official information on school performance.

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