California Charter Schools: Costs, Benefits, and Impact on School Districts

Districts must no longer pay to educate students who transfer to publicly funded charter schools but they must still pay costs that can’t be adjusted immediately as school enrollment changes. Since 2017 critics in California and nationwide have claimed charter school growth undermines school district finances and forces cuts in the quality of schooling districts can provide.

These claims have gathered momentum, especially in California districts, where in 2019 teachers unions made stopping charter school growth part of their collective bargaining agendas. As part of a settlement with the United Teachers of Los Angeles, the local school board released a statement in support of a temporary moratorium on charter school growth, and the State Superintendent of Schools has convened a task force to consider charter costs and the impact on school districts. The Legislature is now considering various bills on charter school policy.

Despite the level of political activity around charter schools, evidence about their growth and effects on district enrollment is fragmentary. One study has tried to estimate what it costs a district when students transfer to charter schools, but its methods and uses of data do not follow professional norms for cost analysis. As a result, public discussion is spirited but not well informed.

Because CRPE has done pioneering work on estimating and mitigating costs to districts in times of charter growth, we sought to provide the best evidence available for California in time to inform the current debate. We have written short briefs on three topics:

As charter school enrollments have grown, what has happened to district enrollment, statewide and in critical localities like Oakland and Los Angeles? Are charters the main drivers of enrollment loss, such that ending charter school growth will stabilize district enrollment? Or is enrollment decline a deeply-rooted phenomenon that will continue regardless of what happens with charter schools?

Does the loss of students to charter schools create escalating financial challenges for school districts, increasing the risk of fiscal distress as critics claim? Or can school districts adapt to changes in enrollment and meet their financial commitments in the face of enrollment loss? What factors shape school districts’ ability to navigate changing financial circumstances?
The claim that charter schools cause financial harm to school districts is a major element in the debate around charter schools in California. Critics allege that enrollment in charter schools drains resources from school districts, forcing them to make cuts to staff and services and eventually contributing to fiscal distress. The charge that enrollment loss causes harm to students instead of inspiring school districts to improve is a critical question and requires good evidence to answer.

This brief examines the relationship between charter school enrollment and fiscal distress in California. We find no evidence that charter school enrollments increase the likelihood of school districts entering fiscal distress. Prior research suggests a variety of factors contribute to fiscal distress and as a result, state policymakers are unlikely to find resolution to the problem in the charter sector.

Background

In California, as with most states, state dollars flow to school districts based in large part on the number of students they enroll.¹ As a result, enrollment loss—whether stemming from charter schools, interdistrict transfers, or demographic changes—translates into fewer dollars for the district budget. But whether school districts can adapt to these changes or instead are destined toward escalating financial difficulties as charter schools enroll more students is unclear.

Current research suggests enrollment loss from charter schools leaves districts with fewer dollars to support operations as “fixed” or “legacy” costs such as loan payments or retiree pension benefits consume larger shares of the district’s resources as enrollment declines.² Fixed costs are a problem because they remain the same even as a school district’s budget ebbs and flows in response to changing enrollments. However, any type of enrollment loss—whether caused by transfers to neighboring school districts or declines in the number of school-age children—can produce these

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1. Technically, state dollars flow to school districts based on average daily attendance—a metric that is influenced both by how many students enrolled and how often those students attend school.

negative fiscal impacts if school districts are unable to adapt expenses based on the smaller number of students. If enrollment loss to charter schools has large and distinctive fiscal impacts on school districts, we would expect to see a pattern of fiscal distress in school districts where charter schools enroll large numbers of students.

We examine the connections between enrollment loss to charter schools and fiscal distress in California school districts using the County Offices of Education certifications of school districts' financial status. “Negative” certifications mean the county has determined that the district cannot meet its financial obligations over the next two years, while a “Qualified” certification means the county has determined that the district may not meet its financial obligations over the next two years. Such certifications represent the main indicator of fiscal distress in California school districts and trigger increased state oversight of district finances, but they cannot capture all forms of financial strain on school districts.³ School districts can face financial difficulties that do not ultimately lead to fiscal distress, as when lower than expected revenues result in cuts to programs or services. Fiscal distress reflects the escalation of such difficulties to a point at which the school district can no longer meet its financial commitments.

No Evidence to Support the Claim that Charter Schools Are to Blame for Fiscal Distress in California School Districts

What does the landscape of fiscal distress look like in California? While school districts with a history of fiscal distress include the likes of Los Angeles Unified and Oakland Unified, where charter schools enroll a significant share of students, this isn’t the norm. On average, charter schools enroll just 3 percent of students in school districts that receive a negative rating from the County Office of Education.⁴ This is statistically indistinguishable from charter enrollment in school districts that are not in fiscal distress and those that receive a qualified rating. In other words, the average share of charter school enrollment does not significantly differ across school districts based on their financial status.

³ Assessing fiscal stress is part art and part science—and all measures of fiscal distress face limitations. These certifications represent fiscal sustainability over a relatively short time horizon (two years) and so do not capture challenges that are forecasted to emerge over longer time periods. Certifications also represent the culmination of challenges that may emerge earlier. For example, a district may engage in cost-cutting measures in the years leading up to the certification, which indicates financial strain but may not get captured in a qualified or negative certification. These limitations aside, certifications do not require us (the researchers) to make assumptions about how school districts can or cannot adapt to changes in their financial situation and instead rely upon the decisions of neutral, third-party arbitrators. We think this makes them superior than other possible assessments of school district financial health.

⁴ Charter school enrollment shares calculated based on the physical district in which the charter is located, excluding virtual schools, which typically enroll students far beyond the district boundaries in which they are physically located. For this figure, we use charter school enrollment in the year prior to receiving a qualified or negative rating since prior year’s enrollment most directly impact the current year’s budget estimates.
Charter schools have grown at an average clip of 0.5 percent a year since 1998. If growing charter school enrollments financially stress school districts, we would expect an escalating pattern of fiscal distress—with school districts entering distress and remaining there as the charter sector continues to enroll more students. The reality looks considerably different (see figure 2). Of the nearly 1,000 school districts in the state, just a handful have ever entered fiscal distress. The number of districts in fiscal distress has evolved over time, increasing during recessionary periods and decreasing during expansionary periods. Despite all-time high enrollments in charter schools, just 4 school districts were in fiscal distress in the 2018–2019 school year. This compares to an all-time high of 16 districts in fiscal distress in 2009–2010, during the height of the Great Recession.
FIGURE 2. Few California School Districts Face Fiscal Distress Despite Growing Charter School Enrollments

Source: Charter enrollment share based on district of physical residence, excluding virtual schools, as tracked by the California Charter School Association. Fiscal distress data from California Department of Education. Figure presents weighted averages for each designation in the years 1998 through 2019.

These long-term trends highlight another basic fact: many districts with large numbers of charter schools are not in fiscal distress. Between 1998 and 2015, an average of just 1.5 percent of school districts where charter schools enroll 10 percent or more of all students entered fiscal distress.

These descriptive patterns suggest that enrollment loss to charter schools is not closely connected to fiscal distress among California school districts. While a deeper analysis that fully controls for other, potentially influential factors is outside the scope of this study, we re-examined the relationship between charter schools and fiscal distress using a multivariate analysis approach. After adjusting for other factors, and consistent with the descriptive evidence, districts with larger charter school enrollment shares are no more likely to enter fiscal distress.⁵

⁵ Based on multivariate logistic and multinomial discrete time event models with year and district fixed effects and controlling for student enrollment (including enrollment for English Language learners, special education, and free or reduced-price lunch) and the change in school-age population. Results unchanged despite multiple alternative specifications. See Methodological Note for full results and details on data sources and measures.
Long-Term Fiscal Distress is Rare and Typically Caused by Financial Mismanagement

While examples of long-term fiscal distress dominate the newspaper headlines, the most dramatic examples of financial challenges are very rare. Most school districts exit fiscal distress rapidly, receiving a negative or qualified designation for just 2.8 years on average.⁶ Most school districts that show signs of fiscal distress recover: the County Offices of Education have handed out qualified ratings to school districts nearly 1,200 times since 1995; school districts advance to a negative rating just 0.02 percent of the time and among those districts, the average duration of fiscal distress is just 1.9 years. These statistics are all the more remarkable considering that school districts and the state government faced their worst recession since the Great Depression during this period, with substantial cuts to spending on schools. The number of districts that reveal persistent fiscal stress is tiny: just six school districts (Inglewood Unified, Healdsburg Unified, Oakland Unified, Travis Unified, Vallejo City Unified, and West Fresno Unified) posted a negative rating for four or more years, including one district (Vallejo City Unified) for nine years. While there is no doubt fiscal distress is caused by a complex array of factors, persistent cases like these highlight the role of financial mismanagement. Consider Vallejo City Unified, which was in fiscal distress longer than any other district in the state. There the issues included “grossly overestimated enrollment figures, underestimated salary expenses and approved union contracts they couldn’t afford.” According to auditor reports, similar issues have been found in Inglewood and Oakland—two other districts facing long term financial challenges.

Conclusion: Fiscal Distress is Too Important to Get Wrong

In light of growing financial challenges in some of the state’s largest school districts, the impact of charter schools on district finances is of growing concern to state policymakers in California. This brief suggests that the growth of charter schools has not contributed to fiscal distress in California school districts. This does not mean that charter schools cannot have negative fiscal impacts. Indeed, because the state funds public schools based on enrollments, enrollment loss—whether from charter schools or other factors—will necessarily translate into fewer dollars for school districts’ budgets.⁷ But we’ve shown that whatever fiscal impacts charter schools may have, they do not result in the types of financial challenges that dominate the news headlines. Indeed, school districts may be better positioned to adapt to changing financial realities than many have assumed.

Experience and evidence suggest that fiscal distress is a product of multiple factors and reflects an accumulation of prior decisions. Inaccurate enrollment and budget projections and inadequate accounting systems leave budgeting to guesswork and often prevent course corrections. It also reduces people’s trust in the budgeting process, including employee bargaining units that perhaps rightfully take district budget claims with a grain of salt when negotiating new collective bargaining agreements, thereby reinforcing unsustainable financial commitments. Stopping the growth of charter schools will not address these issues, which much more directly shape how school districts manage money.

Nor will it address the litany of financial pressures facing California school districts. While many school districts in the state have posted their largest budgets ever, thanks to historic state investments in K–12 education, other shifts are influencing school districts’ financial situation. Rising pension and health care costs, special education expenses, and teacher salaries are putting pressure on school districts’ bottom lines. And many districts will continue to face declining enrollment whether charter schools exist or not. Policymakers concerned with preventing fiscal distress in school districts should focus their considerations on the broad array of factors that contribute to financial problems and focus policy responses on addressing these issues. It is our belief that such an approach is more likely to put school districts on sound financial footing.

6. On average, districts received a qualified rating for 3.6 years and a negative rating for 1.9 years.
7. Paul Bruno finds charter schools have a modest effect on school district fiscal stress, as measured by district budget reserves. See Bruno, “Charter Competition and District Finances,” Journal of Education Finance (forthcoming).
Methodological Note

This brief examined the relationship between the share of students enrolled in charter schools and fiscal distress in California school districts, as measured by certifications provided by the County Offices of Education. Measuring the financial impact of charter schools is no easy assignment and researchers have relied upon a variety of methods and approaches.

Our approach uses data on fiscal distress collected from the California Department of Education using second interim status reports. Districts’ financial status is rated based on whether they can meet their financial obligations for the next two years. A qualified certification indicates that the County Office of Education has determined the district may not meet its obligations while a negative rating indicates that it has determined the district will not meet its obligations. While this is the primary way California assesses fiscal distress in school districts, it does not capture all forms of fiscal impact. School districts can face financial strains that result in cuts to programs and services without receiving a negative rating. The measure also relies on a relatively short time horizon of two years. School districts forecasted to renege on their financial commitments over three or more years will not be captured by these data. An alternative approach, taken by Paul Bruno in his consideration of the fiscal impact of charter schools in California, is to rely upon other empirical measures of financial strain. This could include fund balances or deficit spending, for example. These measures will necessarily capture a broader range of financial challenges than our fiscal distress indicator but they will ignore how changes in spending shape school districts’ financial status and whether they can meet their commitments.

Despite these limitations, we think our measure is superior to analytic approaches that require assumptions about how districts can or will adjust to students enrolling in charter schools, as is the case with several prior studies on this topic. Moreover, we believe assessing the relationship between fiscal distress and charter school enrollment is critical, given how prominently cases of fiscal distress like Oakland and Los Angeles have played into the public debate over the financial impact of charter schools.

Our primary explanatory variable is the share of students enrolled in charter schools, calculated for each school district statewide. To calculate this measure, we first determined each charter school’s physical location using data from the California Charter Schools Association. Note that students typically can enroll in a charter school regardless of their residential location. As a result, this measure may overestimate the share of students enrolled in charter schools for districts where charter schools enroll large numbers of students from outside the district or from private school alternatives, or underestimate the share of students enrolled in charter schools in districts where students are more likely to attend charter schools outside of their school district. Enrollment in virtual charter schools was excluded from calculations of charter enrollment shares because these schools are more likely to enroll students outside of the physical district in which the school is located.

9. In a related unpublished analysis, Randall Pozderna uses expenditure data to understand how California school districts respond to financial shocks. His analysis reveals that school districts are better positioned to adapt than many prior analyses find. See also Bifulco and Reback, “Fiscal Impacts of Charter Schools;” Ladd and Singleton, “The Fiscal Externalities of Charter Schools.”
10. “Common Core of Data, America’s Public Schools,” National Center for Education Statistics website. District enrollment calculated based on summing across school-level data. This step is necessary to ensure district enrollments do not include charter schools.
Our multivariate models also use a series of enrollment-based controls, including district enrollment, change in district enrollment, change in school-age population, percent of students eligible for free or reduced-price lunch, percent of students identified as English language learners, and percent of students identified for special education services.\(^{11}\)

**Analytic Approach**

While this brief relies primarily upon descriptive analysis of fiscal distress data in California, for robustness we also tapped a multivariate analysis strategy in order to control for other, potentially influential factors. Fiscal distress represents an event that happens over time; there are multiple strategies for analyzing such data, all of which present advantages and disadvantages. We rely upon discrete time logit and multinomial models to understand the relationship between charter market share and fiscal distress. These models estimate the probability a district will enter fiscal distress, as indicated either by a negative, in the case of logit models, or either a negative or qualified rating, in the case of multinomial models, conditional on a set of explanatory variables. The main difference between a discrete time logit/multinomial model and a traditional logit/multinomial model is the incorporation of censoring, which allows us to focus on how the explanatory variables shape the likelihood of a school district entering fiscal distress. This is important because once a district is in fiscal distress, subsequent cases of fiscal distress in the district are not independent from the first case and as a result, traditional logit/multinomial models may overweight cases of long-term fiscal distress. The disadvantage of these models is that they reduce variation in our dependent variable: while there are 142 instances of negative certifications over the time period we examine, there are just 91 cases of school districts entering fiscal distress with a negative rating. Similarly, the number of cases for qualified ratings is reduced from 1,073 cases to 601 cases. For robustness, we reanalyzed the data using a traditional logit and multinomial models for cross-sectional time-series data and the results do not differ from the ones presented here: we find no evidence that charter market share increases the likelihood of district fiscal distress.

The primary explanatory variable of interest is the share of students in a district enrolled in charter schools, though we also considered logged and squared specifications that allow nonlinear relationships between charter school market share and the probability of district fiscal distress. All explanatory variables were lagged one year so that the prior year’s indicator is predicting school districts’ financial status. Also included is a set of school year dummy variables to control for any statewide trends over time, as well as district fixed effects to control for any time invariant, unmeasured district characteristics. We also explored alternative measures of charter enrollment, looking at change in charter enrollment and percent change in charter enrollment—neither were statistically significant across any of the model options.

The descriptive and multivariate analyses show the share of students enrolled in charter schools are unrelated to the probability that a school district enters fiscal distress. A fuller exploration of fiscal distress might, to name just a few examples, include exploration of how school districts enter and exit fiscal distress and what factors shape how long they remain in this status, account for “contagion” effects that depend on geography and similarities over space, and consider variability in what explains fiscal distress over time. While ours is an admittedly simple analysis, it provides evidence on the question of fiscal impact at a critical time.

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\(^{11}\) Education Data Portal (Version 0.3.0 - Beta), Urban Institute website, Center on Education Data and Policy, accessed April 14, 2019, [https://educationdata.urban.org/documentation/](https://educationdata.urban.org/documentation/), Common Core of Data and SAIFE.


\(^{13}\) We also explored linear time trends and district-year fixed effects. Results for explanatory variables did not substantively differ. We prefer year-fixed effects here because of important trends in the data as a result of the Great Recession.
About the Center on Reinventing Public Education

CRPE is a nonpartisan research and policy analysis center at the University of Washington Bothell. We develop, test, and support bold, evidence-based, systemwide solutions to address the most urgent problems in K-12 public education across the country. Our mission is to reinvent the education delivery model, in partnership with education leaders, to prepare all American students to solve tomorrow’s challenges. Since 1993 CRPE’s research, analysis, and insights have informed public debates and innovative policies that enable schools to thrive. Our work is supported by multiple foundations, contracts, and the U.S. Department of Education.

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