

Do the Costs of California Charter Schools Outweigh the Benefits?

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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?

Assuming there are costs to charter school growth, how can members of the public and policymakers weigh these against any benefits to families, communities, and students attending charter schools? What is the weight of evidence for particular benefits, and the conditions under which they occur? How can costs be properly defined, and evidence about them weighted for importance and validity?

Robin Lake, Ashley Jochim, Paul Hill, and Sivan Tuchman wrote these briefs and take responsibility for their contents. Given the time constraints for informing the commission's and legislator's questions, we were limited to data available from earlier studies and from federal, state, and local databases, as cited in the three briefs.

We shared our drafts with independent peer reviewers, including Eric Hanushek at Stanford University, Randall Pozdena at QuantEcon in Oregon, Henry Levin at Teachers College, Patrick Murphy at Public Policy Institute of California, and Paul Bruno at the University of Southern California. Any errors or omissions are ours alone, but we are grateful for their suggestions which strengthened our analyses.

Much attention has been focused on the costs charter school enrollment imposes on school districts. Getting an honest answer to this question is important for school districts so that they may adjust their expenditures appropriately.

However, as Ladd and Singleton, the authors of a North Carolina [study](#) attempting to quantify those costs point out, a broader analysis of the societal benefits and costs associated with charter school policy also is needed to help policymakers assess the value of the policy and whether it should be continued or adjusted.

The stakes are high. Public education plays a critical societal function and the scale of investment is on par with health care. Charter schools are a significant reform movement aimed to promote innovation, improvement, and greater options for students. In California, charter schools now make up more than 10 percent of all public school enrollment and, as policymakers intended, are placing competitive pressure on school districts. State funding follows the student to public charter schools, just as if the student were moving from one district to another. This pressure, however, can require districts to reduce costs in ways that are not easily accomplished, while charter schools impose unique costs on school districts. Lawmakers have recently proposed bills to limit or stop charter school growth in California.

Sorting through these high-stakes questions requires careful consideration. At a minimum:

- Detailed discussion of societal benefits in addition to costs.
- Focused identification of costs and benefits that are unique to the policy (charter schools).
- Careful definitions of costs as resources dedicated to implementing the policy. Everything else should be considered as positive or negative effects. There may be upfront costs and long-term benefits.
- Measurable units and rigorous methodology. There are many hopes and fears concerning charter schooling. Nearly three decades into the charter movement, evidence now exists to determine the reality.
- Broad consideration of societal costs—not a narrow consideration of impact on a single institution, such as a school district.

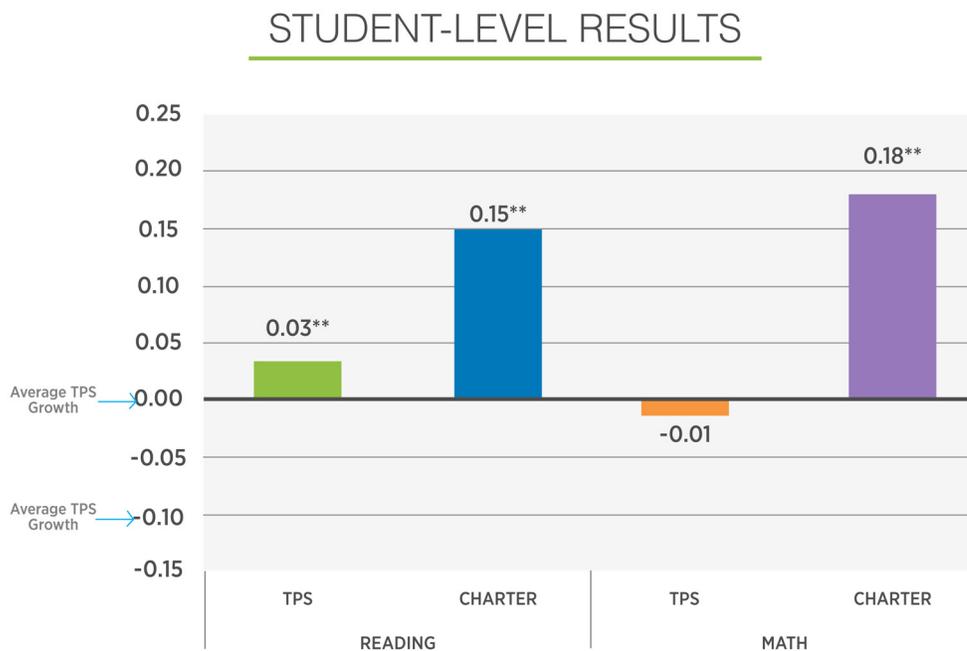
This brief offers a discussion of the types of benefit and cost issues that should be considered and points to evidence to inform those considerations. First we consider potential benefits, then costs, and finally how we might compare the two. This brief is not meant to be a definitive analysis, but rather a way to bring nuanced discussion and debate to politically laden issues. We argue that, on face, the public policy benefits of charter schooling in California are more evident than the costs. However, more data and benefit-cost analysis are needed to make a clear determination.

Measuring the Benefits of California Charter Schools

Educational Outcomes

The potential benefit of charter schools is fairly straightforward: society wants better-educated students, and especially better-educated students who have historically been underserved. The easiest way to measure this is to ask whether charter schools are doing a better job than district schools. Researchers have developed rigorous methods to answer that question fairly, using test scores as the most reliable indicator currently available for learning and long-term earnings. CREDO at Stanford, for example, has found that low-income, urban students attending Bay Area, South Bay, and Southern California charter schools (all areas that have been the focus of much discussion about fiscal impact) achieved significantly higher rates of academic growth than their peers in district schools. The academic advantage was shown to be strongest for black, Hispanic, and low-income students, groups that district schools have struggled for decades to help. In Central California, charter school students had weaker academic growth than district students. Figure 1 shows the average academic growth rates by type of school.

FIGURE 1. Average Academic Growth for Charter School Students Relative to Performance of Virtual Twins in Traditional Public Schools in the Bay Area - All Students



Source: "Urban Charter School Study Report on 41 Regions," Center for Research on Education Outcomes, Stanford University, 2015.

Other measures, such as safety, graduation rates, college entrance, and lifetime earnings should also be considered. Here the evidence base in California is thinner, but [results](#) in Chicago and Florida suggest that charter schools can “produce large positive effects” on long-term earnings and college attainment. The authors find, for example, that Chicago charter high school enrollment is associated with an increase of 7 to 11 percentage points in the probability of earning a standard high school diploma within five years, and an 11 percentage point increase in the probability of attending college.

In addition to changes in student education outcomes, there may be other important charter school outcomes. For example: student safety, motivation or attendance, or other factors that parents routinely describe as important to their selection of a school. Since we know that parents and society care about these results, a benefit-cost analysis should consider them.

Any competitive or spillover effect that causes district outcomes to improve as a result of charter schools should also be considered. Here, it is harder to quantify benefits, and the results vary by locale but recent studies of the competitive effects of charter schools on districts show—more often than not—positive impacts.

Recent studies of [New York City](#) and [Massachusetts](#) have some of the strongest positive results. New studies of [Chicago](#) and [Denver](#), though not focused directly on the effects of charter competition, show improvements in district schools even as charter enrollment grows. A recent [study](#) of Washington, D.C., schools shows neither harm nor benefit to children in district-run public schools, except for benefits to children whose schools are near high-performing charter schools.

The Option to Choose

Arguably the families of charter school students, and even non-charter school families, see benefits from charter schools. In situations where families must choose between limited options, a general benefit is associated with increasing the available options. There may be a societal welfare gain associated with having an additional option even if that option is not exercised. For example, parents may value an additional school choice even while choosing to keep their children enrolled in their current school. This is similar to an insurance policy that can be exercised in the event that something changes. When families choose charter schools they do so for a reason. Districts that have lost enrollment to charter schools should be asking why, and what they can do differently to keep those families. (The option to choose can also take some political pressure off of the district to accommodate parents seeking change, or the creation of alternatives that if the district is unwilling or lacks the capacity to provide.) Current data do not exist to quantify this kind of societal value but methods are available to allow researchers to assess this in the future.

Measuring the Costs of California Charter Schools

The state funds charter schools at the same or lower rate as district schools. State funding is allocated for each student on the same basis. Unique buckets of funding, such as start-up funding, could be considered an additional cost but unique buckets of district funding, such as state facilities funds, should also be considered. A more difficult and politically laden question is how to deal with any costs that arise from costs that school districts might incur as a result of charter school growth.

Fiscal Impact vs. Transfers

Fiscal impacts (losses) to one organization may be gains to another organization. Such impacts are intergovernmental transfers, where the losses and gains cancel each other out. From a state policy perspective, then, any fiscal pain felt by districts as a result of enrollment loss to charter schools or to other causes should be considered a transfer from one service delivery agency to another, not a cost to society or to the state. An exception would be if charter school enrollment decline was shown to uniquely cause district fiscal distress, thus increasing the risk of bankruptcy and

state bailout actions. In California, however, a causal link between charter schools and fiscal distress has not been established (see our companion briefs).

Newer studies also provide evidence about how district schools can improve in the face of charter school competition. For example, a 2018 [study](#) of New York City shows that district schools increase funding in affected schools. And a 2018 [study](#) of Massachusetts suggests short-term subsidies to districts can soften the effects of enrollment loss on charter schools. Studies of Denver and Chicago show that enhanced school freedom of action is a factor in the improvement of district schools in a charter-rich environment.

A forthcoming study by Paul Bruno at the University of Southern California shows that California districts, like others studied earlier, reallocate funds and enhance autonomy in an effort to strengthen schools facing charter competition. Bruno does not provide evidence about student outcomes.

There are, of course, cost adjustments that must be made by districts when they shrink. Some of these costs are hard to reduce in the short term, and we might consider some costs “fixed” or “variable” or “sticky” based on how quickly they can be reduced but this is a different policy question than the one at hand. As economists like to say, “In the long run, there are no fixed costs.” However, state policymakers may wish to consider policy solutions, such as temporary funding, to help school districts cope with particularly rapid enrollment declines should they occur.

School Capital Costs

As students choose across districts and transfer from districts to charter schools, district buildings are often underutilized. While challenging, this is not a unique problem caused by charter schools. As our companion analyses have shown, district enrollment numbers have and will continue to shift for many reasons. Still, the problem of what to do about unused or underused buildings, whatever the cause of enrollment loss, is a real one. Districts rightly note that enrollment could rise again in the future. Most infrastructure-intensive settings face similar cost allocation and asset management problems. Over a period of a few years these costs may be considered fixed, but this does not absolve facilities managers from the responsibility of adjusting to the current service delivery setting they face. In practice, many techniques can help manage risk in a period of fluctuating demand for services. Surplus properties can be sold, existing assets can be reorganized across delivery units, properties that may still be needed in the future can be temporarily repurposed or leased to third parties. We presented some of these options in a past [study](#) of Bay Area charter schools. These issues merit attention from the state, districts, and charter schools to find solutions to a problem that must be addressed. It should not, however, be considered a cost imposed by charter schools.

Economies of Scale

One recent fiscal impact analysis assigned millions of dollars in “cost” to a district based on an assumption that if charter school students had attended district schools the district would have realized economies of scale. Scale economies are important but there is no evidence that districts become more efficient the larger they are. In fact, there is evidence of diseconomies of scale with large districts. Charter schools can also benefit from economies scale via charter management organizations.

What this means in practice is that scale economies in one institution may simply be offset by scale diseconomies in another “competing” institution. These offsetting factors must be treated as economic transfers in benefit-cost analyses, not as a unique cost to school districts losing enrollment.

Educating High-Cost Students

The type of students served in charter schools is relevant to consider. It is sometimes, but not always, true that charter schools enroll fewer students with significant (and therefore expensive to serve) disabilities. Students with other unique needs, such as limited English or mental health challenges can also be more prevalent in district schools.

Whether there is a cost implication to the district depends on whether the state funding system adequately considers these unique needs in the allocation formula. California has a weighted student funding model that is designed to do so, but most argue that it is still flawed. [Ugo and Hill point](#) out that charter schools actually get fewer resources to educate high-needs students per the Local Control Funding Formula (LCFF), but that there is no difference in their student outcomes.

This is not, however, an overall cost unless one believes there is an inherent educational benefit to having an equal distribution of students with such needs at every school. Districts themselves do not evenly distribute students according to need. The state special education funding model surely needs adjustment: it is allocated separately from the LCFF and is distributed unevenly to districts and charters alike. But this is not a cost. This is another issue that merits regulatory oversight and supports to ensure that legal obligations are met, but it is also an opportunity for innovation and improvement. Recent [research](#) has shown, for example, that charter schools are more likely to fully include students with disabilities than district schools.

Social Cohesion and Other Societal Concerns

Some have argued that there may be social costs (or what economists would consider a “negative benefit”) to having charter schools, such as increased racial isolation of students since many charter schools intentionally serve students of color. These are important questions and should be treated with nuance and care. However, it is not clear that charter schools have actually exacerbated racial segregation in schools. Studies that have made apples-to-apples comparisons have [shown](#) that charter school students tend to come from already racially segregated schools, making those students no worse off in terms of racial integration and possibly better off in terms of achievement. (On the other hand, Russ Whitehurst has shown that broader studies of district-run choice programs, like magnets schools, do have a segregating effect.) It is also the case that families choose to attend charter schools rather than being forced to segregate or integrate. So, from a cost perspective, it is unclear whether there is any cost of social cohesion and if the higher cost is forced integration. Still, there is reason to assess how these issues play out in California. If there is a significant concentration of low-income students or students with special needs in charter schools compared to district schools, policy interventions may be merited to ensure that families are fully informed of their options and are not encountering discriminatory practices.

Conclusion

Clearly, there are considerable pain points for school districts that face rapid enrollment losses, whether those losses are caused by demographic shifts or students leaving the district for another district, private schools, or charter schools. This is a public policy concern the legislature should address by ensuring that districts manage their resources effectively and responsibly reduce expenditures in proportion to costs. However, these pain points are not unique to charter schooling and there would be a cost to returning to a system of limited choices for families with limited means.

For those districts that do have a plan to win back students and can show they have reduced costs responsibly, the state might consider what some other states have done: provide short-term transition aid to qualifying districts. Transition payments may create a higher cost to the state in the short term, but could be designed to ensure they were allocated in a way that helps districts compete more effectively with charter schools and that further increases the educational benefit to students.

This preliminary analysis points to tangible benefits and a few quantifiable costs to charter schooling, but a full benefit-cost analysis should be conducted to inform future state policy debates.

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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