

Media Brief: Making Sense of How Charter Schools Affect School District Finances

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Do charter schools drain resources from traditional public schools and undermine school districts' financial soundness? This question is of growing concern to California policymakers and citizens. School finance can be a mind-fogging subject for readers and journalists alike, but it's an important topic—and one that's grown more heated as striking teachers and hard-charging charter school advocates ratchet up their rhetoric. Journalists have an increasingly important role to play in helping observers separate fact from fiction.

In this guide, we unpack how enrollment loss stemming from charter schools may or may not shape districts' financial situations, offer questions journalists can ask of school districts to form more interesting and informative portraits of how charter schools influence local school districts, and provide guidance on how journalists can interpret research on this topic.

How Do Charter Schools Shape School District Finances?

In California, as in many other states, school districts are funded based in large part on the number of students they enroll each year.¹ As a result, when fewer students show up—whether because they are enrolling in charter schools, transferring to nearby districts, or moving out of state—school districts receive less money.

How this common dynamic shapes school district finances hinges on whether **expenditures**—what the district must pay for to operate—can adjust to new budget constraints. In theory, school districts can adjust their expenditures based on the number of students they currently serve. As fewer students enroll, for example, the school district may require fewer teachers, counselors, and central office administrators.

In practice, however, school district expenditures may adjust imperfectly to the lower revenues stemming from enrollment loss. Districts naturally shed some expenses when students leave; those students no longer need textbooks or school lunches, for example. These types of costs are **variable** because they change as the district serves more or fewer students.

But other costs may continue after students leave. A school might lose 10 students, for example, but still need the same number of teachers or school administrators. A loss of 1,000 students may not change a district's pension obligations or debt payments. These costs are **semi-variable** because they do not change in direct proportion to the number of students served. Semi-variable costs may continue for a long time but that doesn't mean they are permanent or fixed, or that districts cannot find better ways to manage them.

1. Technically, state dollars flow to school districts based on average daily attendance—a metric that is influenced both by how many students enroll and how often those students attend school. Critics of the system argue that it unfairly penalizes urban school districts, which are more likely to post high truancy rates.

In light of these budget realities, the impact of charter schools on school district finances depends on whether and how school districts can adapt as enrollment and revenue decline. Some studies attempt to do this by making assumptions about which expenses are semi-variable and assuming those costs cannot be shed as enrollment changes. This approach is problematic because those assumptions are often debatable (see inset, “Critical consumer questions for research on the fiscal impact of charter schools”). Other studies directly consider how the growth of charter schools shapes school district finances. A forthcoming study by Paul Bruno finds that growth in the share of students enrolled in charter schools produces modest, short-term impacts on California school districts’ fund balances, with revenues falling faster than expenditures in the year following an enrollment shift.² Another study shows that school districts where charter schools enroll larger shares of students are no more likely to enter fiscal distress, as assessed by County Offices of Education in California.³ This suggests that school districts may be able to adjust to enrollment changes over the longer term and avoid the types of financial challenges that have plagued school districts like Oakland Unified.

None of this is to say that adaptation is easy. Education researchers and consultants who work with districts say that district leaders must often make hard choices and trade a healthy balance sheet for political support. And some adjustments require painful disruptions, such as school closures or consolidations, teacher and staff layoffs, or cuts to programming that families value, such as art and athletic programs. But these difficulties have always been a reality for school districts in the face of shifting enrollments.

How Do Charter Schools Contribute to Enrollment Loss in California?

Charter schools are not the only force shaping school district enrollment loss. Many districts have seen a sharp decline in the number of students enrolled since 1970, long before charter schools emerged. Broad socioeconomic trends that drive families into and out of urban centers affect these demographic shifts. District enrollment is also shaped by the number of students leaving district schools in favor of other options, including charter schools, private schools, homeschooling, or traditional public schools in other school districts. If district enrollment loss is a problem larger than charter schools, then the financial challenges that come with it will remain even if charter schools stop growing.

The 10 largest school districts in California educated 270,000 fewer students in 2015 than they did in 2004, the year in which district enrollment peaked.⁴ According to the California Department of Finance, many school districts are expected to face continued enrollment losses as birth rates fall and families relocate to lower-cost areas.⁵

Across California, charter schools account for only a small portion of school district enrollment loss over the last few decades. Consider the following:⁶

- Statewide, fewer than one in four school districts suffering from enrollment decline have any charter schools at all.
- Of those school districts, more than half have only one charter school.
- More than three out of four districts with declining enrollment have fewer than three charter schools.

2. Paul Bruno, “Charter Competition and District Finances: Evidence from California,” *Journal of Education Finance* (forthcoming).

3. *Do Charter Schools Cause Fiscal Distress in School Districts?*, (Seattle, WA: Center on Reinventing Public Education, 2019).

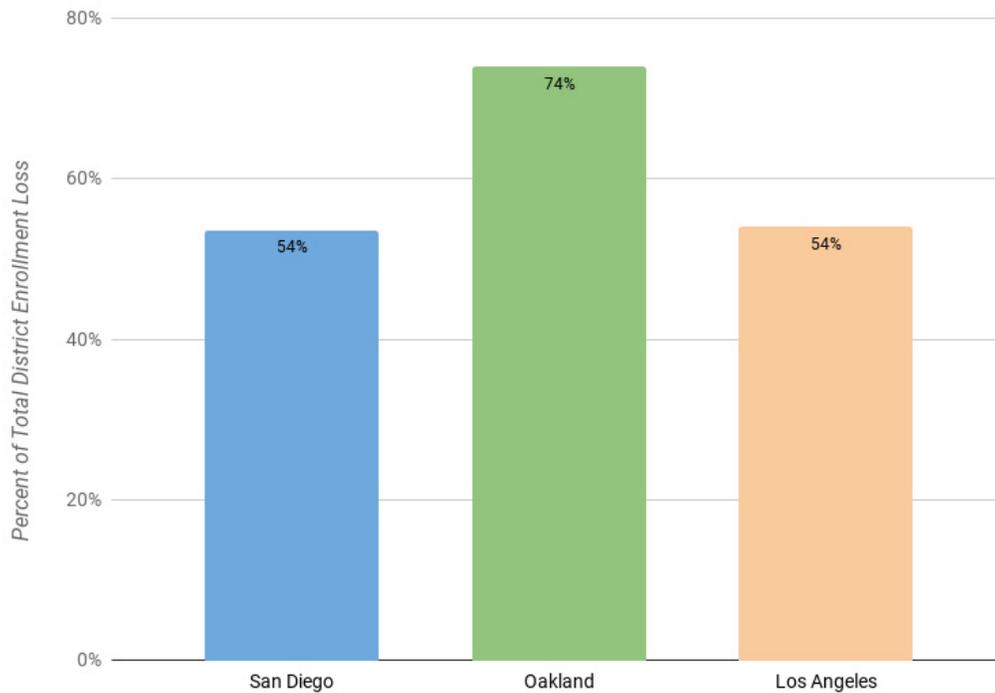
4. The 10 largest school districts are Capistrano, Corona-Norco, Elk Grove, Fresno, Long Beach, Los Angeles, San Bernardino City, San Diego, San Francisco, and Santa Ana. District enrollment loss is calculated from peak enrollment from 2004 to 2015, the last year in which data were available.

5. California Department of Finance K-12 Projections 2018 Series Report W(1), Projected California Public K-12 Graded Enrollment by County by School Year.

6. See *Charter Schools and District Enrollment Loss* (Seattle, WA: Center on Reinventing Public Education, 2019).

Identifying how charter schools contribute to enrollment loss is difficult because there is no easy way to track how many students in charter schools would otherwise have attended district schools. One rudimentary way to assess charter schools' contributions to district enrollment loss is to consider how much of the change in district enrollment can be explained by charter school enrollments.⁷ Figure 1 presents data on charter school enrollment gains as a share of district enrollment losses for three districts that have figured prominently in the debate over charter schools in California.⁸ Values greater than 100 percent suggest the change in charter school enrollment gains exceeded the district's enrollment losses.

FIGURE 1. District Enrollment Loss in San Diego, Oakland, and Los Angeles Is Bigger Than Charter Schools: Charter Enrollment as a Share of District Enrollment Loss



Source: Based on data from *Charter Schools and District Enrollment Loss*. Enrollment loss is calculated from the peak enrollment year (which varied by district) to 2015, the last year data were available. Figure presents charter school enrollment as percent of district enrollment loss.

In the large city school districts that have been at the center of the charter school debate, charter schools offer at best an incomplete answer to the question of why district enrollment is declining. As figure 1 shows, charter school enrollment gains amount to a little over half of district enrollment losses in Los Angeles and San Diego and about three-quarters of those in Oakland. These estimates likely overstate charter schools' contributions to enrollment loss since some students attending charter schools could come from other local districts, private schools, and the homeschooling community.

7. This likely inflates charter schools' contributions since they are enrolling students outside the district as well as those previously attending non-district alternatives.

8. See *Charter Schools and District Enrollment Loss*.

Critical Consumer Questions for Research on the Fiscal Impact of Charter Schools

Evaluating studies of charter schools is no simple assignment—the quality of evidence varies and journalists must wade through research that may be politically motivated. Unlike research on charter school effectiveness, education researchers have not put forth standards that enable journalists or analysts to readily evaluate the quality of evidence. Here are questions journalists can ask about studies on the fiscal impacts of charter schools. While not definitive, the answers will help journalists interpret study conclusions in ways that account for methodological limitations.

- **How does the study author consider the impact of other pressures on school district enrollment?** Unlike school districts, charter schools do not typically enroll students based on where they live. Charter schools can draw students from multiple nearby districts and from private and homeschool alternatives. If charter schools did not exist, some students might enroll in the nearest school district but others might attend other K-12 alternatives. Researchers should provide details about how they attempt to isolate the impact of charter schools from other types of enrollment loss and acknowledge how assumptions about charter schools' contributions to enrollment loss may influence their estimates of fiscal impact.
- **How does the study author estimate fiscal impact?** Some studies estimate fiscal impact indirectly by considering how school districts might have operated if enrollment had not changed, but this approach relies on a set of assumptions that may or may not be accurate. Other studies directly measure how school district spending patterns change as charter school enrollments grow,⁹ or assess the relationship between charter school enrollments and school district financial strain.¹⁰ The advantage of these latter approaches is that they do not require analysts to make assumptions about how things might have played out under different circumstances. However, they may overstate fiscal impacts because they do not consider what reasonable cost reductions districts could have made. Both of these approaches have limitations. The author should make clear what these limitations are and how they may impact study results.
- **What assumptions does the study author make about how districts can or cannot adapt their spending?** Fiscal impact studies frequently include assumptions about which costs are fixed or variable. Studies that make assumptions about how districts adapt should be clear about why those assumptions are justified and acknowledge how they influence estimates of fiscal impact. In general, assuming less adaptability in school district spending will inflate fiscal impact estimates, and assuming more adaptability will decrease fiscal impact estimates.
- **What policy recommendations does the study author offer?** Does the author consider both the costs and benefits charter schools create? Studies that make recommendations about the future of charter schools based on limited data or on the fiscal impact to districts but not to charter schools are probably leaving out facts that policymakers need to know.

9. Yongmei Ni, "The Impact of Charter Schools on the Efficiency of Traditional Public Schools: Evidence from Michigan," *Economics of Education Review* 28, no. 5 (October 2019): 571-84. 10. This likely inflates charter schools' contributions since they are enrolling students outside the district as well as those previously attending non-district alternatives.

10. Bruno, "Charter Competition and District Finances: (forthcoming).

Considering the Local Angle

Given the shortage of research, journalists have an important role to play in surfacing lessons about how charter schools are influencing school district budgets. Such stories can help citizens cut through the heated rhetoric and understand the tradeoffs. The questions below offer a starting point for understanding how charter schools are influencing any given school district's budget. Note: the answers can and will vary depending on the district.

1. **Is district enrollment declining?** If the answer is “yes,” then district finances are affected by a loss of revenue, since enrollment loss translates to fewer dollars for the district. If the answer is “no,” then district finances are likely affected by rising costs rather than shrinking revenues. Projected and actual enrollments are typically reported by school districts. Historical data are available through the California Department of Education.¹¹
2. **If district enrollment is declining, what's driving enrollment loss?** In addition to counting the number of students leaving district schools in favor of charter schools, analysts should look at the number of students leaving district schools in favor of other non-public K-12 options, such as private school, homeschooling, or public schools in a different district. While data can be difficult to track down, the California Department of Education tracks some non-public enrollment trends. Associations representing independent schools and homeschooling families may also collect data on local trends.¹² Demographic shifts, such as families with young children moving into or out of urban centers, can also lead to enrollment loss. To understand how changes in the local community are shaping enrollment loss, journalists can turn to county demographic estimates, which are often reported by the U.S. Census Bureau, nonprofits like Kids Count, and local city governments.
3. **What other factors are shaping the district's financial situation?** Journalists should assess whether the district is seeing a rise in expenditures, such as teacher salary commitments, pension or retiree health care obligations, and/or increased full-time staff—either among the teaching team or central office staff. What is the estimated cost of the new collective bargaining agreement for teachers? How do projected salary increases compare with other local school districts? How does staffing in the district's central office compare to other comparably sized school districts? School district budget and expenditure data are typically publicly reported by school districts. In California, auditor reports are also a resource in many large urban school districts. Historical finance data are available from the U.S. Department of Education, providing analysts an opportunity to assess how, for example, the proportion of district resources that pays for employee benefit programs. Changes in expenditures can provide clues as to why the district is facing escalating costs.
4. **Does the district have the authority to change these commitments in the short- or long-term?** Districts have some agency over their own long-term obligations, but limited power to change state policy. It is important to distinguish between costs that districts can control and those that are driven by state policy. For example, many districts in California are facing escalating contribution rates associated with pensions for teachers and other employees. These costs are driven by payments required by the state as a function of district salary costs. As such, districts can control how many people they employ and how much they pay those workers, but districts have little control over those workers' retirement costs. Financial challenges driven by costs outside of the school districts' control will require outside intervention.

11. “Demographics,” California Department of Education website, accessed May 14, 2019.

12. “Private Schools and Schooling at Home,” California Department of Education website, accessed May 14, 2019.

Getting Good Advice

Journalists can also turn to subject-matter experts to make sense of the dynamics at play in a particular district or gut-check a new study examining the fiscal impact of charter schools. Sources might include:

- **Robin Lake**, director of the Center on Reinventing Public Education at the University of Washington Bothell and a nationally recognized expert on charter schools and public school choice.
- **Marguerite Roza**, director of the Edunomics Lab at Georgetown University where her research focuses on school finance, student-based funding, and new fiscal transparency requirements.
- **John Singleton**, assistant professor of economics at the University of Rochester, where he studies finance and equity in the context of school choice.
- **Chad Aldeman**, a senior associate partner at Bellwether Education Partners who has written extensively on the impact of teacher pensions on school district finances.
- **Carrie Stewart**, co-founder and managing director of Afton Partners, an organization focused on helping school districts align finance with academic progress.
- **Nate Levenson**, former superintendent and current managing director of the District Management Group where he helps school districts improve the cost effectiveness of their programming.

Selected Research:

Resource Briefs: Charter School Effects on Public Education Enrollment, Costs, and Benefits (2019). Center on Reinventing Public Education.

Better Together: Ensuring Quality District Schools in Times of Charter Growth and Declining Enrollment (2017). Center on Reinventing Public Education.

Paul Bruno, (forthcoming) “Charter Competition and District Finances: Evidence from California,” *Journal of Education Finance*.

David Arsen and Yongmei Ni, 2012, “The Effects of Charter School Competition on School District Resource Allocation,” *Educational Administration Quarterly* 48, no. 1: 3-38.

Adapting to Enrollment Declines in Urban School Systems: Managing Costs While Improving Educational Quality (2013). Boston Consulting Group.

Robert Bifulco and Randall Rebecak, 2014, “Fiscal Impacts of Charter Schools: Lessons from New York,” *Journal of Education Finance and Policy* 9, no. 1: 86-107.

Helen F. Ladd and John D. Singleton, 2018, “The Fiscal Externalities of Charter Schools: Evidence from North Carolina,” *Journal of Education Finance and Policy* (online).

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.