

Exploring the consequences of charter school expansion in U.S. cities

Report • By **Bruce D. Baker** • November 30, 2016

Summary: Some communities look at claims of miraculous proficiency rates or heed reports of long waiting lists for charter schools and conclude that chartering is the way to go. But if the broad, long-term policy objective is to move toward the provision of a “system of great schools” that produces an equitable distribution of excellent (or at the very least adequate) educational opportunities for all children, chartering must pass a much more thoughtful examination. Other reports have shown how high test scores and popularity of charter schools could be the byproducts of using data from cherry-picked charter schools that serve cherry-picked or culled populations. This report adds further insights for the debate on how expanding charter schools as a policy alternative achieves the broader goal. Specifically, it shows that charter expansion may increase inequity, introduce inefficiencies and redundancies, compromise financial stability, and introduce other objectionable distortions to the system that impede delivery of an equitable distribution of excellent or at least adequate education to all children. By shedding light on the risks of charter expansion, it provides elements for a decision-making process that weighs the costs against expected benefits. The report concludes with a checklist of items decision-makers must consider when evaluating charter expansion in their communities.

Executive Summary

This report highlights patterns of charter school expansion across several large and mid-size U.S. cities since 2000. In this report, the focus is the loss of enrollments and revenues to charter schools in host districts and the response of districts as seen through patterns of overhead expenditures. I begin by identifying those cities and local public school districts that have experienced the largest shifts of students from district-operated to charter schools, and select from among those cities illustrative examples of the effects of charter school expansion on host district finances and enrollments.

Effects of charter expansion

District schools are surviving but under increased stress

In some urban districts, charter schools are serving 20 percent or more of the city or districtwide student population. These host districts have experienced the following effects in common:

- While total enrollment in district schools (the noncharter, traditional public schools) has dropped, districts have largely been able to achieve and maintain reasonable minimum school sizes, with only modest increases in the shares of children served in inefficiently small schools.
- While resources (total available revenues to district schools) have declined, districts have reduced overhead expenditures enough to avoid consuming disproportionate shares of operating spending and increasing pupil/teacher ratios.
- Despite expenditure cutting measures, districts simultaneously facing rapid student population decline and/or operating in states with particularly inequitable, under-resourced school finance systems have faced substantial annual deficits.

Charter expansion is not driven by well-known, high-profile operators

- Most charter expansion in these cities has occurred among independently operated charter schools.
- High profile, frequently researched nonprofit charter school operators including the Knowledge is Power Program (KIPP) have relatively small shares of the charter school market in all cities except Newark.
- In many of these cities, some of the leading charter operators (those with the most market share) have been the subject of federal and state investigations and judicial orders regarding conflicts of interest (self-dealing) and financial malfeasance. These operators include Imagine Schools, Inc., White Hat Management, National Heritage Academies, and Concept Schools.

The varied and often opaque financial practices across charter school management companies, while fitting with a competitive portfolio conception, leads to increased disparities across students, irregularities in the accumulation of additional public (publicly obligated) debt, and inequities and irregularities in the ownership and distribution of what were once commonly considered public assets—from buildings and vehicles right down to desks, chairs, and computers.

Charter schools are expanding in predominantly low-income, predominantly minority urban settings

- Few are paying attention to the breaches of legal rights of students, parents, taxpayers, and employees under the increasingly opaque private governance and management structures associated with charter expansion.
- Expansion of charter schooling is exacerbating inequities across schools and children because children are being increasingly segregated by economic status, race, language, and disabilities and further, because charter schools are raising and spending vastly different amounts, without regard for differences in student needs. Often, the charter schools serving the least needy populations also have the greatest resource advantages.
- With the expansion of charter schooling, public districts are being left with legacy debts associated with capital plants and employee retirement systems in district schools while also accumulating higher risk and more costly debt in the form of charter school revenue bonds to support new capital development.

In many cases, the districts under investigation herein are large enough to be cut in half or thirds while still being financially viable, at least in terms of achieving economies of scale. In effect, charter expansion has already halved the size of many urban districts. Similar charter expansion in smaller districts, however, may lead the districts to enroll fewer than 2,000 pupils in district schools and suffer elevated costs. Given the literature on costs, productivity, and economies of scale, it makes little sense in population-dense areas to promote policies that cause district enrollments to fall below efficient-scale thresholds

(around 2,000 pupils) or that introduce additional independent operators running below efficient-scale thresholds. It makes even less sense to introduce chartering to rural areas where schools and districts already operate below efficient scale.

Beyond issues of economies of scale, charter expansion can create inefficiencies and redundancies within district boundaries, from the organization and delivery of educational programs to student transportation, increasing the likelihood of budgetary stress on the system as a whole, and the host government in particular. In addition to increasing per pupil transportation expense, ill-planned (or unplanned) geographic dispersion may put more vehicles on already congested urban streets, contributing to traffic and air quality concerns, and significantly reduces the likelihood that children use *active transportation* (walking or biking) to school (Baker 2014b; Davison, Werder, and Lawson 2008; Evenson et al. 2012; Merom et al. 2006; Rosenberg et al. 2006; Wilson, Wilson, and Krizek 2007).

Policy recommendations

I conclude with policy recommendations for moving toward more equitable systems of excellent schooling. First, state policymakers must rethink charter laws that deregulate both the operators and regulators (authorizers) of charter schools, applying the following two key principles:

- Authorizers must work in collaboration with districts to ensure that the mix of providers in any context provides the best possible array of opportunities
- Authorizers and providers must be sufficiently publicly accountable and transparent

Current systems involving multiple, competing government and nongovernment authorizers are unlikely to ever achieve these goals, especially when the objective of both school operators (management companies) and those who authorize and oversee them is to maximize revenue by maximizing market share.

Looking beyond waiting lists and proficiency rates

When cities and school districts are debating whether to expand charter schools in the jurisdiction, decision-makers must look beyond facile claims of miraculous proficiency rates in cherry-picked charter schools (serving cherry-picked or culled populations) and reports of long waiting lists. Policymakers should consider a much longer *checklist*, to include but not be limited to the following preliminary set of items:

- How is the whole system, not just a subset of the system, meeting performance measures, such as assessment scores and gains, and is the performance both adequate and equitable?
- What are the cost and equity implications of sorting students into different schools based on needs, and how are resources, programs, and services going to be reallocated to ensure equitable access to adequate educational opportunities for all children?

- Will management structures and service delivery be efficient or lead to inefficient duplication?
- Are seemingly mundane operations management issues such as logically, spatially distributing enrollments; optimally using facilities space; and optimizing transportation services/networks getting the proper attention?
- How will new systems affect quality of life factors such as transportation time, school/neighborhood walkability, and numbers of schooling disruptions faced by children and families?
- Can we evaluate entrants to the market (based on their prior behavior and practices) and regulate both their practices and those of providers already operating in the space to ensure that the rights of students, taxpayers, and employees are protected equitably?

If we consider a specific geographic space, like a major urban center, operating under the reality of finite available resources (local, state, and federal revenues), the goal is to provide the best possible system for all children citywide, given the resources available. That is, resources should be used most efficiently and equitably to achieve the best possible system of schools for all children. Chartering, school choice, or market competition are not policy objectives in-and-of-themselves. They are policy alternatives—courses of policy action—toward achieving these broader goals and must be evaluated in this light. This checklist will help reveal whether charter expansion or any policy alternative increases inequity, introduces inefficiencies and redundancies, compromises financial stability, or introduces other objectionable distortions to the system, so that those costs can be weighed against expected benefits.

Moving toward efficient and effective unified education systems

If the broad, long-term policy objective is to move toward the provision of a “system of great schools” in each of America’s communities, then those systems must be responsibly, centrally managed to achieve an *equitable* distribution of excellent (or at the very least adequate) educational opportunities for *all* children, while protecting the interests and legal rights of children, parents, taxpayers, and employees. Achieving this lofty goal requires determining which functions of the system must be centrally and publicly regulated and governed. Systemwide public responsibilities include but are not limited to:

- The equitable management of enrollments and schooling access
- The equitable distribution of financial and other resources across the system, including allocation of resources to centralized functions that serve all schools
- The centralized management and equitable use/allocation, maintenance, and operations of the public’s capital stock of schools and related land and facilities
- The centralized management of systemwide debt obligations and long-term liabilities including employee retirement and health benefits

Numerous analyses have found chartering to lead to an imbalanced distribution of students by race, income, language proficiency, and disability status. So too does magnet schooling, or concentration of any specialized services across buildings within districts. The point is not that all such variations must necessarily be erased, or even could be, but that these variations must be acknowledged, and managed for the good of the system as a whole. To the extent that student needs continue to vary across school settings, resources must be targeted to accommodate those needs. This is a central function, and includes budget allocations, space allocations, and personnel allocations that draw on a substantial body of research on costs associated with providing equal educational opportunities (Duncombe and Yinger 2008).

Capital stock—publicly owned land and buildings—should not be sold off to private entities for lease to charter operators, but rather, centrally managed both to ensure flexibility (options to change course) and to protect the public’s assets (taxpayer interests). Increasingly, districts such as those discussed herein, have sold land and buildings to charter operators and related business entities, and now lack sufficient space to serve all children should the charter sector, or any significant portion of it, fail. Districts and state policymakers should not put themselves in a position where the costs of repurchasing land and buildings to serve all eligible children far exceed fiscal capacity and debt limits.

Finally, pension and health care costs are systemwide concerns that cannot be ignored by shifting students, and thus teachers and public dollars, across sectors.

Introduction

This report highlights patterns of charter school expansion across several large and mid-size U.S. cities over the past decade. The public’s interests lie in providing the highest quality educational opportunities for all children at an expense the public is willing and able to support. If we consider a specific geographic space, such as a major urban center, operating under the reality of finite available resources (local, state, and federal revenues), the goal is to provide the best possible system for all children citywide (in that space and under the policy umbrellas governing that space), given the resources available. That is, resources should be used most efficiently and equitably to achieve best possible system of schools for all children. Chartering, school choice, or market competition are not policy objectives in-and-of-themselves. They are merely policy alternatives—courses of policy action—toward achieving these broader goals and must be evaluated in this light. To the extent that charter expansion or any policy alternative increases inequity, introduces inefficiencies and redundancies, compromises financial stability, or introduces other objectionable distortions to the system, those costs must be weighed against expected benefits.

In this report, the focus is on the host district, the loss of enrollments to charter schools, the loss of revenues to charter schools, and the response of districts as seen through patterns of overhead expenditures. I begin by identifying those cities and local public school districts (hosts) that have experienced the largest shifts of students from district-operated to charter schools. I also explore the average size of schools as the charter

sector grows. Next, I evaluate equity concerns related to the sorting of students by their population characteristics, and variations in classroom resources across schools and children. Finally, I discuss frequently overlooked concerns such as substantive changes to the rights of children, parents, and employees under privately governed and managed systems, and emerging concerns over accumulating high risk debt incurred by charter operators through municipal bond markets.

An opportunity for scalable innovation

Since its origins in the early 1990s, the charter school sector has grown to over 6,500 schools serving more than 2.25 million children in 2013.¹ In some states, the share of children now attending charter schools exceeds 10 percent (for example, Arizona and Colorado), and in select major cities that share exceeds one-third (for example the District of Columbia, Detroit, and New Orleans)(Weber and Baker 2015a). Modern day charter schools were conceived by union leader Albert Shanker in the 1980s as a way to provide opportunities for creative, independent educators to collaborate and test new ideas with lessened policy constraints (Shanker 1988). To the extent these innovations were successful they could inform practices in traditional district schools, Shanker posited. Over the next few decades, states adopted statutes providing opportunities for individuals and organizations, including traditional districts, to create these newly chartered schools. In some cases, statutes allowed for the creation of charters governed and financed by existing districts, and in other cases, for the creation of charters independent of district governance, while operating within the boundaries of and in competition with local public districts.

While charter schooling was conceived as a way to spur innovation—try new things, evaluate them, and inform the larger system—studies of the structure and practices of charter schooling find the sector as a whole not to be particularly “innovative” (Preston et al. 2012). Analyses by charter advocates at the American Enterprise Institute find that the dominant form of specialized charter school is the “no excuses” model, a model that combines traditional curriculum and direct instruction with strict disciplinary policies and school uniforms, in some cases providing extended school days and years (McShane and Hatfield 2015). Further, charter schools raising substantial additional revenue through private giving tend to use that funding to a) provide smaller classes, and b) pay teachers higher salaries for working longer days and years (Baker, Libby, and Wiley 2012). For those spending less, total costs are held down, when necessary, through employing relatively inexperienced, low-wage staff and maintaining high staff turnover rates (Epple, Romano, and Zimmer 2015; Toma and Zimmer 2012). In other words, the most common innovations are not especially innovative or informative for systemic reform.

Emergence of private managers

The early charter movement coincided with the emergence of private management firms interested in public schooling. Two private for-profit companies tried their hand at providing school management services for public districts in the 1990s: Edison Schools,

Inc., and Education Alternatives, Inc. (EAI) (Richards 1996). Education Alternatives, Inc., a publicly traded for-profit company, failed financially while holding an operating contract for nine (then 11) schools within Baltimore City Public Schools and soon after signing a contract with Hartford Connecticut Public Schools. The company failed prior to taking full responsibility for schools in Hartford. Edison Schools expanded cautiously in the wake of EAI's failure, operating a school in Wichita, Kansas, in 1995 and 25 schools nationally by the end of 1996 (Steinberg 1997). Edison also faced financial troubles as a publicly traded stock, eventually buying back its company stock in 2003 and reverting to privately held status (*Las Vegas Sun* 2003).

As charter schools expanded, including online and hybrid schooling options, Edison Schools and other upstart for-profit companies shifted their growth strategy to the charter sector, where they could control employment contracts, increasing financial flexibility and profit potential. Coinciding with these developments, many now high-profile nonprofit charter management firms got their start as founders of single charter schools, including the Knowledge is Power Program (KIPP), which actually had two schools, a middle school in Houston and another in New York City; Uncommon Schools, founded from North Star Academy in Newark, New Jersey; and Achievement First, founded from Amistad Academy in New Haven, Connecticut. Now the charter school landscape consists of a mix of schools operated by major nonprofit charter management organizations, schools operated by for-profit managers, schools operated by other education management organizations described by Miron and colleagues as nonprofit in formal status but engaging in contractual arrangements more similar to for-profit organizations, and schools that remain independently operated, i.e., “mom-and-pop” (Miron and Gulosino 2013).

From portfolios to parasites?

As early as the mid-1990s, authors including Paul Hill, James Guthrie, and Lawrence Pierce (1997) advocated that entire school districts should be reorganized into collections of privately managed contract schools (Hill, Pierce, and Guthrie 2009). This *contract school* proposal emerged despite the abject failure of Education Alternatives, Inc., in Baltimore and Hartford. This proposal provided a framework for renewed attempts at large-scale private management including the contracting of management for several Philadelphia public schools in the early 2000s. Philadelphia's experiment in private contracting yielded mixed results, at best (Mac Iver and Mac Iver 2006).² Notably, Hill and colleagues' *contract school* model depended on a centralized authority to manage the contracts and maintain accountability, a precursor to what is now commonly referred to as a “portfolio” model. In the portfolio model, a centralized authority oversees a system of publicly financed schools, both traditional district-operated and independent, charter-operated, wherein either type of school might be privately managed (Hill 2006).³ The goal as phrased by former New York City schools' chancellor Joel Klein is to replace *school systems* with *systems of great schools* (Patrino 2015).

A very different reality of charter school governance, however, has emerged under state charter school laws—one that presents at least equal likelihood that charters established within districts operate primarily in competition, not cooperation with their host, to serve a

finite set of students and draw from a finite pool of resources. One might characterize this as a parasitic rather than portfolio model—one in which the condition of the host is of little concern to any single charter operator. Such a model emerges because under most state charter laws, locally elected officials—boards of education—have limited control over charter school expansion within their boundaries, or over the resources that must be dedicated to charter schools. Thus, there is no single, centralized authority managing the portfolio—the distributions of enrollments and/or resources—or protecting against irreparable damage to any one part of the system (be it the parasites or the host).

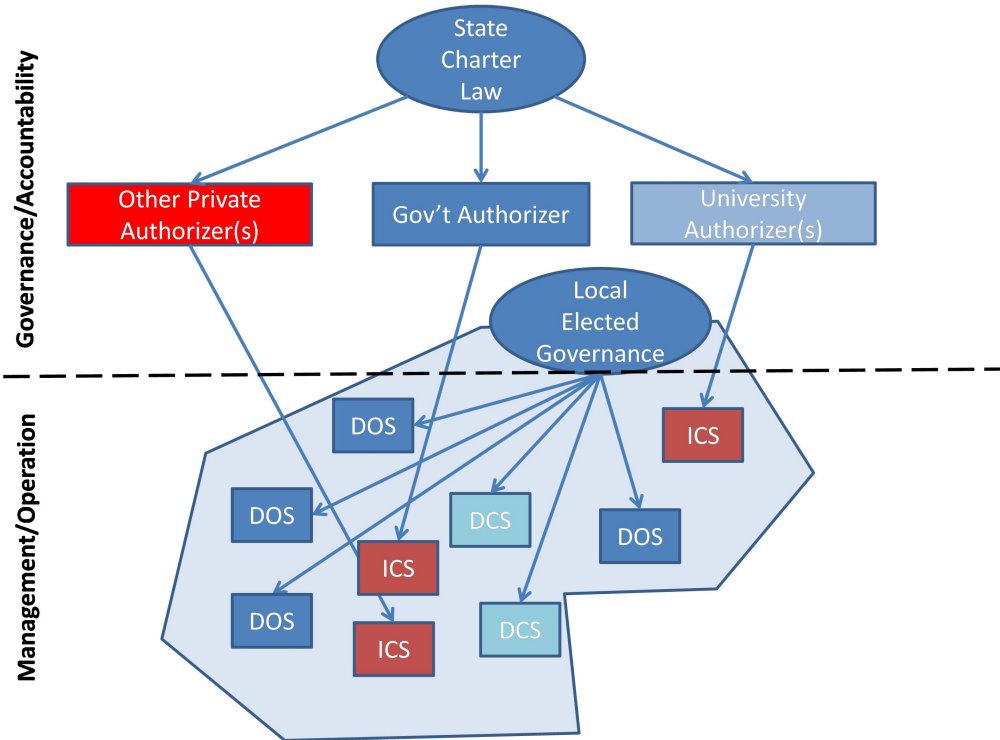
Figure 1 displays a system in which a set of district operated schools (DOS), district-charter schools (DCS), and independent charter schools (ICS) serve a geographic space previously governed and operated entirely by local elected officials. In many states, independent charter schools may be only authorized by a government or government-appointed entity—a single authorizer. Nonetheless, these schools are not required to be responsive to local elected governance (unless required under state charter law) and have little or no incentive to be concerned with the financial condition of their host. In other states, additional entities may authorize charter schools to compete for students and resources in the same geographic space. This approach further disperses authority for schools serving any geographic area. Among other issues, dispersed authorization provides the opportunity for potential charter operators, including those with previously failing track records, to “shop” for authorizers who will more readily permit their expansion and more likely turn a blind eye to academic failure and/or financial mismanagement (*Journal-Gazette* 2015).

Proponents of the dispersed governance model in Figure 1 assert that competition both for governance/accountability and for management/operations of schools provides greater opportunity for rapid expansion and innovation. However, some of the more dispersed multiple authorizer governance models have been plagued by weak accountability, financial malfeasance, and persistently low-performing charter operators, coupled with rapid, unfettered, underregulated growth (Center for Education Reform 2011; Rowland 2015; Dixon 2014).

Nonetheless, charter advocacy organizations including Bellwether Education Partners (BEP) continue to argue for more rapid growth and increased market share for charter schooling. BEP provides a facile extrapolation (along unconstrained linear trajectories) to claim that at current rates, the charter sector will grow to serve 20 percent to 40 percent of all U.S. students by 2035. For charter expansion advocates such as BEP, however, even this rate is too slow, constrained by having too few authorizers, caps on new charters in some states, and unwillingness of districts as authorizers to approve new charter applications (Mead, LiBetti Mitchel, and Rotherham 2015). For charter advocacy organizations, tight centralized regulation and slow or limited growth of charters is a non-starter, with the optimal balance somewhere between approximately 40 percent (as in Washington, D.C.) and nearly 100 percent (as in New Orleans) of children served by independent charter schools (Pearson, McKoy, and Kingsland 2015).

Figure 1

System of district-operated schools (DOS), district charter schools (DCS), and independent charter schools (ICS)



Source: Author's illustration

Economic Policy Institute

Fiscal stress, inefficiency, and charter expansion

Increased attention is being paid to the fiscal and enrollment effects of charter schooling on host districts. These concerns come at a time when municipal fiscal stress and the potential for large-scale municipal and school district bankruptcies are in the media spotlight (*Governing* 2015). Many high profile cases of municipal fiscal stress are in cities where the charter sector is thriving, for example Chester Upland, Pa., Detroit, and Philadelphia (Layton 2015; Graham 2015; Pierog 2015). Some charter advocates have gone so far as to assert that school district bankruptcy presents a “huge opportunity” to absolve the taxpaying public of existing debts and financial obligations and start fresh under new management, reallocating those funds to classrooms (Persson 2015). Of course, this strategy ignores the complexities of municipal bankruptcy proceedings, and the contractual, social, and moral obligations for the stewardship of publicly owned capital (and other) assets and responsibility to current and retired employees.

Advocates for charter expansion typically assert that charter expansion causes no financial harm to host districts. The logic goes, if charter schools serve typical students drawn from

the host district's population, and receive the same or less in public subsidy per pupil to educate those children, then the per pupil amount of resources left behind for children served in district schools either remains the same or increases. Thus, charter expansion causes no harm (and in fact yields benefits) to children remaining in district schools. The premise that charter schools are uniformly undersubsidized is grossly oversimplified and inaccurate in many charter operating contexts (Baker 2014c). In addition, numerous studies find that charter schools serve fewer students with costly special needs, leaving proportionately more of these children in district schools. Perhaps most important, the assumption that revenue reductions and enrollment shifts cause districts no measurable harm for host ignores the structure of operating costs and dynamics of cost and expenditure reduction.

Moody's Investors Service opined in 2013 that "charter schools pose greatest credit challenge to school districts in economically weak urban areas." Specifically, Moody's identified the following four areas posing potential concerns for host urban districts with growing independent charter sectors:

1. Weak demographics and district financial stress, which detract from the ability to deliver competitive services and can prompt students to move to charter schools
2. Weak capacity to adjust operations in response to charter growth, which reduces management's ability to redirect spending and institute program changes to better compete with charter schools
3. State policy frameworks that support charter school growth through relatively liberal approval processes for new charters, generous funding of charters, and few limits on charter growth
4. Lack of integration with a healthier local government that can insulate a school system from credit stress (D'Arcy and Richman 2013)

Moody's reiterated these concerns in a follow-up report (Moody's Investors Service 2015).

District officials in Nashville, Tennessee, recently contracted consultants to evaluate the impact of charter expansion on their district. The consultants' report noted that charters:

- Will continue to cause the transfer of state and local per student funds without reducing operational costs
- Will continue to increase direct and indirect costs
- Will continue to negatively impact deferred maintenance at leased buildings
- May have an offsetting impact on capital costs, but only where available space can be re-allocated efficiently (MGT of America 2014)

Recently published academic analyses raise similar concerns. Bifulco and Reback (2014) evaluate the fiscal impact of charter expansion on two midsize upstate New York cities, Albany and Buffalo. They find that charter schools have had negative fiscal impacts on these districts, and argue that there are two reasons for these impacts. First, districts are generally unable to adjust their expenditures on a student-by-student basis, because costs

range from fixed costs (districtwide and school overhead costs that are not reduced by the transfer of individual pupils), to step costs (including classroom level costs, also not reduced by the transfer of individual pupils) to variable costs, which are most easily reduced on a student-by-student basis, but constitute a relatively small share of school district budgets. These concerns echo those of consultants to Nashville Public Schools. Further, Arsen and Ni (2012b) find that higher levels of charter school enrollments in Michigan school districts are strongly associated with declining fund balances, and that revenues declined more rapidly than costs in districts losing students to charter schools.⁴

Second, Bifulco and Reback (2014) point out that “operating two systems of public schools under separate governance arrangements can create excess costs,” or inefficient expenditures. Baker, Libby, and Wiley (2012) have raised similar concerns about additional, often exorbitant, overhead expenses created by introducing school systems within school systems (independent charter schools within districts). That is, while inducing fiscal stress on host districts, charter expansion may also be increasing total overhead costs. Two studies of Michigan charter schools, which operate fiscally independently of local public districts, have found them to have particularly high administrative expenses and low direct instructional expenses. Arsen and Ni (2012a, 1, 13) find that “controlling for factors that could affect resource allocation patterns between school types, we find that charter schools on average spend \$774 more per pupil per year on administration and \$1,141 less on instruction than traditional public schools.” Further, they find “charter schools managed by EMOs [Education Management Organizations] spend significantly more on administration than self-managed charters (about \$312 per pupil). This higher spending occurs in administrative functions traditionally performed at both the district central office and school building levels.”

Izraeli and Murphy (2012, 265) find that district schools in Michigan tended to spend more on instruction per student than did charter schools, and the gap increased by another 5 percent to nearly 35 percent over the period studied (1995–96 to 2005–06). Further they find the spending gap for instructional spending to be greater than that for general spending. The overall funding gap between district and charter schools was approximately \$230. The spending gap for basic programs was \$562 and for total instruction \$910. The authors note “much like a profit-maximizing firm, charter schools generate a surplus of revenue over expenditure.”

Baker and Miron (2015) show that in New Jersey, charter school administrative expenses are “nearly \$1,000 per pupil higher than those of other regular school district types, and the share of budgets allocated to administration is nearly double.”⁵ Further, they show that local public school districts maintain responsibility for providing some services to charter school students, and thus, the administrative overhead associated with those responsibilities. That is, on a per pupil basis, district administrative expenses are being overstated and charter school administrative expenses understated. Additionally, these publicly reported administrative expenses do not include, for example, expenses (including executive salaries) from regional or national management organizations above and beyond management fees, further potentially understating total administrative expenses of the charter schools.

In addition, the uneven reshuffling of children and resources across schools within geographic boundaries can exacerbate inequities. Numerous studies find charter schools to increase segregation across schools of children by their income status, language proficiency, disability, and race (Stein 2015; Ladd, Clotfelter, and Holbein 2015; Kotok et al. 2015; Logan and Burdick-Will 2015; Moored 2015). Under some models, such as the New Orleans charter system, stratification exists by design (Adamson, Cook-Harvey, and Darling-Hammond 2015). Baker, Libby, and Wiley (2015) find that through the sorting of children and resources, charter expansion induces inequities within districts—inequities among charter schools and between charter and district schools. But, to the extent that charter share remains small, these inequities remain limited. Profit status of charter operators also may lead to very different available school-level resources available to children, as for-profit schools seek to achieve profit margins, while nonprofits seek to enhance revenues through tax exempt private giving (Weber and Baker 2015a). Finally, the concentration of needy children in some schools can dramatically increase the costs of improving outcomes for those students. That is, uneven sorting of children by needs can create additional inefficiencies (Baker 2011).

Finally, it is conceivable that the dissolution of large centralized school districts and introduction of multiple school operators into a single geographic space could compromise efficiency associated with economies of scale, which operate at both the school and district level. Numerous studies of education costs have found that the costs of providing comparable services rise as district enrollments drop below 2,000 students and rise sharply at enrollments below 300 students. Further, a comprehensive review of literature on economies of scale in education by Andrews, Duncombe, and Yinger (2002, 245) find “there is some evidence that moderately sized elementary schools (300–500 students) and high schools (600–900 students) may optimally balance economies of size with the potential negative effects of large schools.” To the extent that charter expansion creates independent “districts” operating with fewer than 2,000 pupils and/or increases shares of children attending schools with smaller enrollments than those noted above, inefficiencies may be introduced.

Charter school market share growth in U.S. cities

In this section, I identify cities and school districts that have experienced dramatic growth of their charter school sectors over the past few decades. Specifically, I focus on cities and school districts where total numbers of enrolled students exceed 20,000 and where charter school shares of enrolled students exceeded 20 percent by the year 2013. From these districts, I hand select illustrative cases across regions and states, and across different financing models and enrollment constraints. While revealing some commonalities, the selected examples illustrate the need to explore this issue on a case-by-case, city-by-city, and state-by-state basis.

The goal is to understand how the growth in charter schools' share of district enrollment, across various urban contexts, affects enrollments and in turn finances of traditional public school districts.

For each city context, in the “Enrollment and charter operators in U.S. cities” section, I summarize:

1. Trends in charter school and host district (or citywide) enrollments
2. Distributions of enrollments by specific management company operators
3. Changes to average charter and district school enrollments
4. Resulting school enrollment size distributions

Of particular interest in this discussion is whether the shifts in enrollments from district to charter schools have resulted in increased shares of children enrolled in what would be considered “inefficiently small” schools, whether upstart charters or declining district schools. Of secondary interest, discussed further below, are the types of operators that have penetrated different markets.

In the “Fiscal effects of charter market growth” section, I summarize a series of fiscal indicators over time for each urban context, including:

1. Host district per pupil revenues by source (local, state, federal) and where possible (and relevant), district transfers to charter schools
2. Host district per pupil expenditures and expenditure shares on overhead functions, including:
 - Building and general administration
 - Plant operations and maintenance
 - Transportation

Of particular interest here is whether the reduction of enrollments caused by students transferring from district to charter schools is resulting in a manageable decline in total revenues, given declining enrollments of host districts. Potential indicators of fiscal stress include increased per pupil expense and greater budget shares allocated to administrative overhead, increased per pupil expense and greater budget shares allocated to maintaining an underutilized aging capital stock, and/or increased transportation expense resulting from remaining student populations that are more dispersed.

A number of background issues are important here. First, there are different types of charter schools. I have already addressed above the different authorizer alternatives. Expanding on the previous description, charter schools may either be *fiscally dependent* on local public school districts or *fiscally independent*.

Fiscally dependent charter schools rely on local public school districts to pass along the revenues associated with the children to be educated by the charter school. Under these models, host districts often retain responsibility for providing some services, including

such things as transportation, food service, special education services, enrollment management systems, and in some cases facilities. As such, districts may retain some share of revenues to cover the costs of these services. That share may be defined in state charter law, or may be a matter of local board policy. In some cases, districts are also fiscal dependents of municipalities. That is, the district budget is part of the city budget. In these cases, the district operating within the city and charter schools operating within the city are each dependents of the city (charters not dependent on the district). As noted previously, districts may or may not have leverage over the rate of growth of these schools, depending on how they are authorized.

Fiscally independent charter schools often receive funding directly from their host states, based on the pupils they serve. These schools essentially operate as independent local education agencies, located geographically within an existing traditional district LEA (local education agency) and drawing students from within and outside of the host district geographic boundaries. The subsidy sent to the charter school by the state is then not sent to the district that would have otherwise served the students (sending district), i.e., it is deducted from the state aid. Similar arrangements exist between school districts in states with interdistrict choice programs. Geographic hosts to fiscally independent charter schools may or may not be the primary senders of students to those schools. This is certainly the case for cyber charter schools. Geographic hosts also likely have little leverage over the growth of fiscally independent charter schools, even if those schools draw primarily from the geographic host district.

Fiscal dependence matters in many ways, but most notably in terms of policy implications. Fiscally dependent charter schools operate under the policy umbrella of the district responsible for serving children in the same urban space. Thus, it makes sense that they be considered a fully integrated part of this local system, where district leadership—or portfolio managers at the district level—take responsibility for management and distribution of enrollments, annual operating resources, and capital assets. Fiscally independent charters present a different set of issues, competing as independent entities in the same space as host districts. But those districts are merely their spatial/geographic host, not their financial or management host. Thus, state policymakers rather than local districts must regulate rational, equitable distribution of schools, children, and resources, with consideration for the equity and adequacy of the system for all children.

These complexities introduced by chartering merely add to existing layers of governance complexity. In some states local public school districts are largely aligned with other geographic governing units, such as cities or municipalities or counties. That is, one school district serving elementary through secondary grades, in one city or county. In other cases smaller cities or towns might operate only K through sixth-grade or K through eighth-grade schools, and send their high school students to regional districts. These arrangements often exist in densely populated metropolitan areas as well as remote rural areas. Phoenix, Arizona, for example is home to a complex overlay of elementary school districts and high school districts, along with numerous fiscally independent charter operators. It can be incredibly difficult to determine charter school impact on any one geographic host under these circumstances.

There are also those cases where school district boundaries simply have no relation to municipal boundaries for a variety of historical reasons (Fischel 2010; Holme and Finnigan 2013). Such is the case in Kansas City, Missouri, a district with significant charter school market share growth, in a state that restricted, until recently, charter schools to the boundaries of Kansas City and St. Louis school districts. But, Kansas City Public Schools is only a small portion of the city—a predominantly black, low-income portion carved out of the central city, with boundary changes leading to further racial isolation as recently as 2006 (Green and Baker 2006).

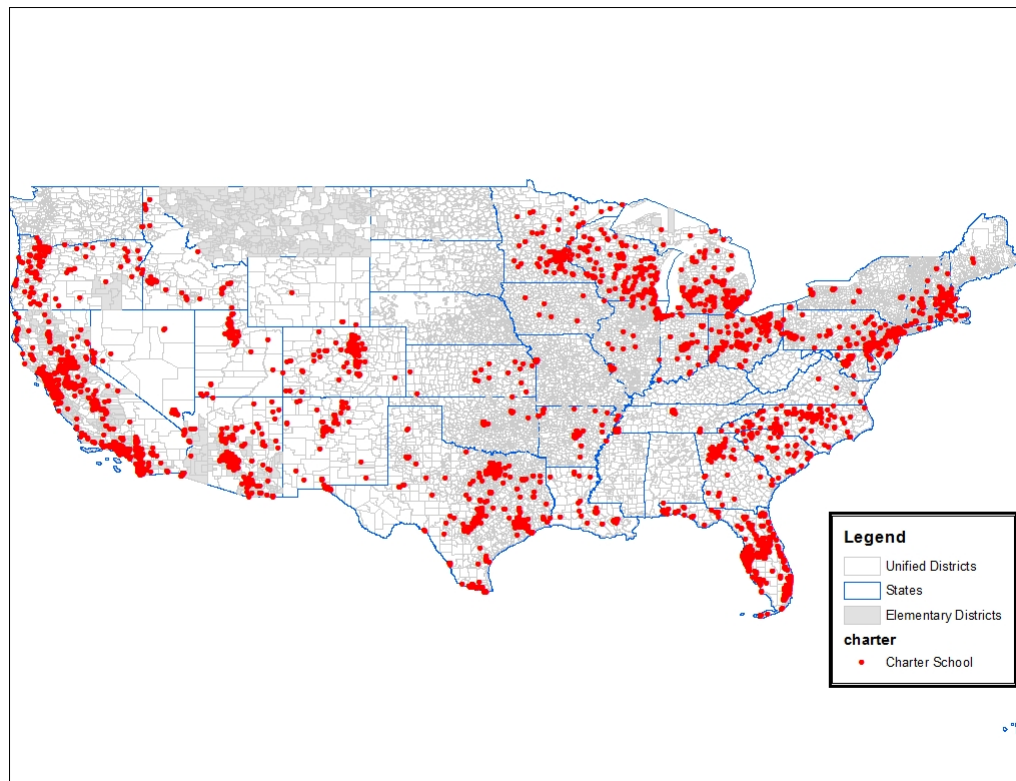
In this section, we also provide an overview of the mix and distribution of charter management companies that have entered various large urban markets. We introduce these managers for a variety of reasons. First, leading (by market share) charter operators in many cities studied include those that have been the subject of federal and state investigations and judicial orders regarding conflicts of interest (self-dealing) and financial malfeasance, including Imagine Schools, Inc., White Hat Management, National Heritage Academies, and Concept Schools (Baker and Miron 2015). The rate of growth of suspect providers may be a result of lax authorization and oversight and may in fact be coupled with more rapid expansion of chartering in general. Second, these variations in financial and educational practices post not only overall quality and accountability concerns, but also equity concerns, where access to different providers across the urban space is uneven.

Figure 2 provides a nationwide map of the distribution of charter schools as of 2013. The population dense Northeast Corridor from Washington, D.C., to Boston certainly has its share of charter schools. So do large metropolitan areas in California and Texas. But charter schools are notably widespread and dispersed throughout other states including North Carolina, Arizona, Michigan, Ohio, Wisconsin, and Florida.

Figure 3 uses the city or municipal boundaries as the unit of analysis for identifying locations with the greatest penetration of charter schooling. The notable outlier is New Orleans, where, following Hurricane Katrina’s destruction of the city’s school system and displacement (much of it permanent) of the city’s student population, the state pursued a strategy of replacing the remaining district-operated schools with a centrally governed *Recovery School District* consisting entirely of charter schools. In the past few years (since these data) the system has converged on over 90 percent charter enrollment. New Orleans is not shown in the graph but the data are available in the underlying table. Although not shown in the figure, Highland Park, Michigan, a much smaller city carved out of Detroit, also shifted control of its schools to a single charter operator (Leonia Group) in 2012 (Banchero and Dolan 2012).

Charter market penetration in other cities has grown more steadily and linearly ending at between 25 percent and 41 percent by 2013. Major cities where school district and city boundaries are largely contiguous include Cleveland, Columbus, and Toledo in Ohio; Detroit; Philadelphia and Harrisburg, Pennsylvania, and Washington, D.C. Other cities are embedded within Florida counties (Pembroke Pines and Homestead). Charter market share for their host counties, however, remains much lower.

Figure 2 **Distribution of charter schools, 2013**



Source: Author's rendering

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Figure 4 applies the host district geographic boundaries as the unit of analysis for portraying market share in the locations with the greatest penetration of charter schooling. There is some overlap between figures 3 and 4. Again, New Orleans, the notable outlier, is not shown in the graph but the data are available in the underlying table. Other Rust Belt cities in Pennsylvania, Ohio, and Michigan, where school district and city boundaries are contiguous, remain on the list. Deletions to the list (including Florida cities) bump Indianapolis up into the top 10. The notable addition to the list is the Kansas City school district, where the bounded school district within the city has very high charter market share, even though the city as a whole does not.

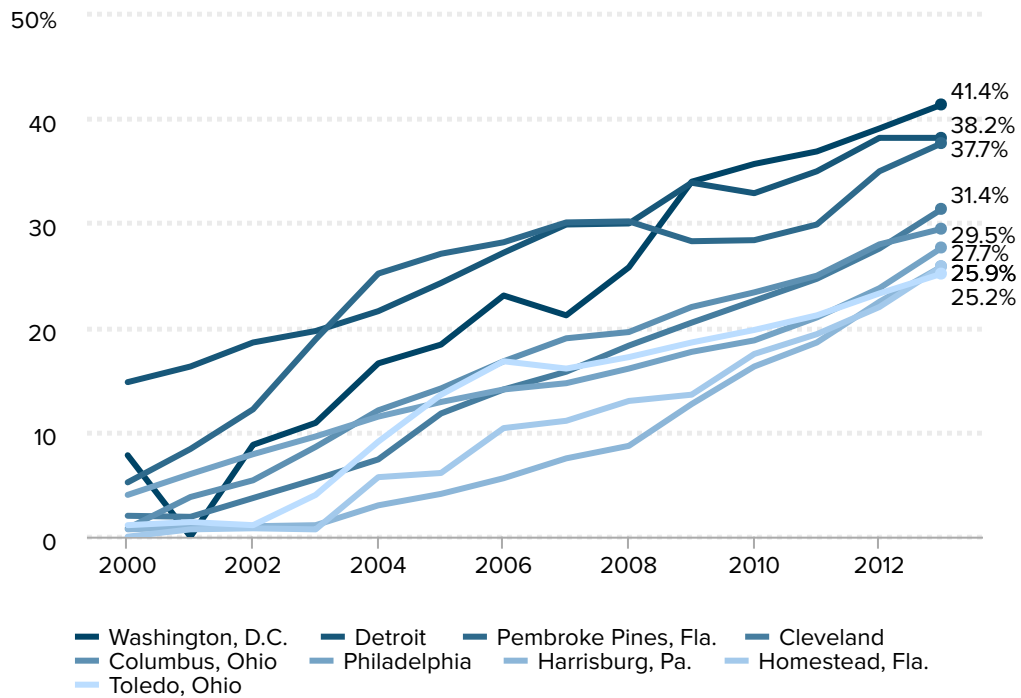
Enrollment and charter operators in U.S. cities

Here, I take a closer look at the enrollment effects and provider distributions across seven cities, including New Orleans. Charter advocates frequently cite research studies on the successes of high profile charter school operators including the Knowledge is Power Program and Harlem Children's Zone. Far less attention has been paid to the vast majority of management organizations that actually run charter schools across the country,

Figure 3

Charter school market share by city location

Percent of citywide school enrollments in charter schools, 2000–2013



Note: Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013. New Orleans is not included in the figure because the extent of charter schooling there makes it an outlier.

Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data

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especially in more saturated markets in less regulated states such as those I discuss here. Because there are similarities across Ohio cities with large charter market shares, rather than discuss them each herein, I substitute one city, Newark, New Jersey, from just outside the top 10 in market share, a city in a state with more tightly regulated (single, state authorizer) charter sector.

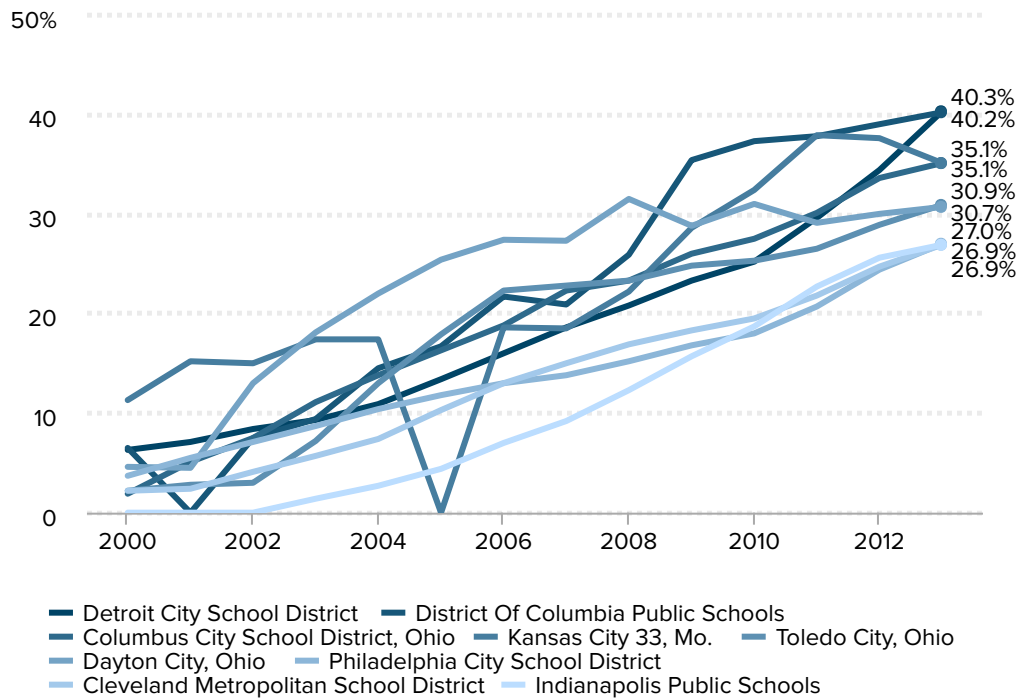
New Orleans and the Katrina effect

As noted above, the conversion of the New Orleans public school system to a more than 90 percent charter system was conscious and deliberate. As such, it was governed by a central authority, involved a centrally managed transportation and student assignment plan, and centralized accountability over charter operators. It also involved, as shown in **Figure 5**, complete displacement and selective repopulation, racially, economically, and geographically, of the student and family population of the city. It is a model of so many moving parts and unique circumstances that its applicability to other contexts is extremely limited. Immediately after Hurricane Katrina in 2005, the district and charter populations, which had been around 66,000 students combined (and 80,000 in 2000), dropped to

Figure 4

Charter school market share by host district location

Percent of districtwide school enrollments in charter schools, 2000–2013



Note: Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013. Orleans Parish, La. is not included in the figure because the extent of charter schooling there makes it an outlier.

Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and School Attendance Boundary Survey Data

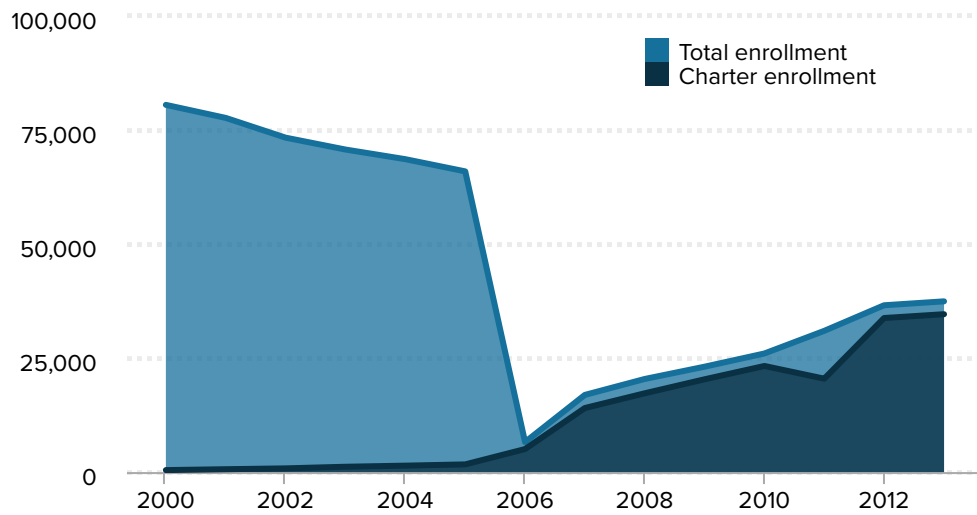
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under 10,000. Since that time, total enrollment has come back to about half of its original (albeit already declining) levels of the early 2000s. Traditional district schools have now been eliminated.

Figure 6 shows the distribution of charter operators in New Orleans, based on data from 2011–12, and classifications from Miron and Gulosino (2013) adapted by Weber and Baker (2015a). At the time of these data, district schools (within city boundaries) still served about 29 percent of children. While about 5 percent of enrolled children are in KIPP schools (higher than most other cities) and some children are in schools operated by UNO Charter School Network and Edison Learning, Inc., most charter schools in New Orleans are operated by “other” operators, not major national or regional providers. Many are local or regional. Algiers Charter School Association is a locally based but apparently large chain. Again, all Recovery School District schools operate under a centralized enrollment/assignment system and accountability system.⁶

Figure 5

New Orleans (school district boundaries) total, charter school, and district school enrollment, 2000–2013



Note: Total enrollment minus charter enrollment equals enrollment in district schools. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

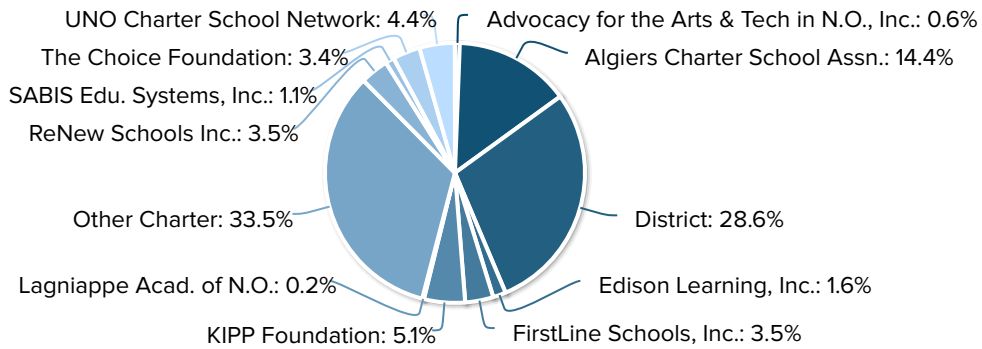
Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and School Attendance Boundary Survey Data

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Figure 6

New Orleans school operators

Distribution of enrollment by school operator in New Orleans (city boundaries) in the 2011–2012 school year

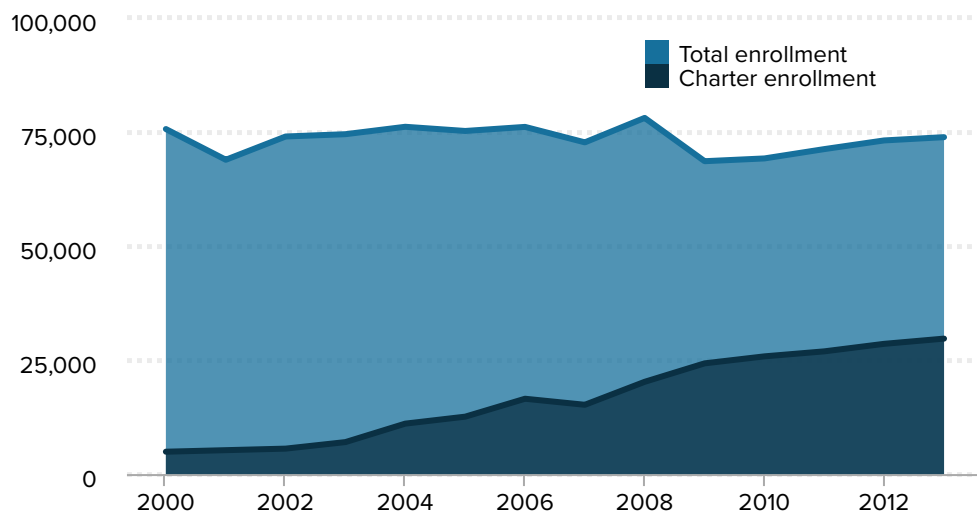


Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and Gary Miron and Charisse Gulosino (2013)

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Figure 7

Washington, D.C. (school district boundaries) total, charter school, and district school enrollment, 2000–2013



Note: Total enrollment minus charter enrollment equals enrollment in district schools. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and School Attendance Boundary Survey Data

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Washington, D.C.

Washington, D.C., presents a more typical example of charter school enrollment growth within a context of relatively constant total school enrollment (**Figure 7**). Total charter and district enrollment (excluding private enrollment) in the District of Columbia has remained constant at around 70,000 students since 2000. As charter enrollment has increased, district enrollment has dropped under 50,000, but appears to have stabilized from 2009 to 2013.

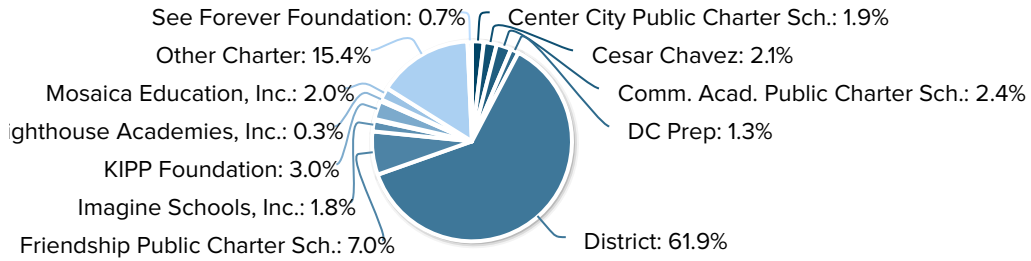
The mix of operators in Washington, D.C., is also diverse (**Figure 8**). As noted above, the district continues to serve the lions' share (62 percent) of enrollments. Some areas of the district, notably the more affluent northwest quadrant, are home to far fewer charter schools. "Other charter" operators remain the largest group of charter operators. KIPP schools serve 3 percent of total enrollments. An array of other regional and national providers each serves relatively small shares. Again, these schools operate under a single authorizer and a central application and assignment system, permitting the district to maintain, and financially plan for, a balanced system (My School DC n.d.).

Figure 9 shows the average enrollments per school for all schools and for charter schools from 2000 to 2013. In a city with relatively constant citywide population, school average enrollments have declined, but leveled off as new schools—charter schools—have been introduced and expanded. By 2013 average school sizes for both charter and district schools were similar at about just below 300 pupils for charter schools and above 300 for

Figure 8

Washington, D.C. school operators

Distribution of enrollment by school operator in Washington, D.C. (city boundaries) in the 2011–2012 school year

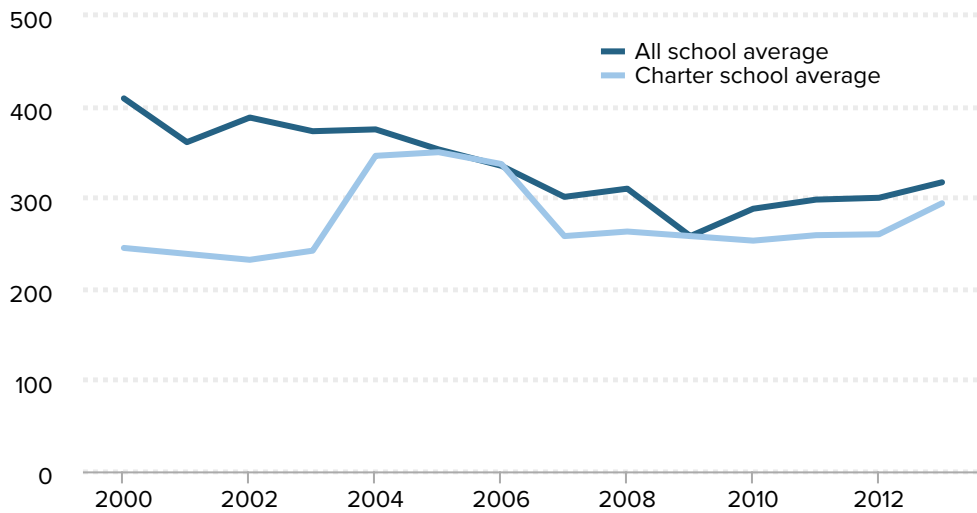


Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and Gary Miron and Charisse Gulosino (2013)

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Figure 9

Washington, D.C. (school district boundaries) average enrollment per school, all schools and charter schools, 2000–2013



Note: Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

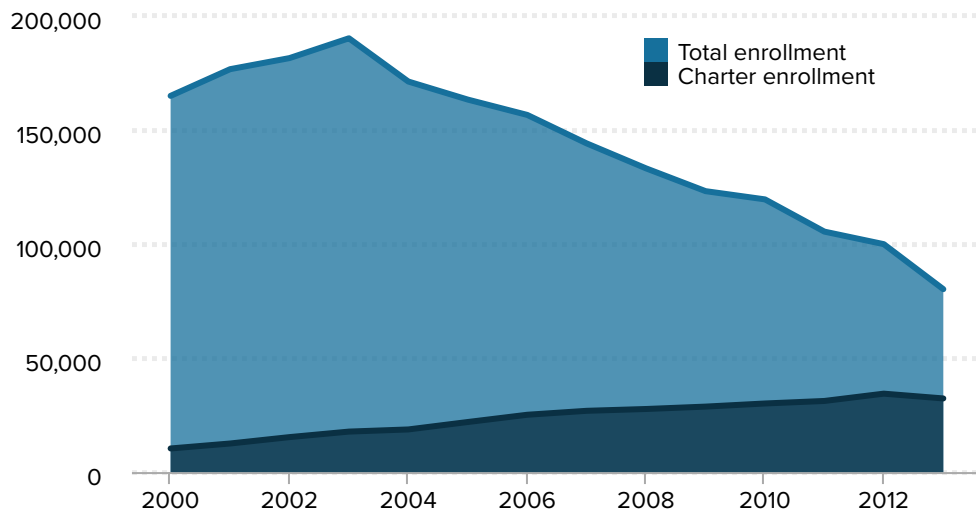
Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and School Attendance Boundary Survey Data

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all schools. But this is a relatively small school enrollment total, even for elementary schools, and near the lower bounds for efficient operation (Andrews and Yinger 2002).

Figure 10

Detroit (school district boundaries) total, charter school, and district school enrollment, 2000–2013



Note: Total enrollment minus charter enrollment equals enrollment in district schools. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and School Attendance Boundary Survey Data

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Detroit, Michigan

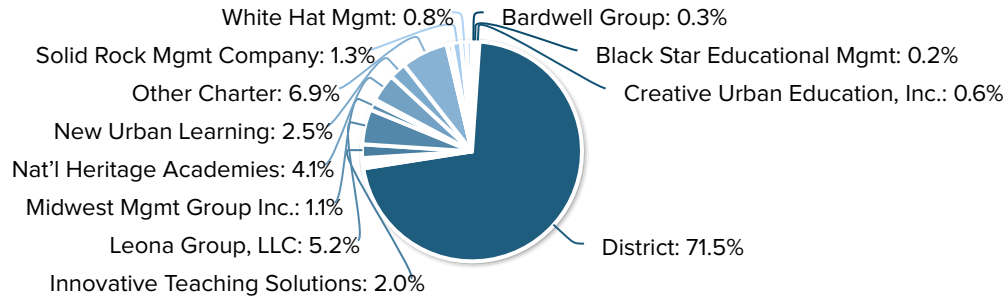
Figure 10 displays total and district enrollment trends from 2000 to 2013 in Detroit, Michigan. Detroit presents a unique case of rapid and long-term school depopulation. Total enrollment is declining and district enrollment has a similar rate of decline, with charter enrollments holding relatively constant. As such, the charter share is increasing. Whereas traditional district schools once served over 170,000 pupils, they now serve fewer than 50,000.

Figure 11 shows the distribution of providers in Detroit. These providers are authorized by multiple entities, including universities, and are fiscally independent of the district. Thus they can grow to the extent their authorizers will allow (or shop for new authorizers) and largely set their own rules regarding enrollments, lotteries for oversubscription, and backfilling (whether they will take on new students to fill seats if/when other students exit). Detroit includes a diverse array of nonprofit and for-profit operators, including one with a suspect track record, National Heritage Academies (4 percent of enrollments) (Singer 2014). The largest portion of charter enrollments are in the group “other charter” operators. With 5 percent of enrollments, Leona Group holds the largest share among single operators, and is also the operator of Highland Park Schools, a separate smaller district surrounded by Detroit. Notably absent are any high profile providers on which rigorous peer reviewed studies have been conducted.

Figure 11

Detroit school operators

Distribution of enrollment by school operator in Detroit (city boundaries) in the 2011–2012 school year

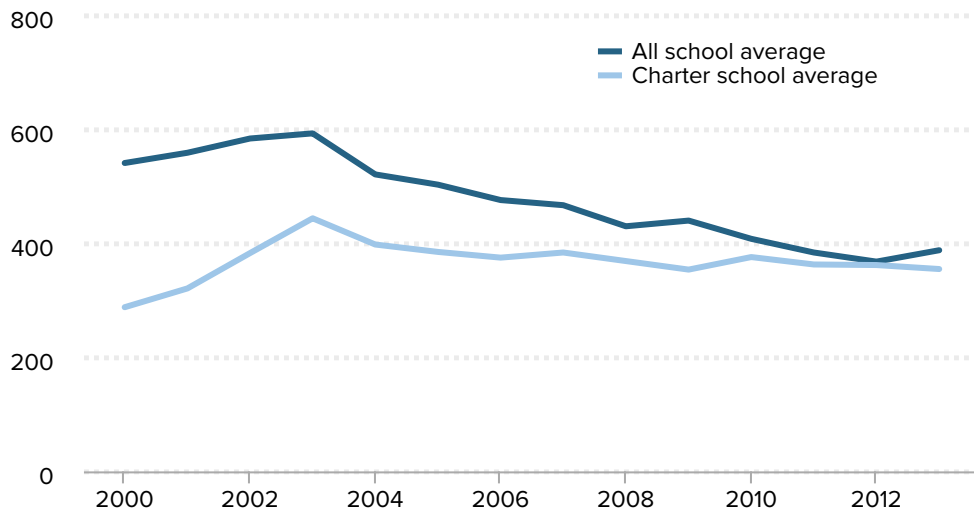


Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and Gary Miron and Charisse Gulosino (2013)

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Figure 12

Detroit (school district boundaries) average enrollment per school, all schools and charter schools, 2000–2013



Note: Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

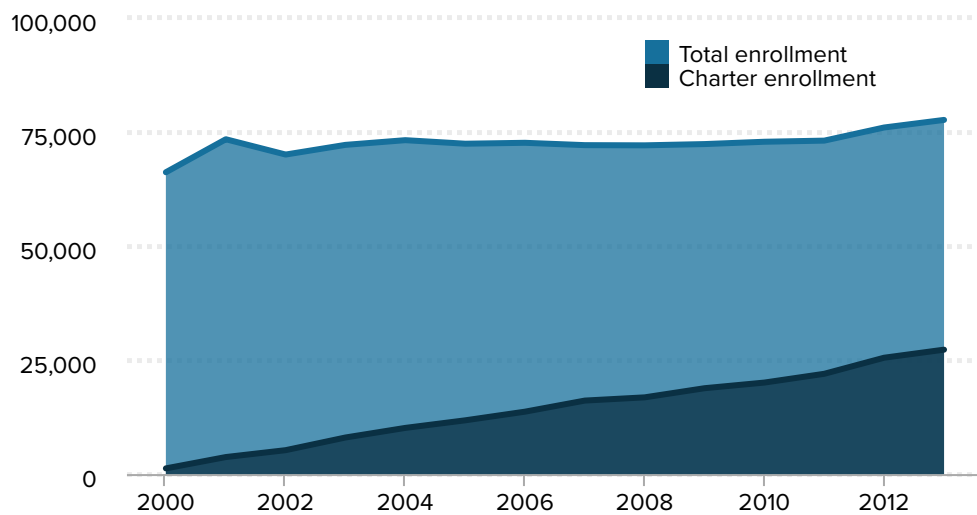
Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and School Attendance Boundary Survey Data

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Average per school enrollments in all Detroit schools and Detroit charter schools have converged on the 350 to 400 pupils per school range, slightly larger than in Washington, D.C., and seemingly stabilizing in recent years (Figure 12).

Figure 13

Columbus, Ohio (school district boundaries) total, charter school, and district school enrollment, 2000–2013



Note: Total enrollment minus charter enrollment equals enrollment in district schools. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and School Attendance Boundary Survey Data

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Columbus, Ohio (and other cities)

Columbus, Ohio, and other major Ohio cities present more modest cases of charter sector growth, but as with Detroit, operate in a context in which the city has little leverage over charter growth within its boundaries. Ohio “community schools” are authorized by a number of independent authorities and funded directly by the state, with the state funding removed from district allotments. As will be seen in the next section, however, this funding is reported as a pass-through from sending districts.

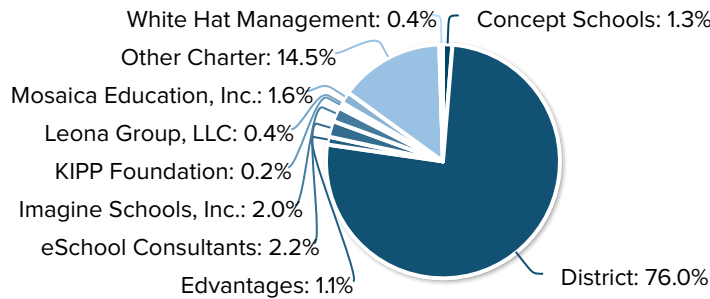
Columbus presents a somewhat typical example of charter expansion and enrollment growth in Ohio (**Figure 13**). Total students enrolled in district and charter schools within city boundaries remained somewhat constant around 70,000 until an uptick to nearly 78,000 in recent years. District enrollment slid from about 70,000 at the outset of charter growth in 2001 to around 50,000 by 2013 with some apparent leveling off in recent years.

Figures 14, 15, and 16 show the mix of for-profit and nonprofit operators of charter schools in Columbus, Dayton, and Cleveland. KIPP has a minor presence in Columbus. But across these three cities, operators with a presence include White Hat, Imagine Schools, and Concept Schools. According to news reports, White Hat has engaged in questionable practices (*Akron Beacon Journal* 2015). Specifically it was chastised by the Ohio Supreme Court for engaging in questionable, self-enriching contracts with charter school boards. Imagine Schools recently lost a federal court challenge in Kansas City, Missouri, over its questionable management (“double dealing”) and financial practices (Robertson 2015),

Figure 14

Columbus, Ohio school operators

Distribution of enrollment by school operator in Columbus, Ohio (city boundaries) in the 2011–2012 school year



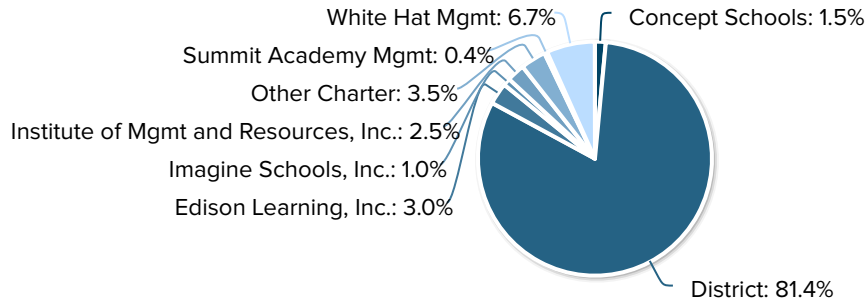
Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and Gary Miron and Charisse Gulosino (2013)

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Figure 15

Dayton, Ohio school operators

Distribution of enrollment by school operator in Dayton, Ohio (city boundaries) in the 2011–2012 school year



Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and Gary Miron and Charisse Gulosino (2013)

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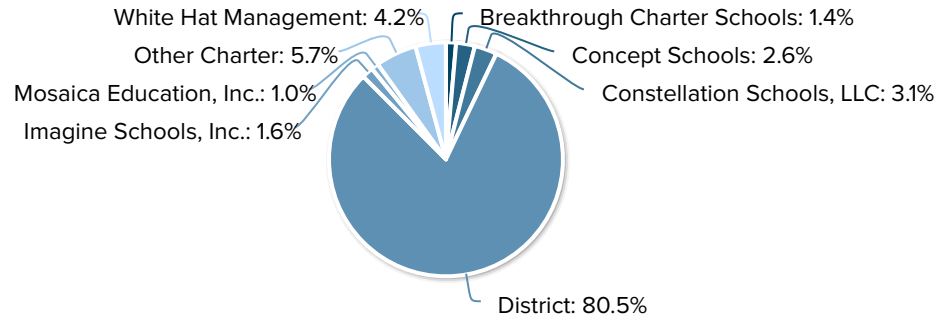
and Concept Schools are also no stranger to legal claims of financial impropriety (Saunders 2015). Imagine Schools was also under fire in St. Louis (Crouch 2011), Columbus (Candisky and Siegel 2014), and in Florida (Matus and Solochek 2012) for suspect real estate dealings and charging exorbitant lease costs to charter school boards, at taxpayer expense.

In Dayton, White Hat controls 7 percent (as of 2011–12) of charter enrollments while Imagine and Concept control a percent and 2 percent respectively. Edison Learning also holds a 3 percent share. In Cleveland, the distribution is similar with White Hat at 4 percent and Concept and Imagine at 3 percent and 2 percent respectively. The Cleveland market includes an additional manager, Constellation, serving 3 percent of enrollments.

Figure 16

Cleveland school operators

Distribution of enrollment by school operator in Cleveland (city boundaries) in the 2011–2012 school year

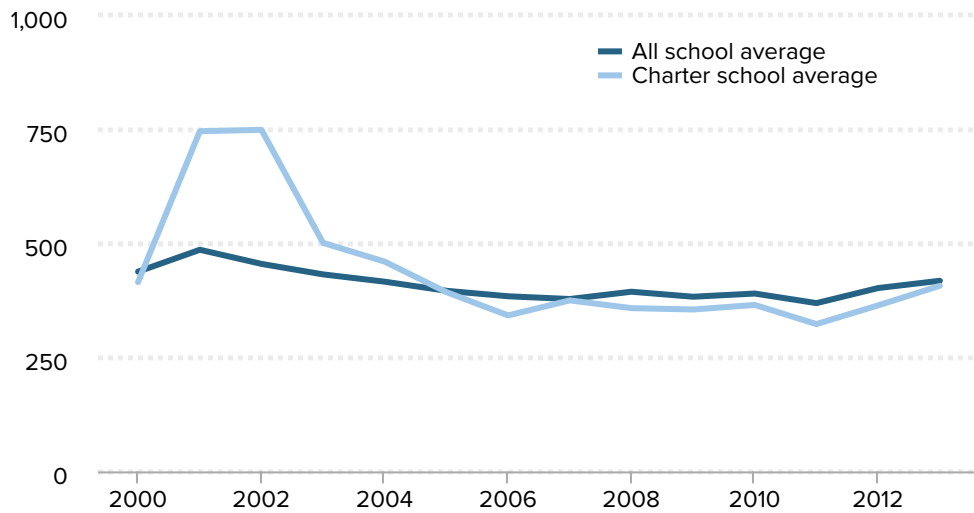


Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and Gary Miron and Charisse Gulosino (2013)

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Figure 17

Columbus, Ohio (school district boundaries) average enrollment per school, all schools and charter schools, 2000–2013



Note: Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

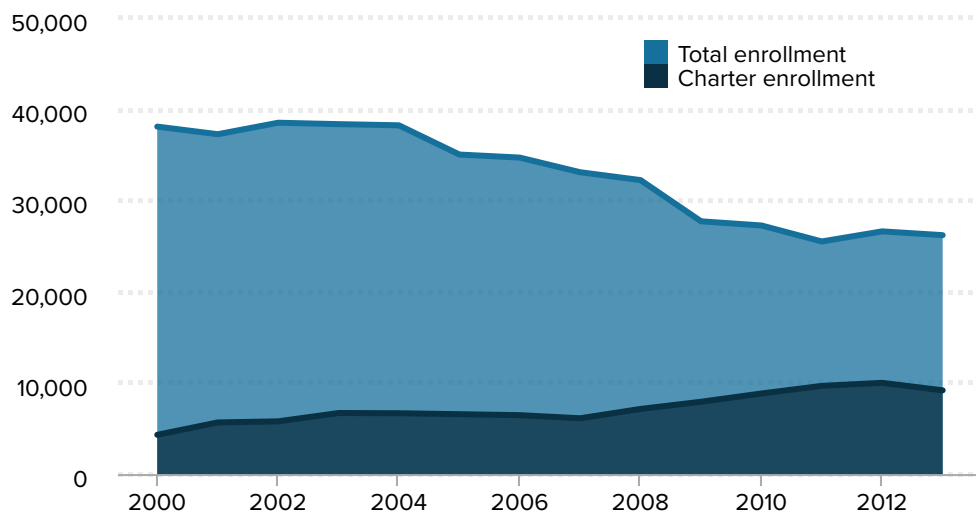
Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and School Attendance Boundary Survey Data

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Figure 17 takes us back to Columbus, and shows the average school level enrollments over time. Enrollments for charter schools and for all schools have leveled off around 400 pupils.

Figure 18

Kansas City, Mo. (school district boundaries) total, charter school, and district school enrollment, 2000–2013



Note: Total enrollment minus charter enrollment equals enrollment in district schools. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and School Attendance Boundary Survey Data

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Kansas City, Missouri

Kansas City, Missouri, presents a peculiar case in many ways. **Figure 18** shows that total enrollments in the school district (which covers only part of the city) were already in decline from 2000 to 2007, at which time the remaining predominantly white northeast corner of the district (which was within the city boundaries of Independence) was permitted to annex itself. Thus, the sharp dip in total enrollment that follows. Also during this period, the state of Missouri permitted charter schools to be established only within the boundaries of Kansas City Public Schools and the St. Louis Public School District.

Since 2000, total district and charter enrollments combined are down from just over 38,000 to just over 26,000, with district enrollment down to about 17,000. Charter enrollment has grown over that time, but charter market share has grown largely as a function of total enrollment decline (including annexation). Enrollments seem to have stabilized in recent years.

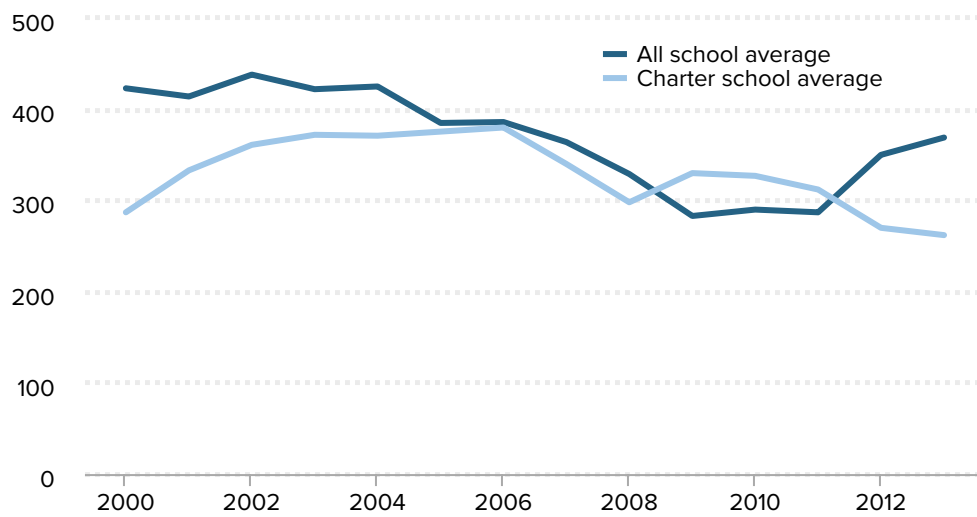
As **Figure 19** shows, average enrollments per school, which dipped below 300 in the late 2000s, appear to have rebounded, to over 350 students.

Newark, New Jersey

Newark, New Jersey, presents another more modest and more regulated case of charter expansion. New Jersey has only one authorizer, the state itself, and charter schools

Figure 19

Kansas City, Mo. (school district boundaries) average enrollment per school, all schools and charter schools, 2000–2013



Note: Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and School Attendance Boundary Survey Data

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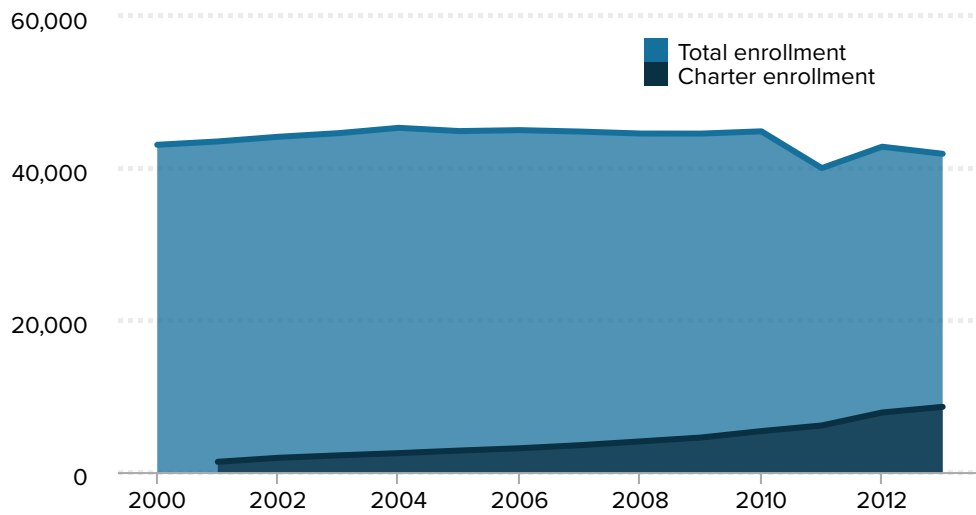
receive pass-through funding from host districts. Unlike Ohio, Michigan, and Pennsylvania, New Jersey does not permit for-profit management companies from operating charter schools. Total student enrollments in Newark have remained relatively constant (**Figure 20**). District enrollments have declined from near 43,000 in 2004 to around 33,000 by 2013, with the biggest dips in more recent years since, as a function of district policy to close district schools and turn them over to charter operators (the data “blip” in 2010 appears to be an anomaly) (Weber 2015b).

Like Dayton and Cleveland, a large share of Newark schools (**Figure 21**) are district schools (86 percent). “Other” charters serve 8 percent of students. The remaining students in Newark attend schools operated by KIPP and Uncommon Schools, both established nonprofit providers with a significant regional and national presence.

Figure 22 shows that the average enrollment per school citywide dipped slightly in recent years, but remains relatively large compared with the other cities herein, at about 450. Charter school average enrollment has increased substantially, but it is important to note here that KIPP and Uncommon schools in Newark are often reported as single schools even though they are now large enough to operate multiple schools, organized like districts within the district.

Figure 20

Newark, N.J. (school district boundaries) total, charter school, and district school enrollment, 2000–2013



Note: Total enrollment minus charter enrollment equals enrollment in district schools. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

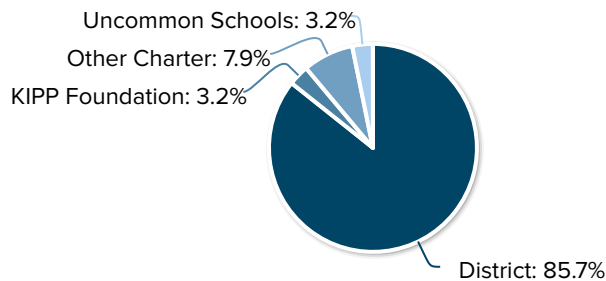
Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and School Attendance Boundary Survey Data

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Figure 21

Newark, N.J. school operators

Distribution of enrollment by school operator in Newark, N.J. (city boundaries) in the 2011–2012 school year



Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and Gary Miron and Charisse Gulosino (2013)

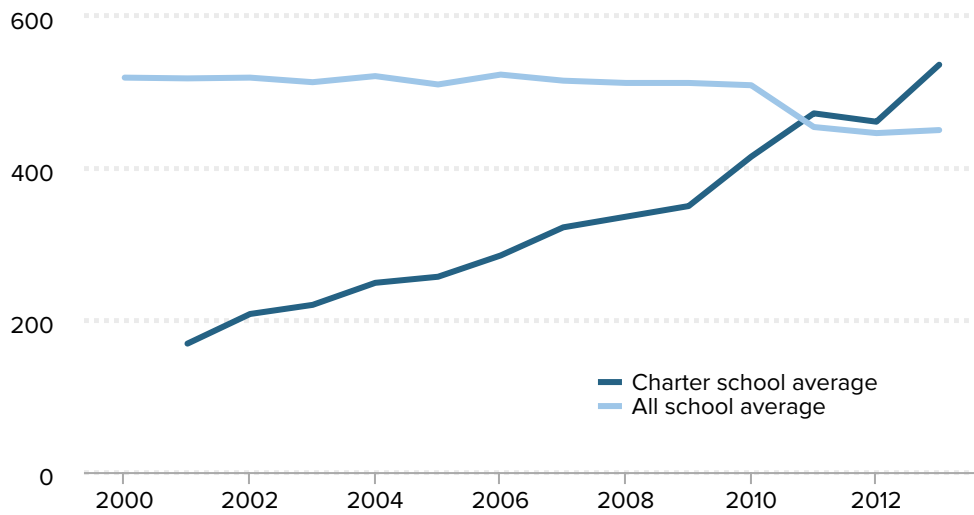
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Philadelphia

Finally, we come to Philadelphia. In Pennsylvania, charter schools are established under the authority of local boards of education (Commonwealth of Pennsylvania n.d.). Thus, local board leadership decides how many charters to authorize and how charter schools

Figure 22

Newark, N.J. (school district boundaries) average enrollment per school, all schools and charter schools, 2000–2013



Note: Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.
Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and School Attendance Boundary Survey Data

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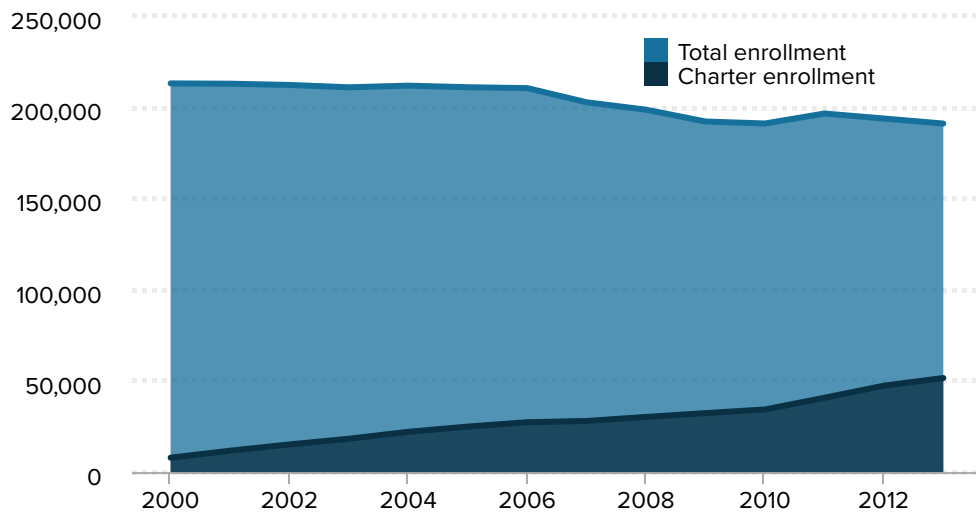
may grow throughout the district. As mentioned in the introduction to this report, prior to engaging in a strategy of charter expansion through private managers, Philadelphia had engaged in large-scale private management of district schools. Two substantive differences between these strategies are that charters established within the district and operated by private managers are able to negotiate their own employment agreements, and charter operators within Philadelphia pursue their own facilities arrangements. Districts retain responsibility for providing transportation.

Figure 23 shows that total enrollments have declined somewhat in Philadelphia from just over to just under 200,000. Philadelphia is a much larger district than any of the others addressed herein. District enrollment has dipped to under 140,000 and has continued to fall, in part as the district continues an aggressive school closure plan leaving some geographic areas underserved by district schools (Philadelphia Public School Notebook 2013). That is, charter market-share growth in Philadelphia and other cities herein (such as Newark) is less indicative of market demand for charters and more indicative of public policy to promote charters while dismantling districts. Current leadership in Philadelphia proposes similar expansion (Mezzacappa 2015).

Figure 24 shows the distribution of enrollments by operator in Philadelphia. In Philadelphia, the largest single charter operator is a property management company⁷ and the second largest operators are local chains, Mastery Charter Schools and Universal Companies, Inc. KIPP schools also have a presence in Philadelphia. As with other markets, “other” operators dominate the landscape.

Figure 23

Philadelphia (school district boundaries) total, charter school, and district school enrollment, 2000–2013



Note: Total enrollment minus charter enrollment equals enrollment in district schools. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

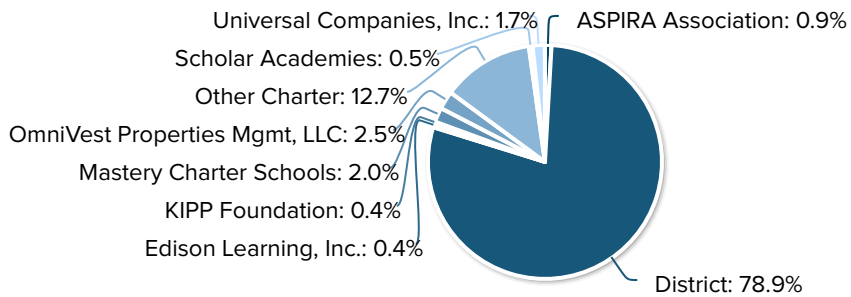
Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and School Attendance Boundary Survey Data

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Figure 24

Philadelphia school operators

Distribution of enrollment by school operator in Philadelphia (city boundaries) in the 2011–2012 school year



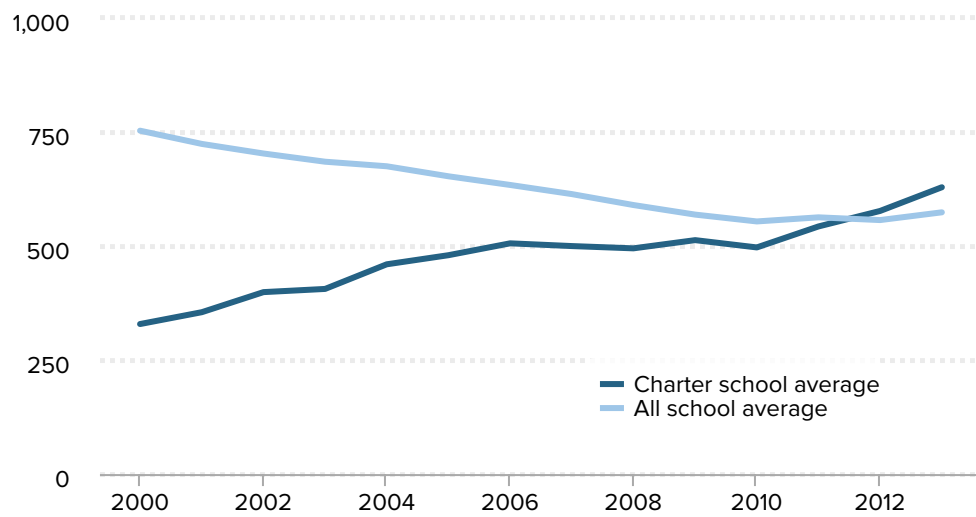
Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and Gary Miron and Charisse Gulosino (2013)

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Figure 25 shows that average school enrollment citywide has leveled off to under 600 pupils, with charter enrollment reaching just over 600. These enrollments are notably much larger than in other cities herein.

Figure 25

Philadelphia (school district boundaries) average enrollment per school, all schools and charter schools, 2000–2013



Note: Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and School Attendance Boundary Survey Data

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Fiscal effects of charter market growth

In this next section, I address trends in revenues and expenditures in school districts addressed above, excluding New Orleans. Of particular concern are those cases in which revenues are declining rapidly with enrollment decline, putting the squeeze on districts to reduce expenditures more rapidly than costs (potentially leading to significant annual deficits). Specifically, I look at:

1. Revenues by source over time
2. Expenditures on overhead related costs
3. Transfers/pass-through funding to charter schools where applicable and reported

Data are school district finance data from the U.S. Census Bureau's Annual Survey of Government Finances. Unfortunately, these data do not sufficiently track fund balances. In the summary section of this report, I present calculated annual deficits based on revenue and expenditure data. I also evaluate overhead expenses as a share of total revenues to determine the effect of fixed costs on declining budgets.

Of particular interest here is whether the reduction of enrollments from students transferring from district to charter schools leads to a manageable decline in total revenues, given declining enrollments of host districts. Potential indicators of fiscal stress are increased per pupil expense and increased budget shares allocated to administrative overhead, including retention of building leaders in buildings with dwindling enrollments,

increased budget share allocated to maintaining and underutilized aging capital stock, and/or increased transportation expense resulting from more dispersed remaining student populations. Further, a growing share of the budget going toward overhead may be evident in a decline in services in the classroom, captured through such measures as pupil-to-teacher ratios.

All revenues and expenditures in the following section are adjusted for competitive wage growth and labor market variation. That is, for each of the following figures, dollar values are adjusted to their national average value and for inflation (set to constant 1999 dollars). Thus, all figures are expressed in 1999 national average constant dollars. They are not directly comparable to reported annual district budgets.

It is important to again reflect on the different approaches states take to fund charter schools. In some of our cases that follow, including Washington, Newark, and Philadelphia, charter schools are funded by a district pass-through formula. Only in the final year of Philadelphia data is the amount of the charter transfer reported. The charter transfer is not reported in the Washington, D.C., data, but is reported for Newark. Our other three examples, Detroit, Columbus, and Kansas City, are all described as direct state-funded models but they differ in a few ways. In Michigan, charter schools receive a direct state allotment, from state funds (Michigan Department of Education 2014).⁸ Districts as a consequence do not receive the state aid they would have received for the same enrolled student. Ohio funding is similar, but as will be seen below, state aid sent directly to charters is reported as revenue to districts and then as transfer to charters (Ohio Department of Education 2014).⁹ In each of these cases, there is, in theory, no loss to the districts above and beyond the state aid they would have received for the child who transferred to a charter.

The Kansas City case is somewhat different, imposing a much greater revenue penalty on the district. In Missouri, the charter allotment is calculated based on the state and local revenues of the host district. The state then provides direct aid to the charter, but reduces the district aid by the amounts of both the state aid that would have been received and the local revenue that would have been allocated, per student (Missouri Revised Statutes 2015).¹⁰

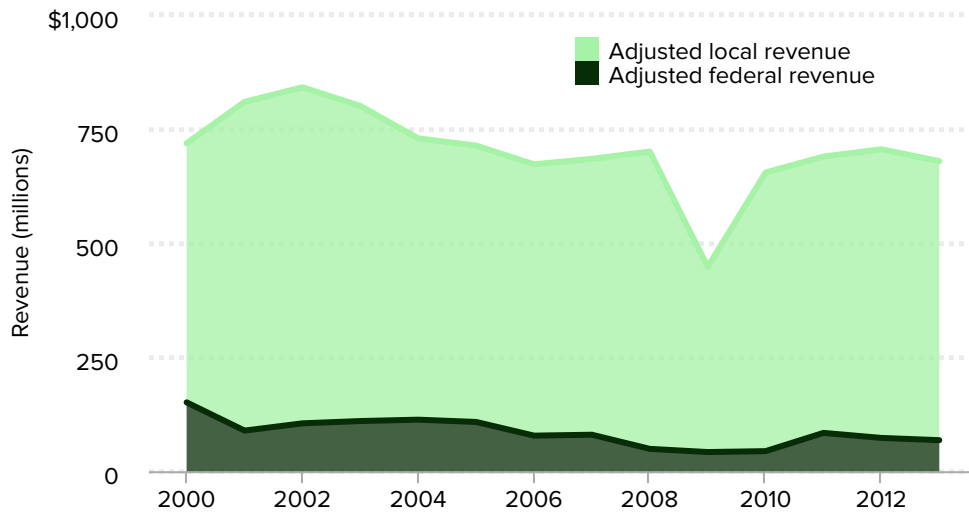
Washington, D.C.

Figure 26 shows the unique revenue structure of Washington, D.C., public schools, which includes revenue to be allocated to both district schools and charter schools. The sharp dip in local revenue in 2009 is likely a data anomaly. Overall, District of Columbia schools revenue has remained relatively constant, adjusted for changes in labor costs, for the last several years as total enrollments have remained relatively constant, but shifted to charter schools.

Figure 27 shows the district's expenditures on district administration, transportation, district schools school administration, and district-controlled plant operations. As students have shifted to charter schools, district plant-operations expenses have fallen, from in the \$75–\$80 million range in most of the 2000s down to about \$37 million in 2013 (again,

Figure 26

Washington, D.C., school district revenues by source, 2000–2013



Note: School district (local education agency) revenues include any pass-through funds for fiscally dependent charter schools. All dollars are adjusted to their national mean value and in constant 1999 (year) dollars. That is, they are adjusted for both regional variation and inflation. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: School district finance data from the U.S. Census Bureau's Annual Survey of Government Finances

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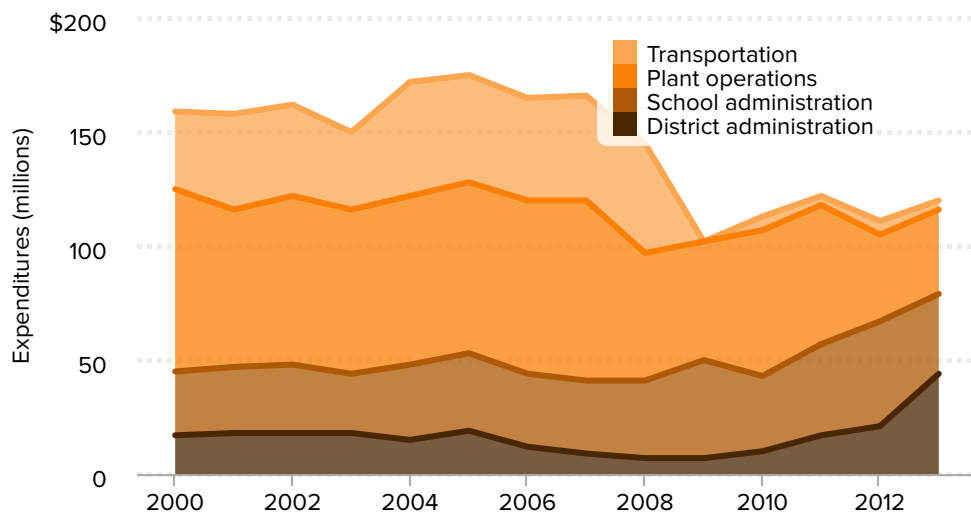
expressed as labor-cost-adjusted, national-average-cost-adjusted dollars). That is, as over 30 percent of students have shifted to charter schools (starting at a baseline of 6.5 percent), plant operations expenses have been reduced by about 50 percent. School administration expenses have increased slightly. Because the district is operating a reduced number of district schools, one would expect this figure to drop, unless some charter-related expenses were shifted to this reporting category. It would appear that transportation expenses were shifted to other reporting categories around 2009, and have been picked up at least partially in district administrative expenses. The total of these expense categories is down by about 25 percent, but this may be in part due to reclassification of expenditures. The district has apparently been able to reorganize facilities use and operations to cut expenses as students have shifted to charter schools.

Figure 28 reveals a more bleak revenue picture for Detroit. Local revenue and federal revenue have remained relatively constant, but with rapid, long-term depopulation of the district, state aid has declined precipitously. In 2000, state aid was clearly the dominant source of district revenue. By 2013, state aid was only marginally greater than local and federal revenue. Total revenues adjusted for labor costs are down 56 percent since 2000.

Adjusting to the dramatic decline in enrollments and commensurate drop in revenue is not a simple task, especially when such expenses as plant operations are concerned. But, **Figure 29** shows that Detroit has substantially reduced plant operations expenses over the period, to about one-third of what those expenses were 10 years prior. While this may seem to be a positive development, a couple of concerns arise. First, the district may no

Figure 27

Washington, D.C., school district expenditures by type, 2000–2013



Note: All dollars are adjusted to their national mean value and in constant 1999 (year) dollars. That is, they are adjusted for both regional variation and inflation. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: School district finance data from the U.S. Census Bureau's Annual Survey of Government Finances

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longer have the facilities that would be needed to serve students currently housed in charter schools if there were a change in policy, or if there was significant failure in the charter sector. Or, the district may still hold some of these assets, but may not be maintaining them, racking up substantial liabilities in the form of deferred maintenance.

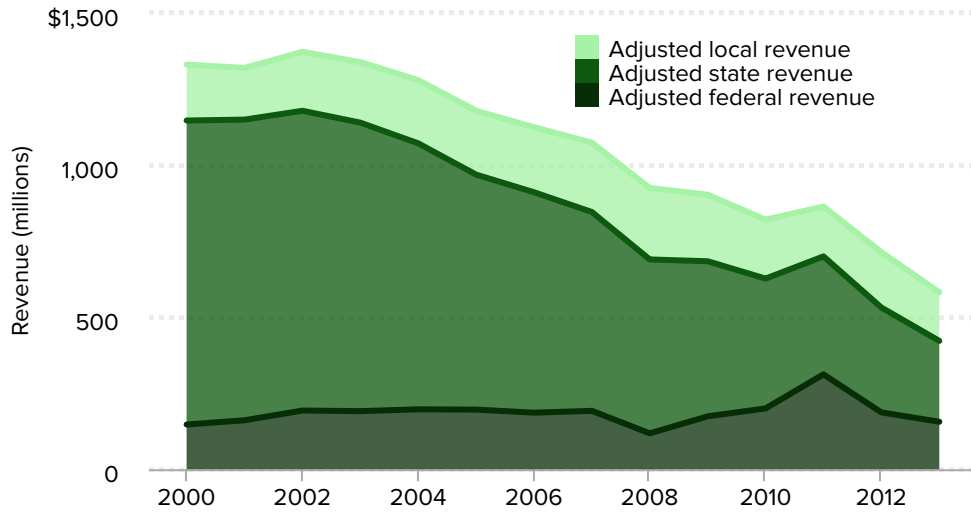
Columbus, Ohio (and other cities)

Figure 30 displays the revenues for Columbus, Ohio, including the charter transfer (of state aid). As noted previously, Columbus, Ohio, enrollments (charter and district) have remained relatively constant, and so too have total revenues, adjusted for labor costs and reported in dollars regionally adjusted to the national mean of 1999 dollars. As charter enrollments have grown, the transfer rate has grown, and transfers now account for about one-third of state aid, or 13.5 percent of state and local revenue.

Figure 31 shows that district overhead-related expenses have remained relatively stable, including school administration expenses and plant operations. Yet, district enrollment is under 75 percent of peak enrollment in the early 2000s. This would suggest that reductions have been made disproportionately in other expenditure categories including classroom instruction. However, evidence addressed in the summary section herein does not reveal negative effects on pupil-to-teacher ratios.

Figure 28

Detroit school district revenues by source, 2000–2013



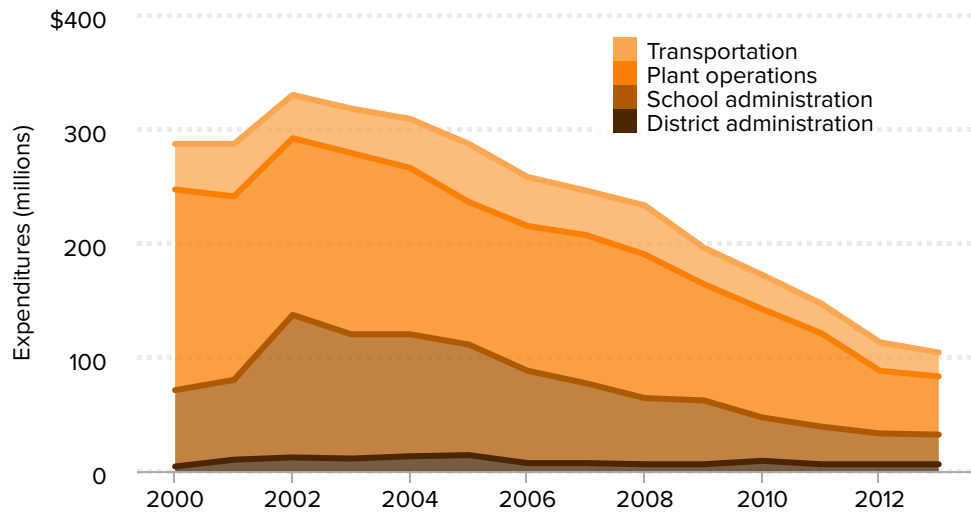
Note: School district (local education agency) revenues include any pass-through funds for fiscally dependent charter schools. All dollars are adjusted to their national mean value and in constant 1999 (year) dollars. That is, they are adjusted for both regional variation and inflation. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: School district finance data from the U.S. Census Bureau's Annual Survey of Government Finances

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Figure 29

Detroit school district expenditures by type, 2000–2013



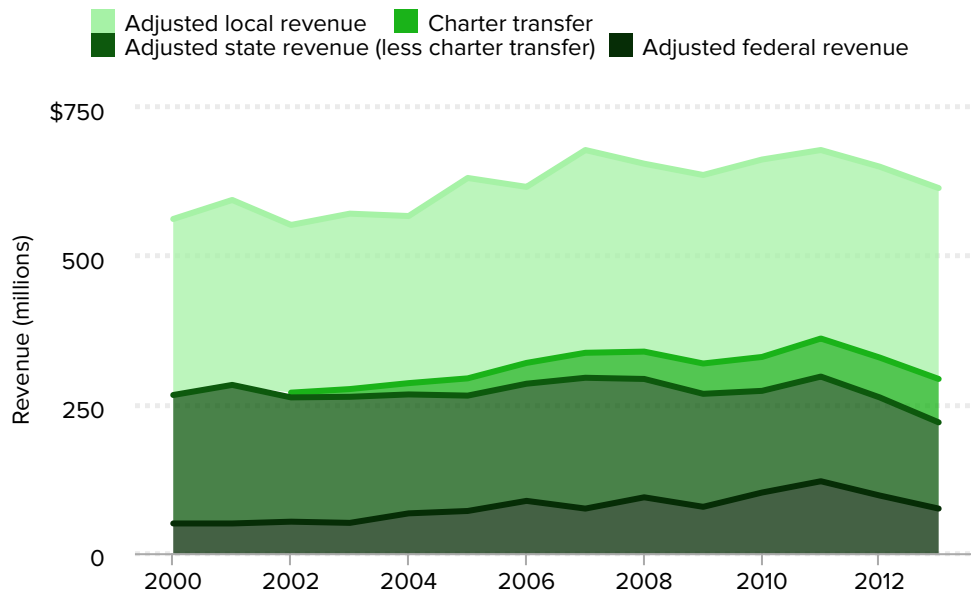
Note: All dollars are adjusted to their national mean value and in constant 1999 (year) dollars. That is, they are adjusted for both regional variation and inflation. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: School district finance data from the U.S. Census Bureau's Annual Survey of Government Finances

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Figure 30

Columbus, Ohio, school district revenues by source, 2000–2013



Note: School district (local education agency) revenues include any pass-through funds for fiscally dependent charter schools. All dollars are adjusted to their national mean value and in constant 1999 (year) dollars. That is, they are adjusted for both regional variation and inflation. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: School district finance data from the U.S. Census Bureau's Annual Survey of Government Finances

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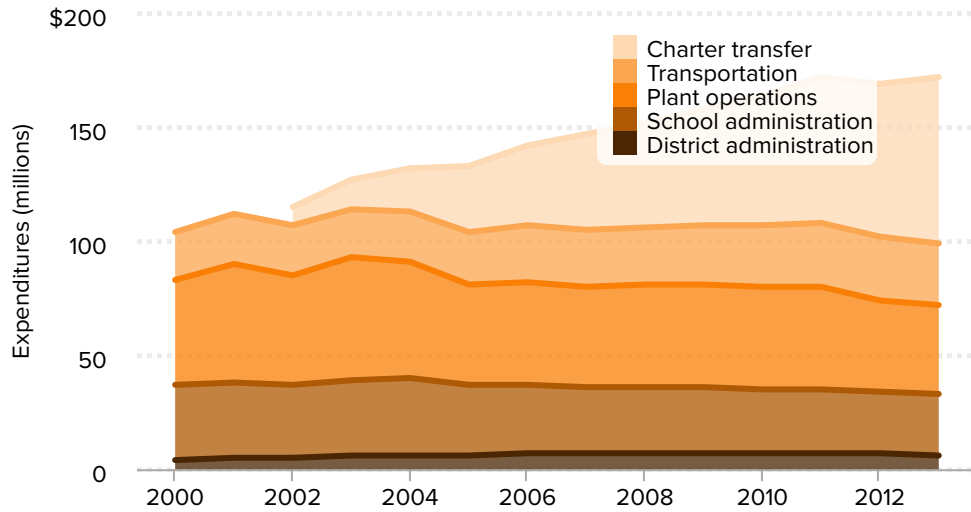
Kansas City, Missouri (mixed model)

Figure 32 shows revenue decline in Kansas City, Missouri. The decline includes the abrupt decline in revenues due to lost enrollment and local tax base resulting from boundary changes in 2007, and a precipitous decline in state aid due the deduction of not only the state share of funding, but also the local share of funding (taken from state aid, and allocated directly to charters). This created an even sharper decline in state aid for Kansas City than for cities such as Columbus and Detroit, which operate in state contexts where only the students' state share of resources is deducted from district revenues. In Kansas City, state aid has been reduced to a relatively small share of total district resources. Notably, Kansas City has long had a relatively strong (better than state average) local property tax base per pupil and that tax base was used to raise the additional revenues needed to comply with past desegregation orders. As such, while local revenues have declined (adjusted for labor costs), they continue to provide a sizeable and relatively stable buffer for the district.

Figure 33 shows that Kansas City Public Schools have also significantly reduced overhead related expenses since 2000, but some of this decline is also a function of the 2007 annexation. Even after the annexation, however, plant operations expenses have been cut by about one-third and school administrative expenses have been cut in half.

Figure 31

Columbus, Ohio, school district expenditures by type, 2000–2013



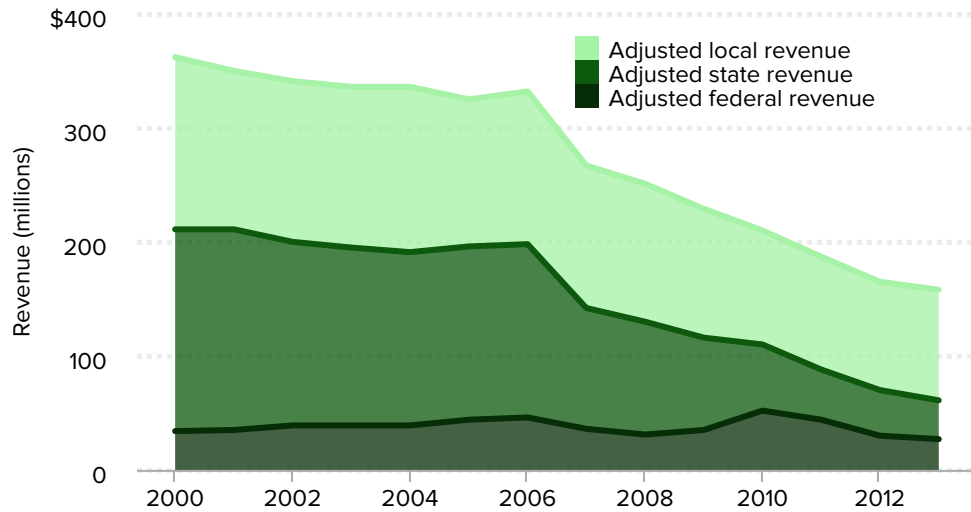
Note: All dollars are adjusted to their national mean value and in constant 1999 (year) dollars. That is, they are adjusted for both regional variation and inflation. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: School district finance data from the U.S. Census Bureau's Annual Survey of Government Finances

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Figure 32

Kansas City, Mo., school district revenues by source, 2000–2013



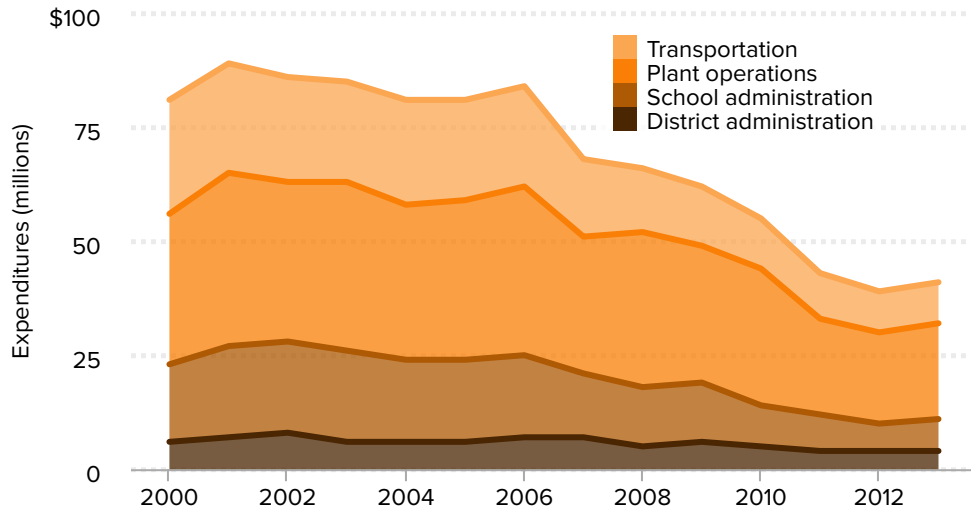
Note: School district (local education agency) revenues include any pass-through funds for fiscally dependent charter schools. All dollars are adjusted to their national mean value and in constant 1999 (year) dollars. That is, they are adjusted for both regional variation and inflation. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: School district finance data from the U.S. Census Bureau's Annual Survey of Government Finances

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Figure 33

Kansas City, Mo., school district expenditures by type, 2000–2013



Note: All dollars are adjusted to their national mean value and in constant 1999 (year) dollars. That is, they are adjusted for both regional variation and inflation. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: School district finance data from the U.S. Census Bureau's Annual Survey of Government Finances

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Transportation expenses have also been reduced. Since 2000, total overhead related expenses have been cut in about half while enrollment in district schools has been cut in about half.

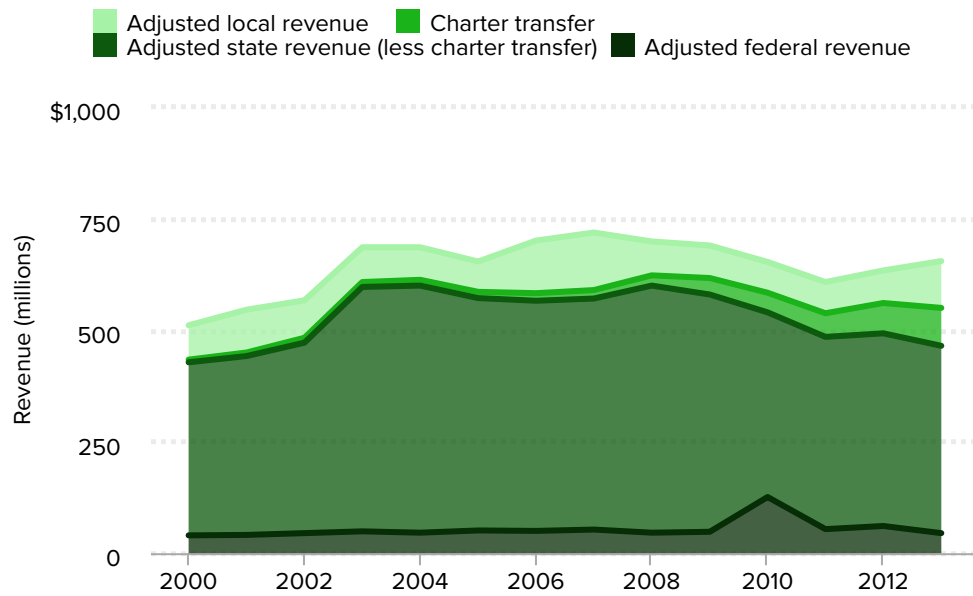
Newark, New Jersey

Figure 34 shows Newark Public Schools revenues over time, again, adjusted for changes in labor costs, and including the charter transfer. As total enrollments have remained relatively stable, so too have revenues, in fact posting an increase, over the long haul. State aid for the district scaled up between 1998 and 2005 due to school funding litigation brought on behalf of districts serving high-need populations, leveled off in the mid-2000s, and has declined somewhat since the high water point. During this decline, charter enrollments, and thus, charter subsidies, grew their fastest. A one year (2010) bump in federal funds through the American Recovery and Reinvestment Act (ARRA) of 2009 was followed by a decline and federal revenues have not yet rebounded to where they were before the Great Recession.

Figure 35 shows the overhead related expenditures of the district. Under New Jersey charter law, the district retains the responsibility for financing transportation and excess special education costs of students served in charter schools (Baker 2014c). So some of these expenses are likely associated with charter school students. The charter transfer, when compared in this context, has increased dramatically. School administrative expenses have experienced the most noticeable reductions.

Figure 34

Newark, N.J., school district revenues by source, 2000–2013



Note: School district (local education agency) revenues include any pass-through funds for fiscally dependent charter schools. All dollars are adjusted to their national mean value and in constant 1999 (year) dollars. That is, they are adjusted for both regional variation and inflation. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: School district finance data from the U.S. Census Bureau's Annual Survey of Government Finances

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In more recent years, in the context of additional reductions in state aid, the state has protected charter schools against cuts imposed on districts. An analysis by the Office of Legislative Services in New Jersey noted that for 2015 and 2016:

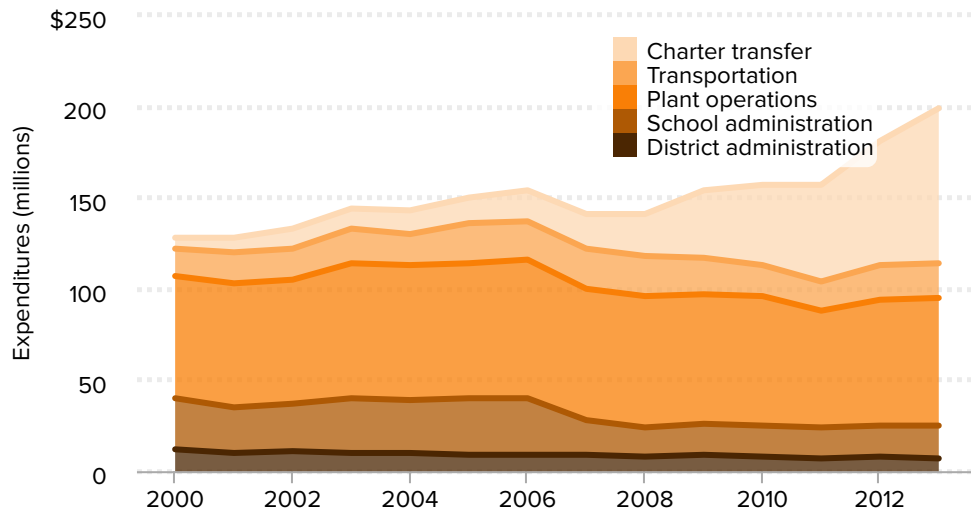
The Office of Legislative Services estimates that the language included in the FY2015 appropriations act (but omitted in the proposed FY 2016 budget) increased the amount of money transferred from school districts to charter schools by \$70.1 million. (p. 13)

The language included in the proposed budget stipulates that the per pupil amount used to determine the amount of funding that a district must transfer to a charter school will equal the greater of that calculation using school district revenue and enrollment data from the 2013-2014 school year or using revenue and enrollment data from the 2015-2016 school year. The Office of Legislative Services estimates that this language provision would increase the payments made by 83 school districts to charter schools by \$37.5 million. (p. 19) (Office of Legislative Services, New Jersey Legislature 2015)

That is, while total resources have remained relatively stagnant, charter transfers have been increased, negatively affecting district resources, though that impact remains difficult to measure precisely.

Figure 35

Newark, N.J., school district expenditures by type, 2000–2013



Note: All dollars are adjusted to their national mean value and in constant 1999 (year) dollars. That is, they are adjusted for both regional variation and inflation. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: School district finance data from the U.S. Census Bureau's Annual Survey of Government Finances

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In addition, recent reports indicate that charter schools in Newark tend to have very high administrative expenses, on average, double to triple (and more) of those of the district schools (inclusive of facilities lease and debt payment) (see Appendix Table A1). These are the very types of redundant overhead expenses critiqued by Bifulco and Reback in their 2014 study of Buffalo and Albany, New York, charter schools.

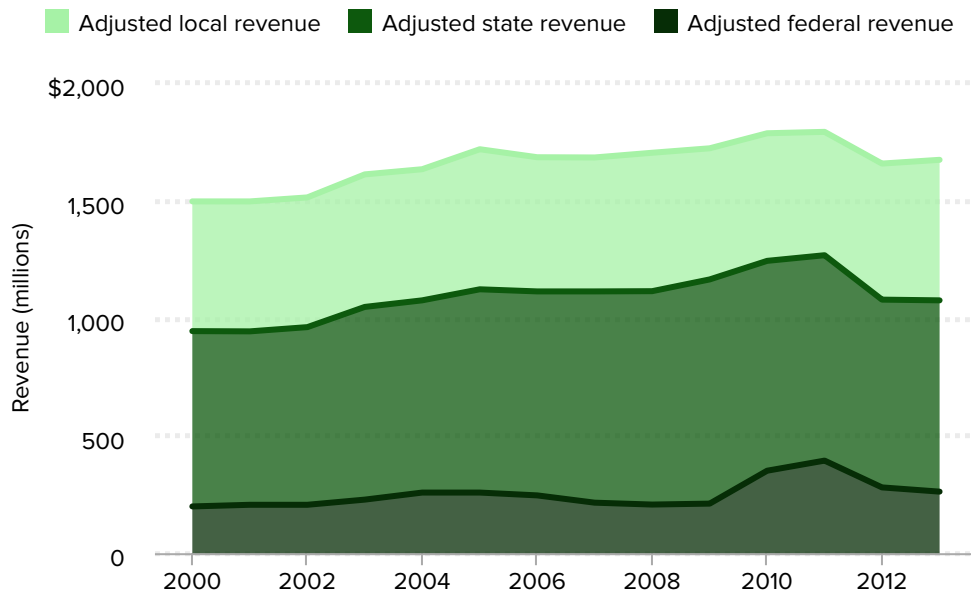
Philadelphia (pass through)

Figure 36 presents the cumulative revenues for Philadelphia public schools. These revenues appear to be relatively stable over time, with a dip from 2011 through 2013. It is important to understand that while these revenues appear relatively stable, Philadelphia is the least well-funded of the nation's high poverty, large urban districts; even though the poverty rate of the students it serves is more than double that of surrounding districts, it has only 88 percent of the average state and local revenue per pupil of surrounding districts (Baker 2014a). In other words, Philadelphia schools have been severely underfunded over time, operating in a state of perpetual fiscal stress.

Figure 37 shows that overhead related expenses have declined slightly since 2000. Charter transfer expenses were only reported in the Census Fiscal Survey for 2013. Plant operations expenses have been cut by about one-third. School administrative expenses have been cut by about 16 percent. District administrative expenses, while relatively small, have been cut in half. Again, the triple-edged sword of plant expense cutting is that these cuts may indicate that the district no longer retains sufficient capital stock to serve all

Figure 36

Philadelphia school district revenues by source, 2000–2013



Note: School district (local education agency) revenues include any pass-through funds for fiscally dependent charter schools. All dollars are adjusted to their national mean value and in constant 1999 (year) dollars. That is, they are adjusted for both regional variation and inflation. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: School district finance data from the U.S. Census Bureau's Annual Survey of Government Finances

Economic Policy Institute

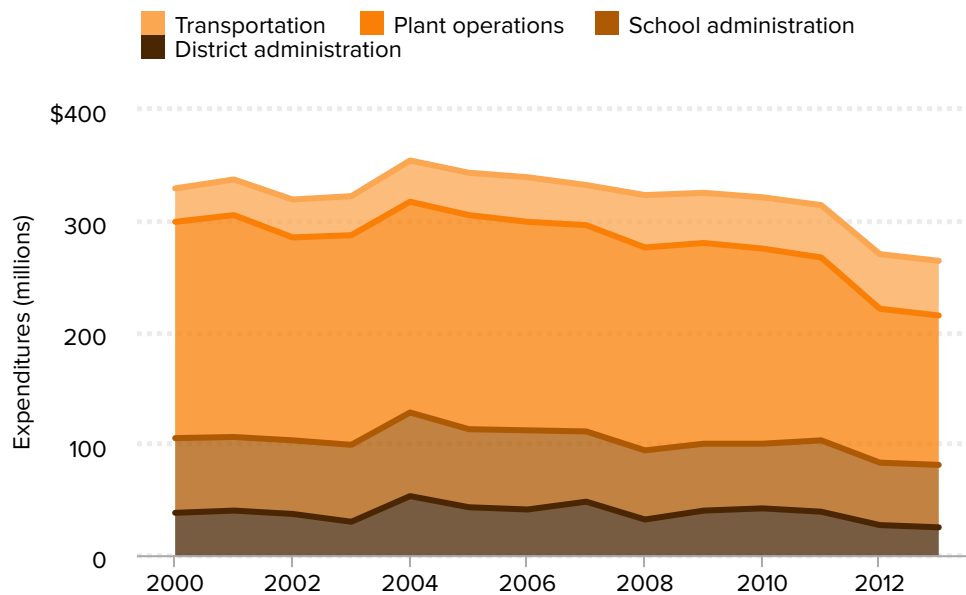
eligible pupils, or if the district does retain that stock, it has accumulated significant deferred maintenance liabilities.

Philadelphia schools, and others in Pennsylvania, have been subjected to additional peculiarities of the state’s charter school funding law for children with disabilities. Pennsylvania requires that districts transfer to charter schools their average special education expenditure per pupil for any special education child enrolled in charter schools. But, in Pennsylvania, charter schools have tended to serve only those children with particularly low-cost disabilities (mild specific learning disabilities and speech/ language impairments). In addition, the charter transfer rate is determined by taking the district special education expense and dividing by a fixed 16 percent disability rate, rather than the district actual rate of students with disabilities, further inflating the charter special education allocation. Thus, districts have been required to substantially oversubsidize the special education costs of charter schools, while their own shares of severely disabled children climb.

This particular funding formula feature has created significant financial stress for Chester Upland school district, a smaller, predominantly low-income district to the south of Philadelphia, which is host to a very large charter school (Chester Community Charter School) that figured out how to capitalize on the formula. In Chester Upland, the actual

Figure 37

Philadelphia school district expenditures by type, 2000–2013



Note: Charter transfer not shown in graph. A significant value was reported for charter transfers for 2013 only (\$361 million), but not for previous years, even though such a transfer existed. All dollars are adjusted to their national mean value and in constant 1999 (year) dollars. That is, they are adjusted for both regional variation and inflation. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: School district finance data from the U.S. Census Bureau's Annual Survey of Government Finances

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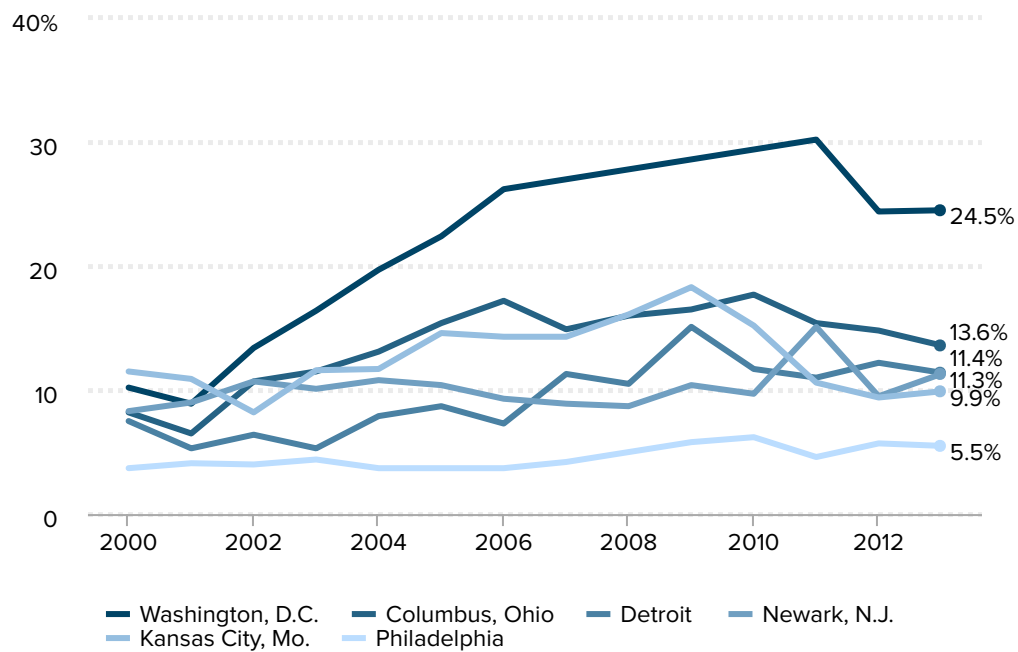
share of students with disabilities exceeds 16 percent. Testimony on behalf of the Chester Upland School District in Federal District Court explained that the use of the fixed 16 percent special education enrollment inflated the charter subsidy by \$4,000 per pupil. Further, because 92 percent of the charter special education enrollments were of low-need, low-cost pupils, but only 66 percent of the district special education enrollments were low-need, low-cost, the charter subsidy was inflated by \$7,700 to \$8,700 per pupil, for a total overpayment of about \$5 million, entirely wiping out the district's state special education aid (based on 2009 data). State courts have only recently intervened to negotiate a settlement involving a reduced special education payment between the district, which began the 2015 school year financially unable to open its doors, and the charter school (Boccella 2015). While operating under the same deeply flawed policies and while facing dire annual budgets and deficits, Philadelphia has been able to avoid this degree of fiscal collapse.

Synthesizing the case findings

The next several figures pull together the above findings. First, **Figure 38** addresses whether the declining enrollments in these cities have left them with increasing shares of children attending inefficiently small schools. I set the threshold here at 300 pupils, the low

Figure 38

Share of children enrolled in low-enrolled schools, by school district boundaries, 2000–2013



Note: Low-enrolled schools are schools with less than 300 pupils. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data

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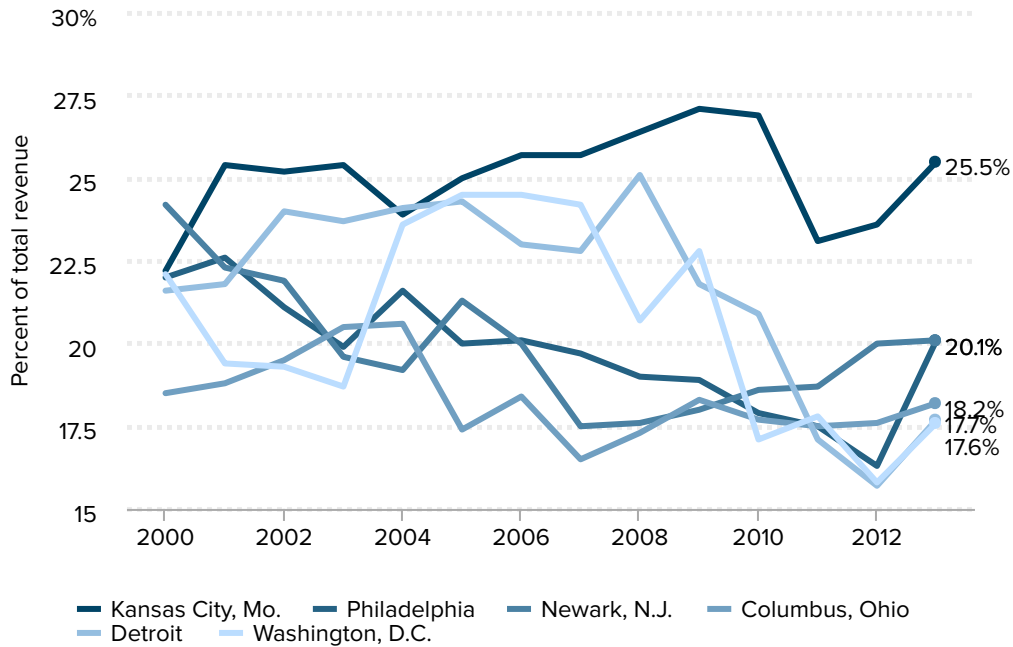
end for optimal elementary school size. The only city with a pronounced spike in such schools, which was then partly resolved, was Washington, D.C. Small school enrollments also rose in Columbus and Kansas City, but subsided in recent years. Shares of children attending small schools never rose in Philadelphia or Newark (but for some anomalous bumps). It does not appear, at least in districts of relatively large sizes addressed herein, that charter expansion is substantially affecting the efficient distribution of children across schools by size. The maintenance of these average enrollments, however, may have been achieved through substantial disruptions of children’s schooling.

Figure 39 shows the summed overhead expense categories evaluated above as a share of district total revenues, accounting for charter transfers (excluding both charter transfer revenues and expenses). In Columbus and Kansas City, those expense shares stayed relatively constant, with Kansas City remaining the highest in the group. Others, interestingly, declined, indicating that on balance these districts were able to cut centralized expenses faster than their budgets declined.

Again, a significant concern is that dramatic reductions in plant operations expenses either mean that capital assets have been liquidated and thus are no longer available to

Figure 39

District expenditures on central and school administration, plant operations, and transportation as a share of total revenue, by school district boundaries, 2000–2013



Note: Expenditures exclude any pass-through funds for fiscally dependent charter schools. Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: School district finance data from the U.S. Census Bureau's Annual Survey of Government Finances

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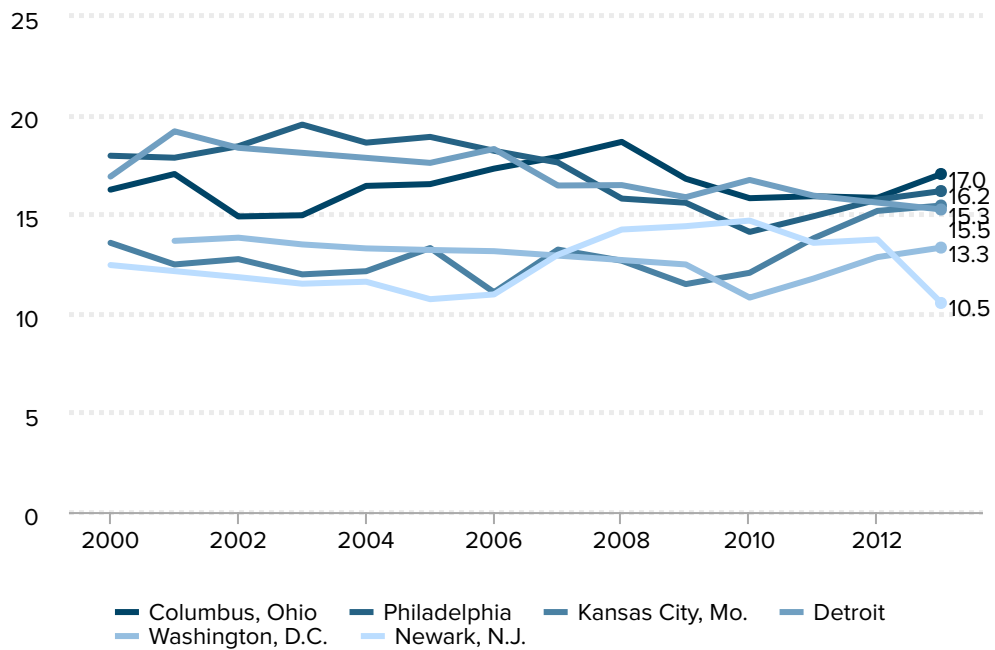
accommodate a reversal of course, or that those assets are left lying fallow and accumulating significant deferred maintenance liabilities.

Figure 40 shows the pupil-to-teacher ratios calculated for each district over time. On the one hand, with enrollment decline, one would expect pupil-to-teacher ratios to decline. But, with adequate budget adjustment, one might expect those ratios to stay relatively constant. However, if other costs are more difficult to reduce than classroom staffing, those ratios might actually increase, even under conditions of enrollment decline. Figure 40 shows that generally, pupil-to-teacher ratios in host districts have remained relatively constant, declining somewhat in Philadelphia and Detroit.

Finally, I provide an annual budget deficit comparison by evaluating the difference between reported total expenditures and reported total revenues (where Philadelphia data fail to accurately account on both sides for the charter transfer in 2013). **Figure 41** summarizes the percent by which total expenditures were greater than revenues (the “revenue-expenditure” is negative, i.e., a deficit) or less than revenues (producing a positive number, i.e., a surplus). Deficits are most consistent and large in some years, for Philadelphia and Detroit in particular.

Figure 40

District pupil-to-teacher ratios, by school district boundaries, 2000–2013



Note: Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

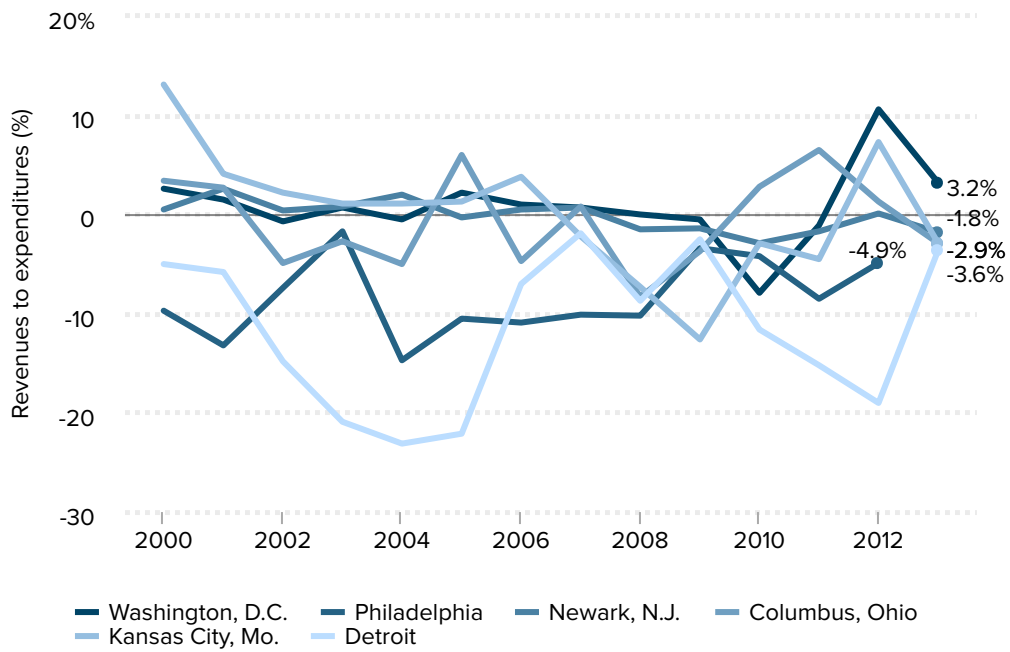
Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data

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Table 1 summarizes the six district cases. The largest traditional district enrollment reductions occurred in Detroit and Kansas City, but these reductions were only partly a function of charter expansion. In Detroit they were largely driven by depopulation and in Kansas City by depopulation coupled with boundary changes. Average enrollments per school declined most in Detroit with Philadelphia second. By the end of the period, Washington, D.C., had the largest share of children enrolled in inefficiently small schools.

Figure 41

Estimated annual surpluses or deficits, by school district boundaries, 2000–2013



Note: Years indicate the latter year of each school year, e.g., 2013 represents the school year from 2012 to 2013.

Source: School district finance data from the U.S. Census Bureau's Annual Survey of Government Finances

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Table 1

Summary of city/district cases

	Columbus, Ohio	Detroit	Kansas City school district, Mo.	Newark, N.J.	Philadelphia	Washington, D.C.
District enrollment 2000	64,940	154,648	33,795	43,062	205,199	70,762
District enrollment 2013	50,384	47,919	17,013	33,299	139,503	44,179
District enrollment in 2013 as a percent of district enrollment in 2000	77.6%	31.0%	50.3%	77.3%	68.0%	62.4%
Charter enrollment 2013	27,282	32,295	9,183	8,581	51,567	29,705
Charter share 2013	35.1%	40.3%	35.1%	20.5%	27.0%	40.2%
Enrollment per school 2000	415	541	423	519	753	409
Enrollment per school 2013	418	388	369	450	574	317
% in schools <300 pupils in 2013	13.6%	11.4%	9.9%	11.3%	5.5%	24.5%
Authorizer(s)	Multiple (anything goes)	Multiple (incl. universities)	Multiple (incl. universities)	Single (state)	Districts and state (cyber)	Single (independent)
Operator types	Nonprofit/ For profit	Nonprofit/ For profit	Nonprofit/ For profit	Nonprofit	Nonprofit/ For profit	Nonprofit/ For profit
Largest operator(s) (share)	eSchool (2%)/ Imagine (2%)/ Concept (2%)	Leonia(5%)/ National Heritage(4%)	Edison (2.6%)	Uncommon (5%)/ KIPP (4%)	OmniVest Properties Management (3%)/ Mastery (2%)/ Universal Co. (2%)	Friendship (5%)
Funding model	State pass through	State aid diversion	State (and local deduct) diversion	State and local pass through	State and local pass through	Pass through
Revenue effect (as share of state aid)	Total revenue relatively constant	Total revenue at about 40% of early 2000s	Total revenue at about 44% of early 2000s	Total revenue relatively constant	Total revenue relatively constant	Total revenue at about 95% of early 2000s
Overhead expenditure effect on host district	Constant at around 18 to 20% of total revenue (exclude transfer)	Reduced from 24% to 18% total revenue	Constant between 22% and 26% total revenue	Constant around 20% (exclude transfer)	Constant around 20% (exclude transfer)	Reduced from 25% to 18% total revenue
Notes		Dramatic decline in school-aged population	Decline in school-aged population and boundary change			

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Detroit and Columbus are each home to charter operators of questionable integrity, known among other things to have very high administrative and facilities overhead expenses. While Newark is home to more widely respected nonprofit charter operators, these too have been shown to have very high overhead expenses relative to district schools. District overhead expenses across the cities have generally stayed constant or declined. But, if increased charter school overhead is included, the systemwide charter and district overhead expenses may have in fact increased and may have increased substantially. In fact, if charter schools in Newark in 2014–15 had spent on administration and plant operations the same amount per pupil as the district, cumulative charter school overhead expenses would have been reduced by \$10.5 million (Appendix Table A2). That is, the dual system of district and charter schools added \$10.5 in unnecessary overhead expense.

In some cases, there appears to be at least a temporary slowing of charter expansion approaching 2013. But there are also signs that public policy in these cities continues to favor forced transfer of control and enrollments to the charter sector (Mezzacappa 2015; Weber 2015a, 2015b). Such policies must proceed with caution, with consideration for guidance laid out in the conclusions of this report. Detroit and Kansas City, however, indicate the importance of considering the context of charter expansion.

It seems illogical at best to expand chartering in contracting markets. A centrally managed district would not be likely to open new schools and disperse students more sparsely in a context of declining enrollment, because doing so would increase both per pupil overhead and transportation costs. Considerations for charter expansion should be similar. That said, most of the markets investigated herein are sufficiently large as to have absorbed charter expansion without having substantive increases in shares of children served in inefficiently small schools, or escalating per pupil overhead costs. Additionally, those cities in states with particularly inequitable and underfunded aid programs (Pennsylvania and Michigan) have experienced significant fiscal stress and annual budget deficits (Baker and Corcoran 2012). Equitable and adequate financing of systemwide needs is a prerequisite condition, whether children are served in charter or district schools. Further, transition costs associated with chartering may require even more funding—to support charter startup costs as well as buffering district revenue decline.

Additional effects of charter expansion

In this section, I address frequently overlooked issues pertaining to charter school expansion. Too often, policy conversations regarding whether to expand charter schooling or replace district schools with charter schools center myopically on whether we might expect charter schools to produce marginal changes in measured student achievement. Rarely entering into the conversation is whether those potential changes come with harder-to-measure costs or tradeoffs, including substantively compromising student, parent, employee, and taxpayer rights. Specifically, depending on state laws, students and families may forgo due process rights under school discipline policies as well as first and

fourth amendment protections (Green, Baker, and Oluwole 2014, 2015). In cases where charter operators dominate the available choice set, students and their families may have limited choices of publicly subsidized schooling options where their rights are fully protected. In addition, emphasis on *providing choices* to students and parents may reduce emphasis on ensuring equity across schools and settings. I address evidence from recent work which reveals the potential inequities and inefficiencies resulting from the simultaneous sorting of students and resources between district and charter schools and across charter schools by management type (Baker, Libby, and Wiley 2015). Finally, the transfer of public assets to private entities and accumulation of debt obligations by private entities funded with public dollars raises emerging concerns.

Compromised legal rights

Distinctions between “public” and “private” entities raise important public policy concerns, and the charter sector’s evolution and expansion raise numerous questions regarding the rights of students, parents, and taxpayers (Green, Baker, and Oluwole 2014, 2015; Mead 2015). Three broad policy arguments typically underpin advocates’ promotion of unfettered, deregulated charter school expansion and charter school replacement of district schools—and even entire local public school districts:

1. Unlike “voucher-receiving” private schools, charter schools are considered “public” schools even if operated by private entities.¹¹
2. The public (or state) interest rests not in who operates or governs charter schools, but rather in positive changes in student outcomes that can be achieved regardless of governance and organization of the provider. This premise is referred to as “sector agnosticism.” (McShane 2012)
3. Accepting both premises above, government actors must be willing to “relinquish” government-operated institutions to private providers and private parental choices in order to increase options available to parents/children and produce desired gains in student outcomes.¹²

To a considerable extent, these policy arguments are divorced from the legal realities of mixed governance models for the provision of public services, including elementary and secondary education. Through legal challenges brought in both state and federal courts over the past few decades, we have learned that:

- Private entities and individuals may not be subject to the same financial or other document/records disclosure laws that apply to state-operated entities and public officials.
- Employees of private entities are not guaranteed the same constitutional (and some statutory) protections they would be guaranteed under contractual arrangements with state-operated institutions. Moreover, private entities operate under different labor laws than state-operated entities.
- Students attending privately governed entities are not guaranteed the same constitutional (and in some cases the same statutory) protections they would be

guaranteed while attending state-operated institutions. (Green, Baker, and Oluwole 2014, 2015; Mead 2015)

Transparency laws adopted by state legislatures requiring open meetings, public access to records, and financial disclosure commonly apply to public officials and state-operated institutions. However, courts across states have offered mixed opinions as to whether and to what extent those laws apply to charter schools, their authorizers, operators, and governing boards (Green, Baker, and Oluwole 2014, 2015; Mead 2015).

In addition, the U.S. Constitution prohibits the government or its agents from violating individuals' rights to free speech, due process, and freedom from unreasonable searches. Therefore, students and employees in public schools maintain these constitutional rights. In contrast, students in schools run by private entities, or employees engaging in contractual arrangements with private entities, may not enjoy the same protections.¹³ In many of these cases, employment contracts or school discipline policies provide employees or students (and their parents) only the rights guaranteed under private contract law.

Rarely if ever considered in policy discourse over charter school expansion is whether children and families should be required to trade constitutional or statutory rights for the promise of the possibility of a measurable test score gain. In fact, the public, including parents and children, is rarely if ever informed of these tradeoffs and does not become aware until an issue arises. Charter operators have shown time and time again that they are willing to push boundaries regarding student rights and discipline policies. An evaluation of New York City charter school disciplinary policies by Advocates for Children of New York (2015) found, among other things, that "107 of the 164 NYC charter school discipline policies we reviewed permit suspension or expulsion as a penalty for any of the infractions listed in the discipline policy, no matter how minor the infraction."¹⁴ Further, these policies included numerous violations of rights to due process when disciplinary actions are taken. While the report asserts that these policies violate state and federal laws it remains unclear whether charter operators might successfully shield themselves by their "private" status. That is, in many state contexts, charter schools may simply not have to follow the same rules in the establishment and implementation of their rules for children, parents, and the public at large.

The loss of rights or the requirement to trade rights for the promise of marginal test score gains—is concerning from an equity perspective because chartering, in particular no-excuses¹⁵ charter models are not evenly distributed across communities and children. **Table 2** shows that nearly 12 percent of large city student populations are in charter schools, where those populations are 57 percent low income and nearly 70 percent black or Hispanic on average. Suburbs of large cities, which have much lower minority and low-income shares, have charter market penetration less than one-third the rate of large urban centers.

Children in low-income and predominantly minority communities are more likely to be asked to make these tradeoffs, while not being told what rights they are trading off. Concurrently, taxpayers in impoverished, minority communities are disproportionately

Table 2

Distribution of students in charter schools and with other characteristics, by location type, 2013

Locale code and description	Share of students with characteristic		
	In charter schools	Are low-income (receiving free lunch)	Are black or Hispanic
11 – City, large	11.9%	57.0%	69.0%
12 – City, midsize	5.2%	48.7%	56.4%
13 – City, small	4.3%	42.0%	42.5%
21 – Suburb, large	3.6%	31.5%	38.8%
22 – Suburb, midsize	3.2%	34.4%	31.1%
23 – Suburb, small	2.9%	36.0%	29.6%
31 – Town, fringe	2.8%	33.6%	25.1%
32 – Town, distant	1.4%	44.1%	27.6%
33 – Town, remote	1.8%	44.7%	29.0%
41 – Rural, fringe	2.3%	31.2%	26.9%
42 – Rural, distant	1.1%	37.8%	15.2%
43 – Rural, remote	1.1%	44.2%	15.0%

Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data

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foregoing their rights to understand where the money goes, in the hierarchical public-private structure of charter schools in their neighborhoods, and increasingly losing control over long-held public assets including land and school facilities, while affluent suburban residents are not being asked to make similar tradeoffs.

Unequal choices

Unequal denial of rights is only one piece of the inequality puzzle that emerges when public policy wrongly presumes liberty of choice to be a viable substitute for emphasis on systemwide equity. The diverse-provider portfolio approach, without sufficient consideration of resource equity, substitutes preferences for individual liberty (or choice) in place of preferences for equity. That is, it assumes that inequity among providers is still equitable for choosers, in that they may choose schools that have more or fewer resources or are more or less efficient. This assumption is built on the false premise that all children have equal access to all schools—that all children get their first choice and no schools are over enrolled, all are geographically accessible, and all provide relevant special services when necessary. This approach wrongly conflates liberty with equity, assuming the former necessarily leads to the latter, regardless of resource distribution. Political theory has long held that liberty and equity preferences operate in tension with one another. As such, emergence of inequitable choices in any given marketplace of schooling, and system features that increase inequity of choices, should be of concern to policymakers.

Recent work by Baker, Libby, and Wiley (2015) on charter schools in New York, Ohio, and Texas finds that “charter schools have the tendency to amplify student population differences across schools by disability, language, and low-income status, and that charter schools’ access to financial resources varies widely.” Among other things, Baker, Libby, and Wiley find that individual private providers have widely varied access to external, private giving, leading to vast inequities between charter schools by operator, and between well-resourced charter operators and district schools. Weber and Baker (2015a) find substantial differences in classroom spending across charters by the profit status, hence financial incentives, of their managers.

Table 3 provides an analysis of the cities included in this report, based on 2011–12 school-level total salaries per pupil. Table 3 evaluates the sorting of pupils across schools of similar grade range and the variations in spending, among schools serving similar students and grade levels. Table 3 compares the by-school-type measures with citywide (not host district) schools. This complicates comparisons for Kansas City, where the city boundaries include a number of more affluent, predominantly white districts. Other districts here are aligned with city boundaries.

The analysis begins with the right-hand columns addressing student population differences from the citywide average. In Philadelphia, both nonprofit and for-profit charter operators serve far lower than citywide averages of children who qualify for free lunch (i.e., children in families living at or below 130 percent of the poverty income threshold). They also serve lower percentages of children who are English Language Learners, and lower percentages of children classified with disabilities under the Individuals with Disabilities Education Act (IDEA). In Newark, charter schools on average serve far fewer low-income, non-English-speaking students and students classified as disabled as well. In Washington, D.C., charter schools serve greater shares of low-income students, but partly because charters are less prevalent (or nonexistent) in gentrified and historically affluent areas of the city. Charters in Kansas City serve higher shares of low-income children than schools citywide, but this is because charter schools are concentrated in the central city school district. The uneven sorting of children induced by chartering itself induces inequities.

The left-hand columns summarize differences in spending on school staff. Notably, these do not include overhead expenses, such as expenses on central (including management company) administration, transportation, and facilities. Table 3 shows that in Newark, for example, the nonprofit charter schools spend less than the citywide average on school staff. But we also know that the charter sector in Newark spends far more on overhead, as discussed previously. So, in Newark, we have a scenario where the charter sector is relatively well endowed, spends substantially on administrative overhead and facilities, and thus less in schools and classrooms, leading to substantive inequities in the choices available to students. And Newark remains one of the more equitable cases. In Ohio cities, for-profit charter managers drain substantial resources from the schools they operate. We can assume that even if charter schools are not equitably funded with district schools in Ohio, that for-profit and nonprofit charter schools receive equitable revenues compared with one another. Yet, for-profit providers are reducing school site staffing expenditures by over \$1,700 per pupil in both Columbus and Dayton. For-profit providers in Washington, D.C., and Kansas City also seem to be diverting expenditures.

Table 3

Equity consequences of market segmentation

	Number of schools	Enrollment	Difference from citywide spending on school staff*		Difference from citywide share of students who are:**		
			Mean	Standard deviation	Special education	English language learner	Receiving free lunch
Philadelphia							
District	247	149,422	\$123	\$999	0.2%	0.8%	4.7%
For-profit charter school	11	5,663	-\$42	\$1,486	-1.0%	-3.4%	-18.0%
Nonprofit charter school	62	34,381	-\$469	\$1,526	-0.6%	-2.5%	-15.0%
Washington, D.C.							
District	115	42,266	-\$130	\$1,175	0.9%	-1.2%	-5.0%
For-profit charter school	6	2,135	-\$492	\$1,155	-4.1%	-7.8%	17.1%
Nonprofit charter school	69	20,155	\$266	\$2,497	-1.2%	2.8%	6.9%
Detroit							
District	118	67,925	-\$287	\$1,132	2.1%	0.8%	-0.8%
For-profit charter school	30	11,438	\$888	\$2,192	-3.6%	3.6%	5.2%
Nonprofit charter school	23	10,482	\$48	\$1,751	-3.8%	-7.5%	-3.2%
Columbus, Ohio							
District	147	68,297	\$202	\$1,024	0.8%	-0.4%	0.0%
For-profit charter school	16	5,991	-\$1,725	\$1,099	-1.7%	1.8%	-2.1%
Nonprofit charter school	34	15,123	-\$200	\$2,551	-2.5%	1.1%	0.8%
Dayton, Ohio							
District	59	25,921	\$155	\$1,541	0.9%	-0.3%	0.2%
For-profit charter school	4	1,544	-\$1,875	\$1,444	5.5%	-2.4%	23.6%
Nonprofit charter school	12	2,263	\$76	\$806	-6.2%	2.3%	-9.5%
Cleveland							
District	98	46,606	\$500	\$1,800	2.5%	0.5%	-20.2%
For-profit charter school	18	5,686	-\$681	\$797	-5.4%	-0.6%	39.2%
Nonprofit charter school	24	5,285	-\$823	\$1,514	-6.0%	-1.4%	24.7%
Kansas City, Mo. (city boundaries)							
District	100	53,569	-\$171	\$1,097	0.8%	-1.1%	-7.4%
For-profit charter school	3	1,352	-\$604	\$916	-5.3%	-1.5%	37.2%
Nonprofit charter school	17	5,459	\$961	\$3,367	-3.4%	6.7%	30.5%
Newark, N.J.							
District	66	33,376	\$135	\$1,694	1.7%	1.2%	1.8%
Nonprofit charter school	12	5,676	-\$628	\$1,424	-7.7%	-5.4%	-8.6%

* Based on regression analysis of total salaries per pupil as a function of percent special education, percent receiving free lunch, percent English language learner, percent grades 6 to 8, and percent grades 9 to 12.

** Based on regression analysis of demographic measure as a function of percent grades 6 to 8 and percent grades 9 to 12.

Source: National Center for Education Statistics' Public Elementary/Secondary School Universe Survey Data and U.S. Department of Education Title I Part A State Data Collection, linked to charter classifications from Gary Miron and Charisse Gulosino (2013)

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It would be one thing if all children had equitable access to all schools and if all children and families had equitable access to high quality information on the programs and services provided by each school. But this is far from reality. Choices are constrained with some schools oversubscribed and others undersubscribed. Some schools are simply geographically impractical options and increasingly, some neighborhoods are served by

only one type of provider, and may even be underserved by traditional district alternatives. Under-regulated expansion of providers operating with varied incentives exacerbates these inequities.

Managing the public's debt obligations

Finally, one of the more complex issues of the transition from single-provider to mixed-delivery school systems is the question of how to manage the public's debts and financial liabilities as well as protecting public assets during the transition. Concerns include but are not limited to:

- financing the costs of long-term health and pension benefits of the generations of employees retired from the system as it existed in the past
- protecting the taxpaying public's interest in land, facilities, and other major capital assets acquired on the public dime, over the long term
- protecting the taxpaying public from accumulating new, high(er) risk debts that serve only, in the best case, to enrich private investors at taxpayer expense

These are ethical and legal responsibilities of the public system as a whole, whether the public system chooses to use private providers to deliver a portion (or even all) of the public service of elementary and secondary schooling. As discussed in the introduction to this report, those who view charter schools, under private management, operating and expanding within local district contexts, as an entirely separate, new, and disruptive system—one that may replace the original district—seem to have adopted the view that once replacement has occurred, and the original district has dissolved or been bankrupted, that the district's assets simply be liquefied, and debts absolved (Persson 2015). These assets are a public good and the debts a public responsibility.

Whether operations of the delivery system of schools are transferred to private managers via chartering, or *contract schools*, the system and taxpayers retain responsibility for past, current, and future obligations of that system. In many of the cases herein, system size (children served) and systemwide revenues remain relatively constant, despite the declining role of the traditional district in providing services. Detroit presents a unique case of systemwide contraction, and Kansas City, system reorganization.

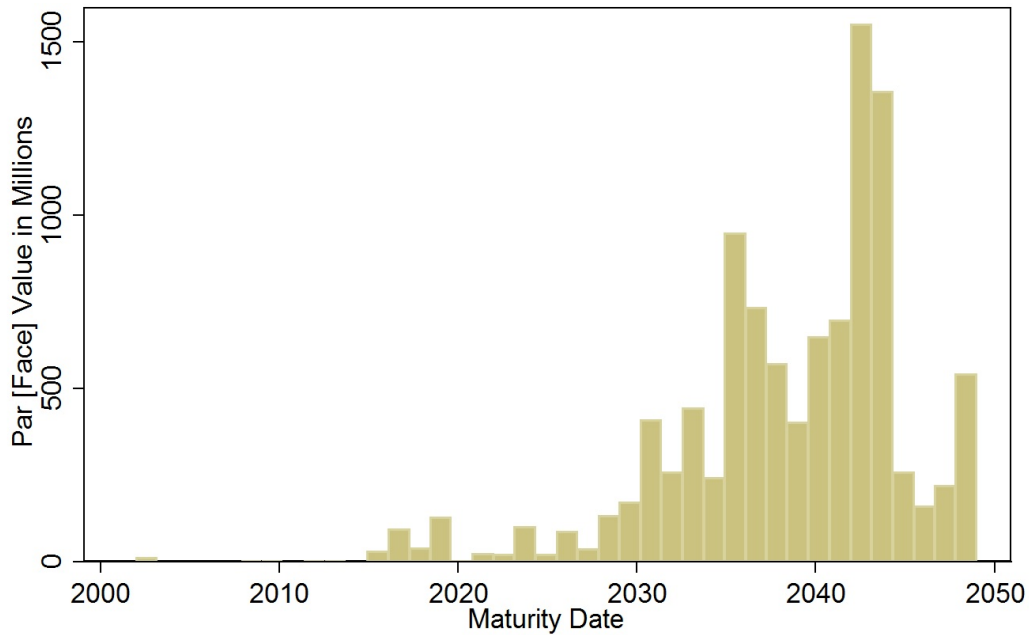
Kansans like to tell the tale of a town on the verge of bankruptcy (without the option of official bankruptcy proceedings) due to a series of local economic calamities during the dustbowl era of the late 1800s. As the local economy started to rebound, the town remained saddled with significant bond debts that would come due in 1908. To avoid these debt obligations, town officials and remaining residents voted to abandon the town in 1898, moving many buildings and their personal property a few miles down the road, to start a new town (Kansas Genealogy Trails n.d.). Moving the cities discussed herein is not an option. Further, literally running away from these obligations is unethical and immoral.

For all of the uproar that charter expansion advocates have raised on the issue of burgeoning pension liabilities and other debts faced by traditional public districts, few if

Figure 42

Maturity dates for charter revenue bonds

Weighted by dollar value of bond issue



Source: W. Berry (2015)

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any observers have taken note of the increasing, much higher risk, long-term debts of the charter industry, debts which are also being subsidized at public expense, though for private gain. Baker and Miron (2015) explain that over the past 20 years, operators of charter schools, working with private nonprofit and for-profit entities, have taken on billions in municipal revenue bond debt. While school district general obligation bonds used for financing facilities typically receive A (AA, AAA) ratings from rating agencies, and commensurately low interest rates (3-5 percent on 20-year bonds in recent years), charter school revenue bonds are most commonly either unrated or receive much lower BBB– ratings, and have had commensurate interest rates from 6 percent to 9 percent in recent years. A total of \$4.3 billion in unrated bonds have been financed, \$1.2 billion in BBB– bonds and nearly \$1 billion in BB+ bonds issued through 2015. **Figure 42** shows that the bulk of this bond debt doesn't come due until after the year 2030, with billions due after 2040, long past the reauthorization cycles of schools paying the bill for those debts. Accumulation of these debts has escalated in recent years and shows little sign of slowing.

Further, because the rapid expansion of charter schools is a relatively recent phenomenon, occurring mainly over the past 10 years, most charter schools are new enough so as not to employ any employees nearing retirement, even if those employees were there from the beginning. Many charter schools also rely on high turnover and short-term staffing to keep personnel costs low, and potentially reduce long-term obligations.

But as the sector matures, and schools age, along with at least some of their staff, we will gain a better idea of how charter operators intend to meet the needs of retirees, and only then will aspiring charter school teachers be better able to evaluate their long-term prospects in the charter sector.

Conclusions and policy recommendations

I conclude with recommendations for the path forward in charter school policy in the United States. Most important, we must begin to view the system of charter and district schooling as a whole and consider how each part—the various providers and types of providers—can fit together to achieve goals of equity and excellence without forcing objectionable tradeoffs and compromising other important public interests. A mixed-delivery system of schooling may have some virtues, if regulated and managed appropriately. The cases presented herein reveal some important warning signs and highlight the need to more carefully consider policies surrounding the chartering in increasingly saturated markets.

From a short-term, and fiscal- and enrollment-management perspective, Bifulco and Reback (2014) offer the following recommendations in their study of Albany and Buffalo schools:

- Constrain the timing of charter school enrollments to facilitate budget planning
- Create incentives for districts and charter schools to share facilities
- Encourage districts to use existing intradistrict choice programs to facilitate staffing adjustments
- Link districts' charter school payments to estimates of costs that the district can reduce in response to enrollment losses¹⁶
- Provide transitional aid to districts experiencing large growth in charter schools

These are each simple, valid, and straightforward adjustments to state policy that can ease enrollment transitions within mixed-provider contexts. But, these recommendations each increase systemwide expense, at least in transition, revealing that the more complicated, multiple-provider system may be more expensive and thus less efficient to operate than the simpler, single-provider option.

Larger, long-term issues involve better managing the incentives that lead some systems and providers within systems to exhibit parasitic behaviors, rather than operate as a healthier, collaborative portfolio model. These are not exclusively public-sector problems. *Bloomberg Business* (Kimes 2013) offered a particularly harsh retrospective on Eddie Lampert's failures at Sears Corporation, explaining that "Lampert runs Sears like a hedge fund portfolio, with dozens of autonomous businesses competing for his attention and money." Further, Lampert adopted a strategy of employing new, advanced metrics for use in pitting units against one another. The article goes on to explain, "He wanted to use

nontraditional metrics to gain an edge, like DePodesta did for the Oakland Athletics in *Moneyball* and is trying to repeat in his current job with the New York Mets. Only so far, Lampert's experiment resembles a different book: *The Hunger Games*."

At the very least, federal and state policies intended to stimulate further charter growth must no longer be quality or integrity blind, assuming that market forces will induce necessary corrections. The federal government in particular, in recent years, has poured significant funding into the expansion of chartering in states that have exhibited systemic failures of financial oversight coupled with weak educational outcomes (Kramer 2015). The federal government has also, through facilities financing support for charter schools, aided in the transfer of previously publicly held capital assets to private hands, as well as aided in the accumulation of privately held debt to be covered at public expense (Berry 2015). Federal funding for charter expansion generally, or for facilities acquisition, should be put on hold until better parameters can be established for ensuring that these funds advance systemwide goals and protect public interests.

Barriers to turning back

There may come a time when policymakers and the public at large tire of the recent wave of charter expansion, becoming (even) more wary of tradeoffs that have been made, and becoming more sensitive to the reality that liberty and equity are not interchangeable (nor have they ever been in political theory or reality). Any significant reversal of course, reemphasis on district schools, tighter restriction on and mass closure of charter schools, is now encumbered with major logistical and financial barriers.

First, as indicated in the financial analyses herein, public districts including those in which total student populations remain largely unchanged, have disinvested in the ownership and management of capital stock. Significant usable land within densely developed urban centers has been acquired in the name of charter schools by nonprofit entities and, increasingly by for-profit real-estate investment trusts, including those whose portfolios rely most heavily on the financial success of retail and entertainment properties.¹⁷ Regaining land and rebuilding facilities, or acquiring them from REITs, in order to reinvigorate traditional public districts, will now come at very high expense (Grant 2015). Even before charter expansion, it had long been pointed out that New York City public schools lacked the physical space to serve all eligible children, if, for example, Catholic schools were to suddenly shut down. Charter school market shares in the cities discussed herein far exceed Catholic school market shares, and in all likelihood, purchasing their facilities at public expense from the for-profit REITs that hold them would come at much higher cost than would purchasing Catholic school facilities from the church.

Further, in many of the cities discussed herein, and in some states with substantial statewide charter market share, the teacher workforce has been substantively altered from a career-oriented, professionally trained teacher workforce to a temporary workforce, often simultaneously resulting in a teacher workforce that is far less demographically representative of the students and communities they serve (Weber 2015a, 2015b). In some cases, the newly minted teacher workforce is dominated by teachers narrowly trained in

specific “no excuses” methods, as charter operators have expanded their reach into the granting of graduate credentials and certification of their own teachers (see Baker and Miron 2015). Rebuilding the teacher workforce may take time, and come with additional costs, but may also present opportunities.

The road ahead

Now that chartering has evolved to the state illustrated herein, the time has come to reevaluate the multilevel deregulated structure of chartering and how that structure intersects with publicness/privateness distinctions. To the extent that authorizers other than districts and state government agencies themselves exist, authorizers must:

- work in collaboration with districts to ensure that the mix of providers in any context provides the best possible array of opportunities
- be sufficiently publicly accountable and transparent

Arguably, the current structure in multiple authorizer states, which creates incentives for both managers/operators and authorizers to maximize revenue and market share, is incompatible with these goals. It is difficult to conceive how these goals could ever be achieved in contexts in which multiple authorizers exist, with varied degrees of transparency due to their own publicness/privateness distinctions, and when failed or failing charter operators can simply shop for authorizers that will adopt them. Under such a system, no entity exists to protect the public’s capital assets or maintenance of an equitable and adequate publicly accessible system of schooling for all children.

Approval or expansion of charter schooling must include consideration of context, including long-term fiscal stress on host districts. For example, it makes little sense to continue approving new charter schools or expanding existing charter schools in contexts with declining overall enrollment, just as it would make little or no sense for an existing district to open new schools in a context of declining enrollment (unless those new schools were, in fact, intended to achieve more efficient geographic distributions of students and schools). Additionally, it makes little sense to promote charter expansion while providing insufficient state aid to ensure the stability of the system as a whole—district and charter schools—inclusive of expenses associated with enrollment transfer and decline.

It is important to acknowledge that charter school market shares are not, in recent years, expanding exclusively or even primarily because of market demand and personal/family preferences for charter schools. Traditional district public schools are being closed, neighborhoods are left without options other than charters, district schools are being reconstituted and handed over to charter operators (including entire districts), and district schools are increasingly being deprived of resources—with burgeoning class sizes and reductions in program offerings sending more families scrambling for their “least bad” nearest alternative (see for example Mezzacappa 2015; Weber 2015a, 2015b). These are conscious decisions of policymakers overseeing the system that includes district and charter schools. They are not market forces, and should never be confused as such. These

systems are being *centrally managed* without regard for equity and adequacy goals or the protection of student, family, taxpayer, and employee rights, but instead, on the false hope that *liberty* of choice is a substitute for all of the above (including, apparently, loss of individual liberties) (Green, Baker, and Oluwole 2014, 2015; Mead 2015; Advocates for Children of New York 2015).

If the broad, long-term policy objective is to move toward the provision of a “system of great schools,” as articulated by the many proponents of the portfolio concept, then those systems must be responsibly, centrally managed to achieve an *equitable* distribution of *excellent* (or at the very least *adequate*) educational opportunities for *all* children, while equally protecting the interests and legal rights of children, parents, taxpayers, and employees. Achieving this lofty goal requires establishing which functions of the system must be centrally and publicly regulated and governed. Systemwide public responsibilities include but are not limited to the following:

- The equitable management of enrollments and schooling access
- The equitable distribution of financial and other resources across the system, including allocation of resources to centralized functions that serve all schools
- The centralized management and equitable use/allocation, maintenance, and operations of the public’s capital stock of schools and related land and facilities
- The centralized management of systemwide debt obligations and long-term liabilities including employee retirement and health benefits

Numerous analyses have found chartering to lead to an imbalanced distribution of students by race, income, language proficiency, and disability status. So too does magnet schooling, or concentration of any specialized services across buildings within districts. The point is not that all such variations must necessarily be erased, or even could be, but that these variations must be acknowledged, and managed for the good of the system as a whole. To the extent that student needs continue to vary across school settings, resources must be targeted to accommodate those needs. This is a central function, and includes budget allocations, space allocations, and personnel allocations that draw on a substantial body of research on costs associated with providing equal educational opportunities (Duncombe and Yinger 2008). Capital stock should not be relinquished, but rather, centrally managed both to ensure flexibility (options to change course) and to protect the public’s assets (taxpayer interests). Finally, pension and health care costs are systemwide concerns that cannot be ignored by shifting students and public dollars across sectors.

Note: The report amends an earlier published version that incorrectly characterized New Orleans as an all-charter system.

About the author

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Table A1

Administrative and related overhead expenses of Newark, N.J. charter schools and Newark district

District/ charter	Per pupil amount, 2012–13	Percent of budgetary cost/ pupil, 2012–13	Per pupil amount, 2013–14	Percent of budgetary cost/ pupil, 2013–14	Per pupil amount, 2014–15	Percent of budgetary cost/ pupil, 2014–15
<i>Great Oaks Charter School</i>	\$4,968	38.0%	\$5,777	34.8%	\$4,391	34.0%
<i>New Horizons Comm. Charter School</i>	\$3,097	27.8%	\$3,388	28.6%	\$4,426	33.2%
<i>TEAM Academy Charter School</i>	\$3,929	24.7%	\$4,368	26.5%	\$4,851	31.3%
<i>Paulo Freire Charter School for Liberty Ed.</i>	\$5,081	33.6%	\$4,019	24.9%	\$4,002	27.7%
<i>Gray Charter School</i>	\$4,631	30.6%	\$2,434	16.7%	\$3,266	27.5%
<i>Maria L. Varisco-Rogers Charter School</i>	\$4,365	27.5%	\$4,031	25.6%	\$4,084	27.4%
<i>People's Preparatory Charter School</i>	\$3,560	25.6%	\$3,362	23.1%	\$4,315	26.2%
<i>Merit Prep Charter School of Newark</i>	\$4,779	34.7%	\$6,631	47.3%	\$3,003	25.5%
<i>Newark Educators Charter School</i>	\$3,271	20.5%	\$2,849	18.4%	\$3,346	24.7%
<i>North Star Acad. Charter School of Newark</i>	\$3,581	24.9%	\$3,851	25.9%	\$3,145	23.7%
<i>Discovery Charter School</i>	\$5,410	33.5%	\$4,311	29.0%	\$2,954	23.0%
<i>Marion P. Thomas Charter School</i>	\$1,677	11.3%	\$3,609	24.0%	\$2,691	22.0%
<i>Roseville Community Charter School</i>	\$2,413	19.8%	\$2,231	18.2%	\$2,303	19.1%
<i>Robert Treat Academy Charter School</i>	\$2,507	17.8%	\$2,455	16.7%	\$1,993	17.9%
<i>University Heights Charter School</i>	\$4,476	30.8%	\$2,417	13.6%	\$2,327	17.6%
<i>Newark Legacy Charter School</i>	\$4,186	33.4%	\$4,821	39.4%	\$1,894	16.1%
<i>Newark Prep</i>	\$4,610	26.1%	\$4,679	25.5%	\$1,698	12.6%
<i>Newark City</i>	\$1,757	9.6%	\$1,963	11.4%	\$1,936	11.8%
<i>Greater Newark Charter School</i>	\$3,500	24.0%	\$9,142	46.3%		

Source: New Jersey Department of Education, "Taxpayers Guide to Education Spending"

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Table A2

Excess overhead costs created by charter schools in Newark, N.J.

School	Enrollment	Admin, 2014–15	Plant, 2014–15	Total admin	Total plant	Total admin (Newark Public Schools rate)	Total plant (Newark Public Schools rate)
<i>Great Oaks Charter School</i>	260	4,391	3,343	1,142,099	869,514	503,554	627,621
<i>New Horizons Comm. Charter School</i>	452	4,426	879	1,998,339	396,869	874,104	1,089,470
<i>TEAM Academy Charter School</i>	2,213	4,851	1,523	10,737,203	3,371,008	4,285,142	5,340,934
<i>Paulo Freire Charter School for Liberty Ed.</i>	119	4,002	1,866	475,438	221,681	229,997	286,664
<i>Gray Charter School</i>	299	3,266	2,012	977,840	602,393	579,638	722,452
<i>Maria L. Varisco-Rogers Charter School</i>	486	4,084	1,587	1,984,824	771,282	940,896	1,172,718
<i>People's Preparatory Charter School</i>	280	4,315	1,190	1,208,200	333,200	542,080	675,640
<i>Merit Prep Charter School of Newark</i>	236	3,003	2,500	707,507	589,000	456,122	568,503
<i>Newark Educators Charter School</i>	273	3,346	2,888	912,789	787,846	528,141	658,266
<i>North Star Acad. Charter School of Newark</i>	2,711	3,145	2,053	8,526,724	5,566,094	5,248,883	6,542,126
<i>Discovery Charter School</i>	75	2,954	2,875	221,550	215,625	145,200	180,975
<i>Marion P. Thomas Charter School</i>	673	2,691	2,364	1,811,581	1,591,445	1,303,315	1,624,432
<i>Roseville Community Charter School</i>	256	2,303	1,415	590,259	362,665	496,197	618,452
<i>Robert Treat Academy Charter School</i>	599	1,993	2,289	1,194,604	1,372,027	1,160,438	1,446,352
<i>University Heights Charter School</i>	468	2,327	2,459	1,087,873	1,149,583	905,080	1,128,078
<i>Newark Legacy Charter School</i>	300	1,894	665	568,200	199,500	580,800	723,900
<i>Newark Prep</i>	282	1,698	3,460	478,157	974,336	545,178	679,501
<i>Newark City</i>	33,048	1,936	2,413	63,981,438	79,745,460	63,981,438	79,745,460
<i>[District with Charters]</i>	43,030						
Total				98,604,625	99,119,526	83,306,203	103,831,543
Difference							-10,586,405

Source: New Jersey Department of Education. "Taxpayers Guide to Education Spending" (Indicator 8, Indicator 10, and Summary File)

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Endnotes

1. Tabulation by author using data from NCES Common Core of Data, Public School Universe Survey(s)
2. The authors found that “Non-Edison EMO schools actually performed worse than district-managed schools. With the exception of one older K-8 school in one cohort, Edison schools did not significantly outperform district-managed counterparts. Students in longestablished K-8 schools generally outgained students in middle schools, but gains were not as large in newly-established K-8 schools. Across all types of schools, the second cohort of students obtained greater gains than did the first.”
3. More recently, the phrases “sector agnosticism” and “relinquishment” have been used to describe systems that turn a blind eye to whether *public access schools* are privately or publicly (elected officials/government) governed, or at the greater extreme, that public officials should “relinquish” any and all control of publicly accessible schooling to private providers/managers who will be far more responsive (than publicly governed/managed entities) to the needs and demands of children and their parents.
4. The authors write: “Overall, the results do not support the hypothesis that competition from charter schools spurs regular public schools to shift resources to achievement-oriented activities. Charter competition has had remarkably little impact on standard measures of district resource use in Michigan schools. On the other hand, higher levels of charter competition clearly generate fiscal stress in districts. Moreover, changes in resource allocation cannot explain the differing trajectories of districts that do and do not turn back the competitive challenge. There are no significant differences in the resource allocation *changes* made by districts that stabilize enrollment loss to charters and those that continue to spiral down.”
5. These averages mask the highest administrative expenses, which occur in Camden Community Charter School (at \$5,325 per pupil, higher than their instructional expense of \$4,225) and TEAM Academy (a KIPP school, at \$4,851 per pupil, but still much lower than their instructional expense of \$8,639 per pupil).
6. The Recovery School District initially was set up to temporarily take over failing schools, bring their scores up, and return them to their home districts. As of July 1, 2015, the Orleans Parish School board supervised 18 charters. The Recovery School District oversaw 53, and five others were overseen directly by the state school board (Jewson 2015).
7. See the website of OmniVest Properties, Inc., here: <http://www.omnivestllc.com/>
8. See also Michigan Association of Public School Academies (2012).
9. **Funding for Community Schools** – All community schools receive state per-pupil funding from the Ohio Department of Education. Community schools receive funding from the state through the per-pupil foundation allocation. All community schools are eligible for grants and federal title funds, the same as traditional school districts. Unlike city, local, exempted village and joint vocational school districts, community schools have no tax base from which to draw funds for buildings and investments in infrastructure. For more information, visit the department’s community school funding page.

Community School Payments – Community schools are paid monthly by the department based upon the equivalent of the number of full-time students enrolled in the school as reported through the School Options Enrollment System. Community schools receive the state per-pupil formula amount, plus any funds that students are eligible to receive by virtue of characteristics such as special needs conditions, participation in career-technical programs or family low-income status. For fiscal year 2015, the per-pupil formula amount will be \$5,800.

Effective July 2014, the department will release the first payment (opportunity grant) beginning in September, for new schools after the new school submits the sponsor assurance and is open for instruction. The student data extracted from EMIS/SOES by midnight on Aug. 15, Sept. 15 or Oct. 15, depending on which month the school is open for instruction, is the basis of the payment.

Transportation for Community School Students – Typically, community school students are transported by their resident districts following the same policies that are in place for students attending the traditional public school as long as the student's ride is not greater than 30 minutes. Community schools should check with the resident district's transportation director as soon as possible before school opens to ensure that policies are correctly understood and routes are established for students enrolled in the community school. A community school also may choose to arrange for its own transportation services. This option should be discussed with the school's governing authority and sponsor/authorizer to be sure that all implications of this decision are clearly understood. For more information, visit the department's website at education.ohio.gov, keyword search: Transportation Guidance.

See also Ohio School Boards Association (2014).

When a student enrolls in a charter or community school, funding follows him or her from the state through the local district to the charter or community school. The funding is deducted from the state basic aid amount that would otherwise flow to the resident district.

This deduction of funding from the district of residence is a confusing and contentious issue. First, the state reports the level of state funding for the district *before* the charter or community funding is deducted, giving community residents the impression the local school district receives more state funding than it actually does. Second, it is not clear as to whether any local revenue follows the student. To the extent that the dollar amount for charter or community schools exceeds the per-pupil amount districts receive from the state, it can be said that the difference between the amount directed to charter and community schools and the state funding provided to the district is local money.

10. A charter school that has declared itself as a local educational agency shall receive from the department of elementary and secondary education an annual amount equal to the product of the charter school's weighted average daily attendance and the state adequacy target, multiplied by the dollar value modifier for the district, plus local tax revenues per weighted average daily attendance from the incidental and teachers funds in excess of the performance levy as defined in section 163.011 plus all other state aid attributable to such pupils. If a charter school declares itself as a local education agency, the department of elementary and secondary education shall, upon notice of the declaration, reduce the payment made to the school district by the amount specified in this subsection and pay directly to the charter school the annual amount reduced from the school district's payment.

11. See, for example, "Friendly Reminder: Charter Schools ARE Public Schools." *Education Post*, January 8, 2015

12. See, for example, the blog of Neerav Kingsland, formerly of New Schools for New Orleans, at <http://relinquishment.org/what-is-relinquishment/>
13. For a thorough discussion of related case law see Green, Baker, and Oluwole (2014, 2015).
14. Additional findings include:
- 82 of the 164 NYC charter school discipline policies reviewed permit suspension or expulsion as a penalty for lateness, absence, or cutting class, in violation of state law.
 - 133 of the 164 NYC charter school discipline policies reviewed fail to include the right to written notice of a suspension prior to the suspension taking place, in violation of state law.
 - 36 of the 164 NYC charter school discipline policies reviewed fail to include an opportunity to be heard prior to a short-term suspension, in violation of the U.S. Constitution, New York State Constitution, and state law.
 - 25 of the 164 NYC charter school discipline policies reviewed fail to include the right to a hearing prior to a long-term suspension, in violation of the U.S. Constitution, New York State Constitution, and state law.
 - 59 of the 164 NYC charter school discipline policies reviewed fail to include the right to appeal charter school suspensions or expulsions, even though state law establishes a distinct process for charter school appeals.
 - 36 of the 164 NYC charter school discipline policies reviewed fail to include any additional procedures for suspending or expelling students with disabilities, in violation of federal and state law.
 - 52 of the 164 NYC charter school discipline policies reviewed fail to include the right to alternative instruction during the full suspension period, in violation of state law.
15. “No excuses” models employ strict disciplinary and behavioral codes resulting in immediate and often severe consequences (suspension or expulsion) for seemingly minor offenses. See, for example, DeJarnatt, Wolf, and Kalinich (2016).
16. In particular, with respect to retiree health benefits, Bifulco and Reback explain: “In 2009-10, the Buffalo City School District spent approximately \$1,658 per pupil and the Albany City School District spent approximately \$1,064 per pupil for current retiree health benefits. Removing these expenditures from the computation of charter school payments would substantially relieve much of the fiscal impact of charter schools on districts. Since districts can do little to control these costs, and charter schools do not typically have similar costs, this adjustment would serve to distribute cost burdens more fairly across the sectors.”
17. See, for example, <http://www.eprkc.com/portfolio-overview/public-charter-schools-list/>

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