

Better Together:
Ensuring Quality District Schools in Times
of Charter Growth and Declining Enrollment

Foreword by Robin Lake

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FOREWORD

When districts go into a major period of “declining enrollment,” schools can experience chaotic changes in staffing, course offerings, and student supports, as fixed costs eat up an increasingly large share of all district revenues, and teacher and student morale spirals downward. The harm this causes students should be unacceptable to everyone.

Yet this situation is occurring in more and more school districts around the country. The most recent example is Detroit Public Schools (DPS), which shrank from nearly 140,000 students to fewer than 50,000 over the last 10 years and was operated under a state-appointed emergency manager for nearly that same period. Facing bankruptcy, the state intervened to effectively buy out the DPS debt. In the next economic downturn, we are likely to see many more districts face this crisis. We cannot ignore this problem nor can we address it without good evidence and thoughtful debate.

Central to the debate is how public charter schools factor into these declines. A growing narrative assigns them blame, but is that really the case? This paper informs this urgent and complex question and kicks off a new CRPE initiative analyzing and proposing new solutions for districts in enrollment decline.

Our paper draws from a convening of superintendents, charter leaders, finance experts, and other education thought leaders that we hosted in Houston, Texas, earlier this year with support from the Laura and John Arnold Foundation. The discussion was heavily informed by preliminary research conducted by CRPE and our research partners Marguerite Roza, director of Edunomics Lab at Georgetown University, and Carrie Stewart and Katie Morrison-Reed of Afton Partners.

The bottom line: public charter schools are not to blame for districts’ financial struggles, but it is in their best interest to be part of a solution moving forward. This paper raises a number of possibilities on that front, and we hope it will prompt many more productive ideas, analyses, and local and national discussions in the future.

School districts need to find ways to become more nimble, innovative, entrepreneurial, and effective in an increasingly competitive school choice and economic environment.

Districts have always competed and lost enrollment to other school districts, to private schools, and—increasingly—to public charter schools. This trend will not reverse. The urgency to educate students for an internationally competitive and changing workforce will also not go away. No amount of denial or blame will change the reality that school districts need to find ways to become more nimble, innovative, entrepreneurial, and effective in an increasingly

competitive school choice and economic environment. Districts must learn to compete effectively and rebuild enrollment or downsize without harming students. We intend to help lead that work. Look for more from us soon on this issue.

—Robin Lake
Director

INTRODUCTION

“Any major policy initiative has transition costs. The charter movement forgot that in the transition from the monopoly district system to individual schools, you’re going to have to pay a price for that transitional period until you create a new self-sustaining status quo, and that’s coming home to roost.”

—District superintendent

Across the country, many large school districts have seen flat or declining enrollments in recent years, including in places where there’s been concurrent growth in charter schools. The result has been a growing perception that charter expansion is coming at the expense of the health of traditional school districts—a perception that, even if unfounded, has contributed to tensions between charter schools, districts, and in some cases, the public.

While these tensions have existed for some time, high-profile political flashpoints, such as ballot [Question 2 in Massachusetts](#), suggest that they may be reaching an inflection point. And while leaving these tensions unaddressed clearly has implications for charter advocates, ignoring them could also put children at risk if district-operated schools decline in quality. In fact, we have already seen class sizes increase and teacher and student morale decrease, so addressing the issue of declining enrollment is an urgent matter if we want students to have the high-quality education they deserve.

These tensions challenge the original charter school narrative that presumed that the sector’s growth and the competitive pressures it engenders would improve conditions for all students—those in charter schools and those who remain in traditional district schools. And while there are examples of districts that have improved their schools in the face of charter growth—Washington, D.C., and Denver among them—there are many more cities where this has not happened.

Though districts labor under rigidities in law, habit, and thinking, they remain responsible for providing a quality education and buffering children from the effects of changes in funding, enrollment, and student needs. The fact that some have adapted well to declines in enrollment that began as long as 45 years ago means that districts are not helpless. However, it is also necessary to ask whether the charter community—charter management organizations (CMOs) and other charter school operators, teachers and parents, pro-charter elected officials, philanthropies, funders, and other advocates—can and should act more proactively to protect students in district-run schools.

This paper explores both sides’ responsibility: what should districts be expected to do, and how should the charter community act to prevent harm to children in district-run schools? It breaks the big issues about responsibility into five more manageable questions:

1. **Is the growth of charter schools really contributing to the destabilization of district finances, and thus their ability to effectively educate?**
2. **What can districts do to maintain school quality despite loss of enrollment?**
3. **Do charter schools bear at least some responsibility to prevent the reduction of school quality for children remaining in district-run schools?**
4. **Could the charter community help to support the transition from district monopoly status, and if so, under what conditions?**
5. **Should the charter sector and its supporters embrace a broader measure of success for reform: the well-being of all students?**

There are no simple answers to these questions, and solutions might exist both on the local and national levels. They also are likely to vary from city to city. But they can no longer be ignored.

If the charter sector and its allies do not take steps to address these challenges, the sector will continue to lose political battles across the country.

We have already seen that negative perceptions of charter schools' impact on traditional districts, whether fair or not, have shaped public opinion even in places where strong charter and traditional schools are both present. Put simply, if the charter sector and its allies do not take steps to address these challenges, the sector will continue to lose political battles across the country. At the same time, too many charter opponents unfairly

pin district financial troubles on charter schools. Politically motivated demonizing undermines student success as much as anything.

As a starting point to addressing these challenging and controversial questions, more than two dozen policymakers, practitioners, researchers, and advocates took part in a January 2017 convening hosted by the Center on Reinventing Public Education (CRPE). The group included charter leaders and supporters, and state and school district leaders who have grappled with the consequences of rapid charter growth. The day-long convening featured broad-ranging, often frank conversations about the challenges that traditional school districts face and the role that the charter sector could possibly play in helping address them. While the discussion was not intended to set consensus or a course of action for the sector, the acknowledgement of the issue, the potential solutions, and the tensions that were surfaced were an important first step.

This paper surfaces the themes, tensions, and areas of consensus these experienced individuals and analysts believe are critical to untangling the knots of this complex and critical challenge. It is our hope that this is the beginning of a productive conversation that could ultimately benefit all of America's students, whether served by district or charter schools.

WHAT WE KNOW (AND DON'T KNOW) ABOUT DISTRICT TRANSFORMATION

“Declining enrollment may not be charters’ fault, but it is their problem.”

—School finance expert

As a starting point for these conversations, CRPE has sought to separate fact from fiction about district enrollment loss and the impact of charter schools. The current research on district health and the impact of charter schools confirms the complexity of the issue, and the Houston convening began with an overview of what we know—and don’t know—about charter and district trends. Links to specific research are included in Appendix A of this paper, but the key takeaways that shape the contours of this issue include:

Enrollment shifts are a long-term reality for school districts that predates the growth of the charter sector.

Many large districts have experienced enrollment loss for decades—well before the emergence of the charter school movement, as illustrated in Table 1. Overall populations in most of these cities fell during the same time period—in some cases, significantly. But even in San Francisco, where the population grew, district enrollments still declined.

TABLE 1. District Enrollment Losses Are Evident Before Charter Schools Opened

City	School District Student Population		City Population	
	1970*	2014**	1970	2014
Detroit, MI	292,934	49,043	1,511,482	680,150
Cleveland, OH	150,818	38,562	750,903	389,521
Philadelphia, PA	295,888	137,674	1,948,609	1,560,297
St. Louis, MO	113,484	27,017	622,236	317,419
San Francisco, CA	90,034	57,620	714,149	852,469
Milwaukee, WI	132,976	78,516	717,099	599,642
Washington, D.C.	145,704	44,942	756,668	659,836

Sources: U.S. Department of Health, Education, and Welfare Office of Education, “Fall Statistics of Public Schools, 1970;” U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), “Local Education Agency (School District) Universe Survey,” 2013-14, v.1a; and U.S. Census Bureau via Google Public Data Explorer.

*Detroit data from 1968.

**Excluding charter school enrollment. School district boundaries may not align to city boundaries.

While more recent statistics in some cities suggest that charter schools have contributed to enrollment declines, they are not the only factor.

In Detroit, total public school enrollment (district plus charter schools) fell by 120,000 from 168,000, to 48,000 between 2010 and 2015, while charter school enrollment grew by 14,000 during that time. Of the enrollees in charter schools, 10,000 had transferred from private schools or from outside the district rather than from district-operated schools.¹

In Washington, D.C., where the first charter schools emerged in 1997, enrollment in district-run schools fell by 31,000 from 79,000 that year, to 48,000 in 2015. During the same period, charter school enrollment grew to 38,000. As in Detroit, charter school enrollment grew more than district enrollment fell, implying that a significant minority (11,000) of charter students had come from private schools or outside the district.²

Districts are structured to grow, not shrink.

Some of this is the result of state laws and funding realities, some habit and mindset. Traditional salary and benefit schedules, rigid labor contracts, building acquisitions, and last-in, first-out staffing rules are all predicated on the assumption of future revenue growth that is, in turn, based on the assumption that enrollments will continue to grow, Carrie Stewart, Afton Partners cofounder and CRPE cofounder Paul Hill argued. “We have districts built to grow easily, but it’s way harder for them to get smaller,” agreed a public policy expert at the convening.

“We have districts built to grow easily, but it’s way harder for them to get smaller.”

Enrollment loss poses challenges for districts that are difficult to address. These problems are often exacerbated by state funding formulas that don’t adequately reflect enrollment changes, are outdated, or at times simply are

“bizarre,” as one district official put it. In many places, they also pit charter schools against district schools, either by providing different per-pupil funding formulas or ignoring stickier “legacy” costs—building maintenance, transportation, pensions and benefits, debt service, and unfunded liabilities—for districts, which rarely view expenditures through the lens of per-pupil or building-level spending. “We’re fixed on a system that has to be how it’s been for the last 50 years,” one charter school funder said.

The impact of enrollment loss has varied dramatically.

While consistent year-over-year enrollment losses have been highly destabilizing in some large districts, others that have experienced significant enrollment drops at some point in time, including Mobile and New York City, were able to manage their finances effectively through multiple years of sustained enrollment declines, [according to research](#) by Marguerite Roza, director of the Edunomics Lab at Georgetown University. Still, other large districts that haven’t faced enrollment declines have also struggled financially, according to Roza.

While districts can respond to enrollment loss in sustainable ways, shortsighted “fixes” can hurt students.

Shrinking districts have pulled different levers to address the financial impacts of enrollment loss with varying degrees of success. Results, however, have been mixed. In some cities that have seen significant enrollment declines, the ratio of teachers to students (and presumably class size) went up, while in others it went down.

But short-term district responses to revenue declines—reducing central office costs, furloughs, and salary freezes—don’t generate enough cost savings to offset ongoing funding shortfalls. They also have ripple effects that further impact efforts to sustain or improve the quality of instruction, including:

1. John Grover and Yvette van der Velde, *A School District in Crisis: Detroit’s Public Schools 1842-2015* (Detroit, MI: LOVELAND Technologies, 2015).

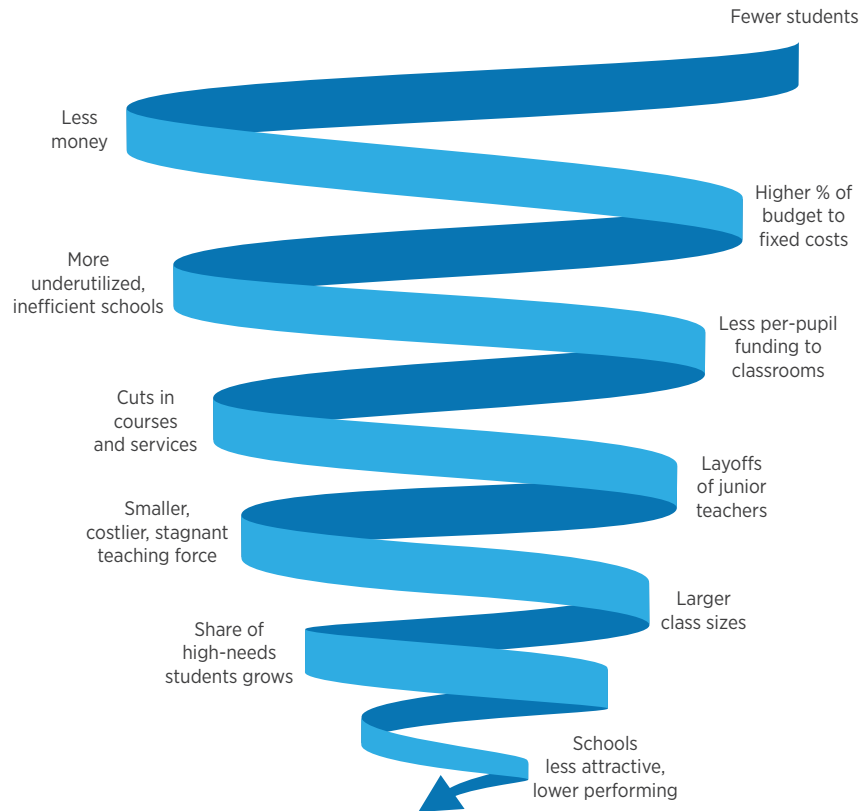
2. “[Share of Public Students Over Time](#),” DC Public Charter School Board, accessed December 6 2016.

- Central office size reduction takes supports away from struggling schools trying to improve.
- Layoffs are typically constrained by last-in, first-out rules that require districts to lay off their most junior staff first, without regard to their effectiveness.
- Seniority policies also often result in districts laying off two inexpensive junior teachers instead of one more senior educator with a larger salary, which, over time, impacts class size and teaching quality.

Many districts struggle to make the real kinds of structural changes that reflect the new reality of declining enrollments, such as school closures, divestiture of unused buildings, and changes to compensation and benefits for retirees as well as current employees.

Districts exacerbate these problems by continuing to enter into labor agreements that they won't be able to afford, given enrollment trends. Individual leaders may be all too aware of the problems. As one participant said, "In most cases it is school boards elected by unions that back the union demands," making it difficult to enact change. Facing political obstacles like these, many districts struggle to make the real kinds of structural changes that reflect the new reality of declining enrollments, such as school closures, divestiture of unused buildings, and changes to compensation and benefits for retirees as well as current employees.³ The result can be a downward spiral that directly impacts schools and students, as shown in here:

FIGURE 1. How District Enrollment Loss Can Lead to Declines in School Quality



3. About half the states require charter schools to participate in state pension plans, and charter participation varies in other states, which can reduce the direct impact charter enrollment has on district obligations. States also vary in how much districts are on the hook for a state's legacy pension costs. See Chad Aldeman, "Should Public Charter Schools Be Allowed to Opt Out of State-run Teacher Pension Plans?" Teacher Pensions Blog, TeacherPensions.org, January 26, 2017.

There are, however, better ways to manage declining enrollment, including the strategies described in the box below.

Potential District Levers to Mitigate the Impact of Enrollment Decline

1. Implementing school closures and corresponding real estate transactions.
2. Redistricting and efficient enrollment planning.
3. Ending last-in, first-out policies, layoffs.
4. Advocating for reform of long-term, fixed-cost obligations, such as pensions.
5. Ending unsustainable/unfunded salary commitments, such as automatic step-and-lane raises.
6. Creating a uniform intradistrict funding formula for district and charter schools that is:
 - A. based on student needs
 - B. involves sharing of citywide obligations (like special education outplacement)
 - C. addresses sharing of some legacy obligations
7. Committing to long-term decision-making to help manage decline.
8. Seeking continued operational efficiencies, in part by focusing on making more costs, such as transportation and special education, variable.

Context matters: Some districts may find it more difficult to manage declining enrollments effectively for structural or political reasons. But whether because of entrenched bureaucracy, organizational inertia, union/board pressure, or other political dynamics, districts have also historically shown resistance to challenging existing policies, habits, and stakeholders. In some places charter schools have become an easy scapegoat that has helped mask deeply rooted structural problems. And even districts that have kept their financial house in order haven't always maintained excellent learning conditions for students.

This matters to supporters of charter schools and traditional schools for an important reason: In many places, it's the students who need the greatest support who suffer the most. "Districts tend to take money from where it's most politically viable," one participant said. "Often it's [done to] the schools without advocates." Another participant agreed that students can suffer, but for a different reason: "The concentration of need grows in the remaining district schools."

In some places charter schools have become an easy scapegoat that has helped mask deeply rooted structural problems.

The takeaway is that the issue is complex, highly dependent on local context, and unlikely to be addressed by a one-size-fits-all strategy. But it is also important enough to transcend finger-pointing. Yes, some districts have fumbled the response to enrollment declines for decades, and yes, charter schools have grown so quickly in some places that they have challenged even the most responsible districts to scale down. While no single party is to blame for the challenges traditional school districts currently face, no party is blameless either. And the political calculus remains: as long as students in traditional schools are not being adequately served, charter schools will continue to face criticism for district problems—regardless of whether they are of their own making or not. Acknowledging this reality is the starting point for the discussions that follow.

THEMES, TENSIONS, AND AREAS OF CONSENSUS

“There’s a practical problem and a political problem, and they’re not the same.”

—Charter school researcher

Overall, the January convening participants were sober-minded about the realities ahead. Discussion steered clear of blame and sought solutions to what all agreed is, at the very least, a serious challenge for even reform-minded district leaders and a serious political barrier for continued charter growth. The group had many promising ideas for moving forward, and their conversation also surfaced the key tensions that must be resolved in order to do so. Among the takeaways from the convening:

The charter-district dynamic can no longer be thought of as a zero-sum game.

Participants agreed that the issue must be framed around creating better opportunities for all students, meeting their widely varying needs and learning styles, regardless of what kind of school they’re in. “Our view is [that] the measure of the success of the district is the number of students who have access to a free public school—charter or traditional—that is high quality,” one district superintendent said. “That may be unsellable in some political corners ... but if you view it through that lens, it makes a big difference.”

Some districts have embraced this philosophy. Denver, for example, purposefully ceded some of its lowest-performing schools to charter operators so the district could focus on raising overall student performance in its remaining schools. But given the longstanding assumption among some charter innovators that disrupting the status quo is an acceptable tradeoff for transformation, are charter schools and their supporters willing to make similar changes in mindset?

And for the larger reform movement, how does the responsibility to ensure that all students are buffered from the effects of disruptive change work in practice? Advocacy to ensure that funding formulas are more responsive to student needs? Hand in hand partnerships that address districts’ operational challenges through collaboration? Given that in many places, charter schools already receive less funding per student than districts, would charter schools agree to lower per-pupil funding costs to (further) offset legacy costs or be expected to assume a portion of a district’s debt as their enrollments reach a significant percentage of a city’s student population?

Districts have a responsibility to act in the best interests of students—existing and future.

While participants agreed that enrollment declines present legitimate challenges to even the most progressive districts, it is vital that their leaders challenge the longstanding structural issues and practices that have exacerbated the harm done to students remaining in traditional schools. Without these efforts, charter schools and their leaders would find themselves in the untenable position of making unilateral concessions that would do little to improve conditions for the neediest students remaining in district schools.

It is vital that district leaders challenge the longstanding structural issues and practices that have exacerbated the harm done to students remaining in traditional schools.

While the quality of district responses to enrollment shifts has varied, “legacy” costs are a valid issue that has not been adequately addressed.

There’s no doubt that many districts have not adequately responded to declining enrollments with the kinds of structural changes required in a post-monopoly environment. However, all districts face structural challenges that present significant headwinds to change. Even when districts and charter schools receive the same per-pupil funding, legacy costs such as unfunded liabilities can result in less money reaching each student in traditional district schools than their peers in charter schools (see Appendix B for a more detailed discussion of these issues). Only some states provide transition aid or “hold harmless” funding provisions, and even more rare is this pot of funding clearly based on a true accounting of those costs. Unless these costs are shared across charter schools and districts on a citywide basis, the reality is that children in district schools are disproportionately impacted.

Along with legacy costs, some ongoing expenses also remain inequitably shared among districts and charter schools. Despite efforts to improve charter school access to students with special needs, the preponderance of special education expenses—including costly out-of-district placements for students with extreme disabilities—are shouldered by districts, which typically must subsidize special education. “The dirty little secret of public education financing is special education,” one district leader said. “There may be good reasons for this, but some costs are borne uniquely by traditional public schools.”

The charter sector needs to have a credible answer to concerns about harm to districts.

It’s important that charter schools and their supporters more effectively combat unfair characterizations like “charter schools are draining money from district schools” and avoid being saddled with blame for district insolvencies. Doing so will require an effective communication strategy—but it will also require action to ensure that all schools are improving. As one experienced leader put it, “I worry about a false dichotomy between communication and policy. If I don’t have a response to the question that we’re leaving 65 percent of kids in district schools that are being impaired by charter schools, I can’t win the debate.”

Charter schools and districts alone don’t own all the problems.

Many of the challenges facing districts—legacy pension and healthcare costs chief among them—reflect broader issues of state legislative irresponsibility that affect many sectors beyond education.

Participants argued that many of the challenges facing districts—legacy pension and healthcare costs chief among them—reflect broader issues of state legislative irresponsibility that affect many sectors beyond education. Inadequately funded public pensions, for example, have an outsized impact across all sectors in many states. Should the charter sector advocate for broader changes like general public sector pension reform, a political battlefield all on its own, or focus more narrowly on issues related to how public schools are financed? “We cannot resolve

this in the education arena,” one education-focused funder observed. “The narrative we need isn’t about education at all, but the violation of public trust and the consequences that are coming to roost.”

FIRST STEPS TOWARD SOLUTIONS

“Everybody gets something. But it only works if everyone can declare a win.”

—District superintendent

Convening participants also outlined possible solutions that would allow districts and the charter community to better ensure that all students have access to a quality education—some focused on practice, others on policy, and still others on crafting so-called “grand bargains” that could result in significant structural change. While some are more tenable than others, these options represent a first step at defining the contours of workable solutions that could address the differing challenges faced in each district, city, and state. Among them:

Districts need to take serious steps toward reducing legacy costs.

As a starting point, district leaders should commit to ending the creation of additional legacy costs, such as new buildings or maintaining unsustainable concessions when collective bargaining agreements are renegotiated. They also must begin the challenging work of reducing existing costs, such as by closing underutilized schools, selling unneeded facilities, seeking legal or legislative remedies for certain debts or liabilities, and avoiding new commitments to benefits or other expenditures that are sustainable only if district enrollment grows.

Districts and charter operators need to develop better ways of working together.

To date, district-charter collaborations have largely focused on instructional programs or issues of limited scope. Some promising examples do exist—participants singled out Texas districts that have worked hand in hand with charter operators to open new schools—but the challenge is moving these collaborations to a more strategic footing when it comes to financial sustainability. For example, charter operators that innovate on the portability of retirement plans might find ways to encourage districts to create similar plans for new teachers. In Philadelphia, district and charter leaders co-develop plans to replace failing neighborhood schools and lobby state officials to amend the state funding formula to incentivize these kinds of partnerships.

A policy agenda must be developed.

Such an agenda will likely vary from city to city and state to state based on the local context and other factors, but there are a range of strategies that charter schools and their supporters may consider, including:

- **Citywide collaboration.** The “better together” approach would require districts and charter schools to focus on shared challenges. It also would likely involve other stakeholders, including elected city officials and local business, philanthropy, and community organizations.
- **Advocacy.** Charter operators and their supporters will also have to determine the extent to which they should work with districts to push lawmakers for structural changes in funding and other education policies.
- **Supply-side strategies.** These strategies involve directly addressing the charter sector’s impact, including more deliberate planning and pacing of charter expansion and/or authorizing policies that acknowledge the impact of charter school seats on district schools. Implicit in these kinds of strategies is an acknowledgement that even the highest-performing charter schools and CMOs lack the capacity to sustain rapid growth over time. Cities could encourage or incubate innovative charter designs that serve student needs—such as special education—that neither the district or CMOs are meeting well.

It may take a “grand bargain” to fully address the challenges of the transition from district monopoly status.

As discussed throughout this paper, districts face real challenges as a result of enrollment declines, and as long as students in traditional schools are not being adequately served, charter schools will continue to face criticism for district problems—regardless of whether they are of their own making or not. This dynamic opens the door to big-picture agreements that could provide additional support—time and/or funding—to districts as they work to manage this transition. However, along with acknowledging the political risks inherent in such “grand bargains,” participants stressed that the starting point for negotiations between districts and charter operators must include commitments on the part of district leaders to reducing the legacy costs described earlier in this section. Without such a commitment to structural change, the charter community is placed in the untenable position of making unilateral concessions that ultimately would not benefit students in traditional schools.

Here are some potential scenarios for grand bargains that the participants discussed. Each scenario would require thoughtful collaboration from charters, districts, and states:

Districts would agree to publicly identify their legacy costs in exchange for charter schools’ agreement to receive per-pupil funding similar to that received by district-run schools. These scenarios would result in funding formulas that acknowledge districts’ legacy costs, including facilities and retiree benefits. For example, charter schools might receive less per-pupil funding under such an agreement but would be able to tell the public, with confidence, that charter and district students received the same classroom funding and that charter schools weren’t contributing to a district’s impending insolvency. Increased transparency would help isolate and identify the district’s legacy costs or debt service and could be paired with a mandate to reduce them over a set period of time—for example by selling facilities to charter operators at market rate or, given that some need extensive repair, for a nominal or no fee.

States would create new revenue sources to give districts additional funding in exchange for districts’ pledges of accountability in using funds in appropriate ways. Instead of changing ongoing per-pupil funding formulas, states could create new revenue sources or line items specifically devoted to providing districts with additional funding to ensure they can provide adequate resources to students for a set time period. For example, a district whose legacy costs amount to 12 percent of per-pupil revenues could temporarily receive a corresponding amount of transition aid in order to unwind fixed costs and restructure. “It could allow rational cost reductions over time and end the draining argument” used against charter schools, one participant said. At the same time, districts would be held accountable by the state for using the funds in appropriate ways, avoiding situations now seen in some states where districts are held harmless financially or receive transition aid but do little to wind down costs. If a district failed to develop an adequate plan or failed to deliver on the plan, responsibility for restructuring the district would fall to the state.

Districts would try new models to help spin off legacy costs. Charter leaders would support the district’s request to the state for flexibility allowing a continuum of approaches. On the conservative side, districts could agree to practices such as the sale and lease back or third-party management of district buildings, allowing them to spin off legacy facility costs. On the other extreme, a district could conceivably—and purposefully—spin off every one of its schools, leaving a district with zero enrollment and most of its legacy expenses. Such a scenario would precipitate bankruptcy and possibly a state bailout or relief from debt holders.

In a circumstance where districts could prove that they were reducing fixed costs as quickly as possible, charter operators would agree to a temporary slowdown in growth. In this scenario, charter operators would pledge to reduce the rate of growth for a set period of time in order to give the district time to scale down appropriately. Districts would be required to show evidence of progress, while charter schools would be assured of funding or access to other resources, such as public school buildings. In some cases, the slowing of growth might be largely symbolic—as stated earlier, even the highest-performing CMOs have limits to how quickly they can scale—but a public commitment to a temporary slowdown could provide political cover for both the charter community and districts. “Why wouldn’t charters agree to that?” one participant asked. “They’re not giving up anything.” Others acknowledged that local dynamics would make such an agreement difficult or even a nonstarter in many places. All agreed, however, that the goal of creating more high-quality public schools should never be artificially constrained through state-imposed caps on charter growth.

The feasibility of these “grand bargain” approaches, difficult to enact in even the best of circumstances, would rely heavily on local and state contexts. But each has common elements that would be required to make even less comprehensive agreements work—elements that also directly improve the ability of districts to ensure that ongoing financial challenges are less likely to impact their most disadvantaged students, including:

- **Time and money.** Both are scarce resources, and providing more of either gives districts the opportunity to unwind fixed costs and make structural changes in response to enrollment declines in more sustainable ways.
- **Forcing elements.** Districts would be explicitly required to make meaningful changes and demonstrate progress. For example, districts might be required to develop a transition plan before receiving additional funding or a commitment to cap charter school growth.
- **Holding charter schools harmless.** By agreeing to limit growth or funding so districts can address their structural challenges, charter schools could be absolved, both financially and in the public eye, from the impact of future district actions that sustain or build legacy costs.

At the same time, participants raised the question of ensuring that each party doesn’t take advantage of the bargain and not live up to its end of the deal. “Too often, compromise looks like throwing charters under the bus,” one funder said. It may be necessary to start small with smaller agreements to build up the confidence and shared consensus needed to make sacrifices on both sides.

Red State/Blue State Solutions

Context matters in school reform: it matters in how districts have managed declining enrollments, and it may well matter in how charter schools approach the solutions to the challenges they face.

Convening participants identified different levers likely to work in different contexts, calling them red state/blue state approaches to structural reform.

In conservative (red) states, labor reforms, backpack funding, and spinning or selling off unused facilities are potential solutions, while more liberal-leaning (blue) states are more likely to embrace equity and funding stabilization strategies.

While in practice the viability of these solutions are unlikely to hew precisely to the electoral map, the discussion reinforced the importance of developing localized solutions to address a common challenge.

TOPICS FOR FURTHER DISCUSSION AND RESEARCH

Convening participants acknowledged the many gaps in our understanding of the complex issues stemming from declining enrollments as districts move away from their role as monopoly providers. Before clear strategies can be developed, the charter sector and its supporters will need to explore a broad range of issues, including:

Better research on the financial impact of competition from charter schools and how districts manage enrollment declines.

While research to date has primarily surfaced the wide variability in impacts among districts facing enrollment changes, both districts and the charter community would benefit from a clearer understanding of several common issues, including:

- Evidence about the share of enrollment loss that charter schools are directly responsible for versus loss attributable to demographic shifts, loss to other districts, and loss to private schools.
- Examples of districts that have effectively managed declining enrollments over time. What strategies did they pursue? Are there common elements that surface beyond the local contexts that drive many district decisions?
- More data on specific districts, in particular highlighting the disparity between real and imagined fiscal constraints.
- The full impact of broader fiscal issues, including pension liabilities and other fixed costs. A better understanding of the extent of their impact could help charter operators determine whether they should advocate for broader public sector reforms.
- The extent of the charter enrollment share that is actually feasible. A realistic understanding of the percentage of students in a district that charter schools could conceivably serve at any time could help develop a practical roadmap for future charter growth and help authorizers and districts better manage enrollment changes over time. This challenging question returns to the premise that the charter-district dynamic should focus first on the benefit to students: charter schools should continue to grow as long as they are improving options for children in a city, but they should not grow if they are unlikely to create better options than the district is making available for the students who remain in traditional district schools.

Strategies to empower district superintendents.

Financial challenges caused by declining enrollment can tie the hands of even the most reform-minded superintendents. Research and best practices for districts need to be surfaced to help identify strategies to mitigate the impact on enrollment decline, as discussed earlier in this paper.

Strategies to encourage charter-district collaboration and greater community involvement.

Given the limited scope of even positive charter-district relationships to date, we need to identify what it would take to bring together districts, charter operators, and community stakeholders and build a broader

common vision for school transformation that involves both charter and traditional schools. Mechanisms that encourage more meaningful district-charter collaboration—such as coordinated placement of new charter schools at district schools slated for closure—are one key element. Community engagement is another.

Given concerns about districts or charter schools failing to live up to their side of the bargain in any kind of far-reaching agreement, a key element raised by participants is the importance of building trust and confidence in collaboration through smaller agreements or ventures. One possible strategy is greater transparency, including sharing information about student performance and spending; the majority of charter schools in Oakland did as part of a broader community initiative that identified opportunities for shared services and initiatives.

It's important to know how to talk about efforts to ensure that all students receive a quality education, regardless of what school they attend. "Our strongest position is what parents want—and they want options."

Developing outreach strategies.

While the scope of the issue means that a communication strategy alone is inadequate to address public concerns, it's important to know how to talk about efforts to ensure that all students receive a quality education, regardless of what school they attend. A key component will be identifying who can best share out this message to different stakeholders and audiences. Parents are one potential—and an often overlooked—option. "Our strongest position is what parents want—and they want options," one participant said. "It's an underused weapon in the debate."

Developing model legislative agendas or strategies.

Identifying common strategies that can help policy leaders in individual states address these core issues would be invaluable. Given the red state/blue state divide explored earlier in this paper, it's important to ensure that these strategies are not one-size-fits-all. Whether it's developing a transition strategy with a district or a legislative agenda for the statehouse, legislators and advocates would benefit greatly from a menu of options from which they can choose to meet their local contexts. The possibilities for a "grand bargain" that we outline here are meant to be a starting point for further ideas and proposals.

Learning from other sectors that have faced significant structural change.

Energy, healthcare, and other sectors have also weathered dramatic change—and have had to both make structural shifts and advocate for changes in policy. Learning how other industries have successfully managed these transitions could help identify additional strategies for charter schools, districts, and the education sector as a whole.

Other public sector areas that have faced a similar sea change also may offer important lessons. For example, public housing policy focused on flexibility as one way to aid the transition from government-run projects to Section 8 vouchers. During the transition, local housing authorities were permitted to tap funds from unused vouchers to maintain remaining public properties. "Transitions are painful, but costs can be paid in different currencies," one attendee said.

Identifying additional allies.

Pension reform, special education, early childhood—each of these components impacting the financial picture districts face has its own constituency. Identifying stakeholders with common goals that could be brought into the discussion—from parent groups to think tanks—could help magnify the impact of efforts to bring about structural change.

Finding opportunities to work as a national charter community.

While the specific solutions to the challenges in each district are highly dependent on context, the charter sector writ large could identify areas of opportunity to work together. Doing so will involve dealing with structural issues within the sector as a whole. As one funder put it, “there’s no command and control in the charter movement ... it’s built on independent entrepreneurs facing collective problems.” But the opportunities are evident: identifying communities most in need of charter growth, sharing best practices, creating locally responsive policy agendas that are informed by collective understanding, and developing a better shared understanding of how best to support district transitions.

CONCLUSION

“We have to define success in a collaborative way—every child has access to a quality public education and we are going to judge all schools by that criteria. And as we develop options, we need to make sure to do that in a way that levels the playing field and gives all schools the opportunity to succeed without favoring one type over another. How we’re going to do that is a project that people who agree on these principles should work hard to do.”

—District leader

The challenges districts face are very real, and whether or not charter schools are directly implicated in their struggles, the sector has a moral and practical obligation to ensure that all students receive a quality education.

By bringing together district leaders and a cross-section of the charter sector and its supporters, January’s convening reaffirmed several things—that the challenges districts face are very real, and that whether or not charter schools are directly implicated in their struggles, the sector has a moral and practical obligation to ensure that all students receive a quality education.

This paper serves to shed light on the complexity of this issue and identify the areas of consensus and tension among the diverse members of the charter community and

its supporters. There are few clear-cut answers to the difficult questions about causality and responsibility posed at the beginning of this paper that would apply in every city and context. Even more challenging, however, will be finding consensus on how the charter sector and its supporters can help support the transition from the one-size-fits-all districts, schools, funding, and solutions that have exacerbated both existing problems in traditional schools and the impact of charter growth in many places. Along with consensus, sensitivity to the independent nature of charter schools and the differing contexts in which they operate will remain paramount as the field continues to grapple with these important questions.

By providing further research and guidance to the field, CRPE intends to continue working in collaboration with other organizations to help untangle the many knots that stand in the way of ensuring that the transition from monopoly to choice—while beneficial in the aggregate—is also beneficial to all students, regardless of whether they attend a traditional district school or a charter school. This should be the aspirational goal of everyone involved in school reform, and it is one that we believe is possible with the willing and determined participation of all sectors, policymakers, and the public.

APPENDIX A. SELECTED REPORTS AND READING

Bruce Baker, [*Exploring the Consequences of Charter School Expansion in U.S. Cities*](#), Economic Policy Institute, November 2016.

Education Resource Strategies and Oakland Archives, [*Informing Equity: Student Need, Spending, and Resource Use in Oakland's Public Schools*](#), June 2017.

[*Report of the Independent Financial Review Panel*](#), Los Angeles Unified School District, November 2015.

Lane McBride, et al., [*Adapting to Enrollment Decline in Urban School Systems: Managing Cost While Improving Educational Quality*](#), The Boston Consultant Group, 2013.

[*Maintaining Cap on Charter Schools is Credit Positive for Massachusetts Urban Cities*](#), Moody's Investors Service, November 15, 2016.

Marguerite Roza, Amber Northern, and Michael Petrilli, "[Sensible responses to insolvent school districts](#)," Flypaper blog, Thomas B. Fordham Institute, August 12, 2015.

Marguerite Roza, "[Do charters really 'drain' money from public school students?](#)" *Los Angeles Times* guest op-ed, May 19, 2016.

Marguerite Roza, "[Restructuring Districts for a New Financial Landscape](#)." Presented at the CRPE convening, "Too Big to Fail: Districts and Rapid Enrollment Loss," Houston, Texas, January 12, 2017.

Mike Szymanski, "[LAUSD keeps hiring as enrollment declines and financial crisis looms](#)," *LA School Report*, August 29, 2016.

APPENDIX B. DEALING WITH FIXED COSTS

—Written by Paul Hill, CRPE, and Carrie Stewart, Afton Partners

Districts wanting to reduce expenditures find that some are more difficult to change than others. Districts have long-term obligations—for example, to pay retiree pensions, make bond payments, or make loan payments on facilities and equipment—these can't be cut immediately as enrollment declines. Other non-school expenditures are much more discretionary, such as the salaries of people hired to support the superintendent and board, to implement a current district initiative, to provide mandatory teacher training on a topic chosen by the central office, or to administer departments under a preferred but not legally mandated organizational scheme.

On close analysis, expenditures are seldom either completely fixed or totally variable. Some expenditures are fixed for just one school year or for the duration of a three- or five-year contract, and after that they are discretionary. Other expenditures are fixed but will shrink over time if the district stops taking on new obligations. Pensions for retirees are a good example: these can decline steadily over a decade or so if the district meets its current obligations but adopts fully paid (e.g., defined contribution) pension plans for its current employees. Many expenditures, including some retirement plan contributions, are fixed because of state legal requirements, but could become variable if the law were changed.

In completing an analysis for a large school district, Afton Partners developed a methodology to answer these three questions:

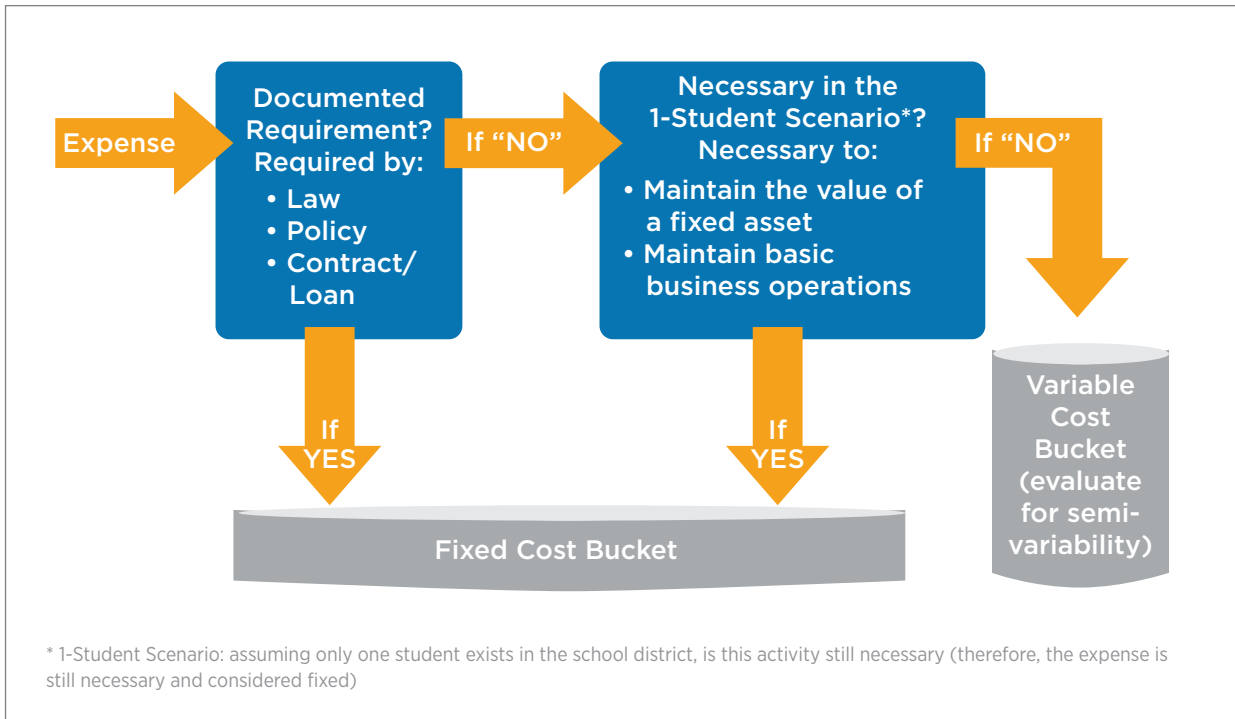
- a. What costs are controlled by whom?
- b. Are these costs fixed, variable, or a combination?
- c. If they are fully or partially fixed, why is that the case?

School finance literature typically classifies costs as fixed, variable, or in-between based simply on whether costs continue for a long time. This is problematic because many public entities, including school districts, build their annual budgets by carrying forward expenditures from previous years, considering these as parts of a fixed “commitment base” and making new decisions only about how to use remaining uncommitted funds.¹

We sought to create a framework that would establish clear criteria for determining whether long-term costs were truly fixed, or could become variable if district leaders chose to make them so. Our framework is illustrated in Figure B1 below. Expenditures based on laws, long-term contracts, and loans that must be repaid are considered fixed. Classes of expenditures that a district would need to make even if it educated only one student (e.g., for rental of some sort of facility and its maintenance, filing reports required by the state, maintaining some capacity to hire and pay employees, write checks to pay bills, and keeping publicly available accounts) are also categorically fixed: some expenditure would always be necessary, even if the amounts spent could be very small. All other costs are considered at least semi-variable because they can change, either with district policy (e.g., the decision to eliminate school lacrosse coaches) or because they can be increased or decreased—just not as proportionally as district enrollment changes (e.g., teacher salaries, food costs, fuel for busses).

1. Even long-term obligations can be reduced over time by paying them off and not creating new ones, for example by leasing rather than purchasing facilities and choosing fully funded teacher benefits. See, for example, Noah Wepman, Marguerite Roza and Cristina Sepe, *The Promise of Cafeteria-Style Benefits for Districts and Teachers* (Seattle, WA: Center on Reinventing Public Education, 2010).

FIGURE B1. Analytical Framework for Identifying Fixed Costs



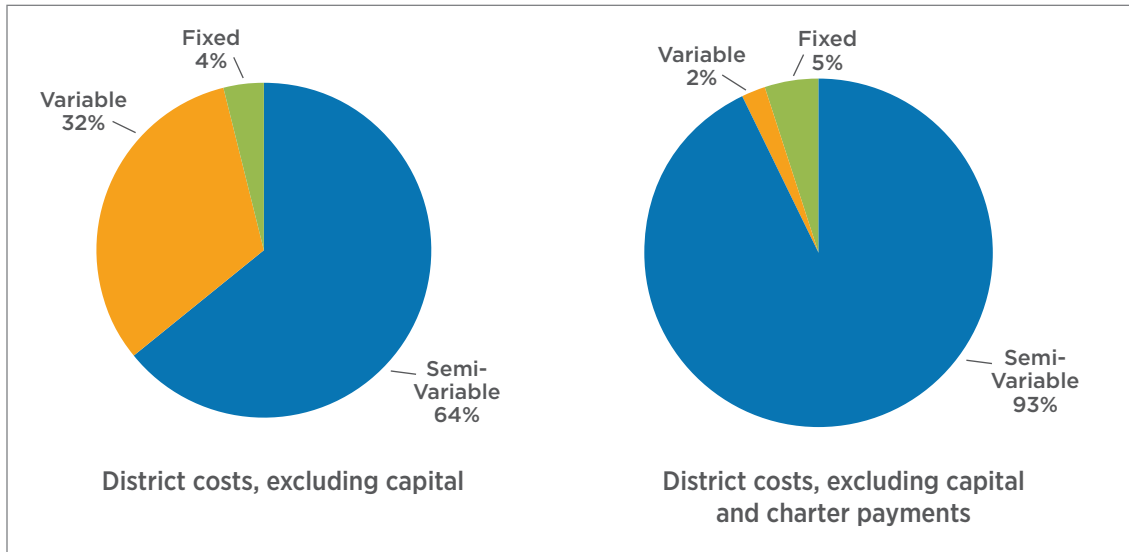
Source: Afton Partners

Analysis framed in this way reveals that no costs are absolutely fixed in the very long term as policies, laws, and contracts are adjustable, but for the purposes of our analyses, we’ve considered these fixed in the short-term.

Most often, costs will have both fixed and variable components. We call these costs semi-variable. Semi-variable costs are any costs that can be changed but that do not move proportionately and immediately with a change in enrollment. Many such costs are driven by allocation policies, for example that a school gets an additional teacher for every 20 students enrolled. This is usually the case for any resources (e.g., central office services to schools) that are allocated in a “lumpy” way—a school gets another full unit of services, say a math enrichment program, after its enrollment crosses some threshold. Expenditures can also be semi-variable if costs could be reduced only with time lags, for example unneeded equipment can be returned only after a lease is up, or non-tenured employees have been guaranteed a year’s work. Such expenditures can be made flexible in the medium-run if the district changes its policies, but they cannot be reduced smoothly as student enrollments fall.

Afton Partners assessed full-year budget data, excluding capital costs and charter payments, from a large school system using the framework explained above. As Figure B2 shows, virtually all costs are semi-variable: they have an element of variability, but cannot decline exactly as enrollment falls.

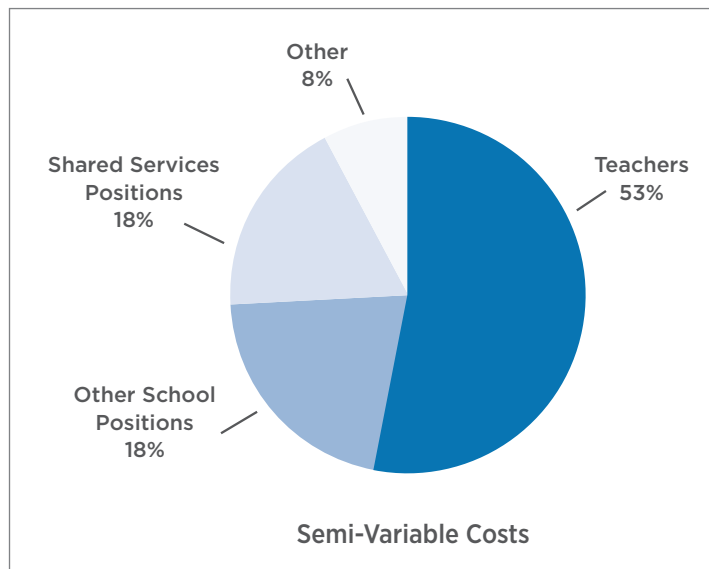
FIGURE B2. Few Costs at One Large School District Are Truly “Fixed”



Source: Afton Partners

Figure B3 divides semi-variable costs into the largest cost categories, showing that teacher salaries and benefits make up more than half of the semi-variable costs.

FIGURE B3. Labor Drives Semi-Variable Costs at One Large School District

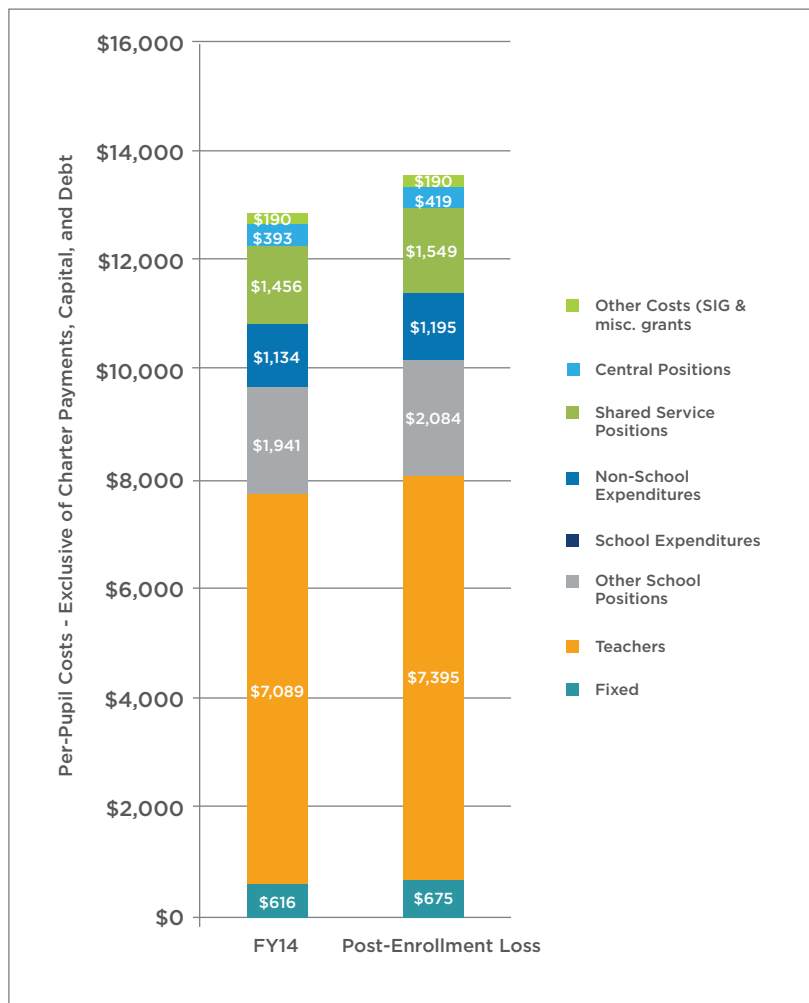


Source: Afton Partners

What impact does this semi-variable cost structure have on costs when enrollment changes? Using our example district, we analyzed the impact of an enrollment loss of 9 percent of students over 10 years—a realistic projection for this district. If no policy or allocation methodology changes are made, per-pupil costs in constant dollars would rise \$690. This is primarily driven by teacher costs (and related class size thresholds, with uneven enrollment migration at various schools and grade levels), with the full change portrayed in Figure B4.

This increased per-pupil cost happens despite an overall decline in revenues. The increase in per-pupil spending is mostly driven by teacher salary and benefit costs, due to an allocation policy that assigns teaching positions based on maximum class size, and because teacher costs are the largest expense in the district.

FIGURE B4. Per-Pupil Operating Costs Before and After Enrollment Loss*



* Exclusive of charter payments, capital, and debt.

Source: Afton Partners

ABOUT THIS REPORT

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About the Center on Reinventing Public Education

Through research and policy analysis, CRPE seeks ways to make public education more effective, especially for America's disadvantaged students. We help redesign governance, oversight, and dynamic education delivery systems to make it possible for great educators to do their best work with students and to create a wide range of high-quality public school options for families. Our work emphasizes evidence over posture and confronts hard truths. We search outside the traditional boundaries of public education to find pragmatic, equitable, and promising approaches to address the complex challenges facing public education. Our goal is to create new possibilities for the parents, educators, and public officials who strive to improve America's schools. CRPE is a nonpartisan, self-sustaining organization affiliated with the University of Washington Bothell. Our work is funded through philanthropy, federal grants, and contracts.