

# A Work in Progress

*Michigan's potent combination of interdistrict choice and charter schooling is forcing traditional public schools to take notice.*

*Whether they respond is often a different story*

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**B**etween the traffic reports and familiar pop songs, drive-time radio in Lansing, Michigan's capital city, has a new feature: slickly produced advertisements for the East Lansing Public Schools. With the number of children living in East Lansing declining, school administrators have become increasingly aggressive in their efforts to attract students and the state dollars that come with them. They have been joined by a host of other education providers—public school districts, for-profit management firms, charter schools, and private schools—trumpeting their virtues in an increasingly crowded and competitive market for schooling.

After five years, school choice is beginning to have visible effects in Michigan's education system. Parents can choose among a wide variety of charter schools, school districts besides their own, and private schools, and they are taking advantage of these choices. Some school districts are losing substantial shares of their enrollment; others are trying to bolster their funding streams by wooing students from other districts or private schools. Some charter schools are thriving; others are struggling due to mismanagement or a lack of interest. Schools and school districts increasingly recognize that their financial health—and ultimately their survival—depends on their ability to attract and retain students. The proliferation of billboards and radio spots advertising the virtues of specific schools and school districts reflects a new sense of urgency.

How does the emerging market for schooling work in Michigan? We find little evidence of systemic improvement so far. Rather, we find that the interaction of local factors and statewide rules is producing a variable yet patterned set of effects in different parts of the state. In our view, the balance between positive and negative effects depends on the details of policy design. In essence, the rules matter. Harnessing market forces may be a useful strategy for improving public schools, if policymakers are careful to get

the incentives right. Simply “unleashing” the market may do as much harm as good.

## A Competitive Environment

Michigan's system of school finance has created a highly favorable setting for studying the reactions of schools and school districts to competition. Since 1994, virtually all operating revenue for Michigan school districts and charter schools has been distributed by the state on a per-pupil basis. The only option for those who seek to increase revenue is to attract more students. Competition for students in Michigan is a zero-sum game; one school's gain is another's loss.

In the meantime, the state has expanded the choices available to parents through both charter schooling and interdistrict choice plans. During the 2000–01 school year, 185 charter schools enrolled about 60,000 students in Michigan. Another 26,000 students enrolled in public schools outside their home district under the state's interdistrict choice program (see Figure 1).

Some important new players in the education system are education management organizations (EMO), such as National Heritage Academies and Edison Schools. Such



entities now manage about 70 percent of Michigan's charter schools and some traditional public schools as well. They compete against one another not only in the "marketplace" for student enrollment, but also in the political arena, where chartering authorities decide which proposed schools will receive charters.

Roughly 5 percent of all students take advantage of school choice in Michigan, but the rate varies substantially from district to district. Detroit Public Schools has lost 10 percent of its resident students to charter schools and neighboring school districts, shaving \$100 million off the district's annual operating budget. Some districts have lost more than a quarter of their students to charter schools and neighboring school districts. Others have benefited from choice, gaining students and funding. Not long ago, researchers considered the number of children participating in school choice programs to be too small for school districts to notice. This is no longer true in several regions of Michigan, where seasoned educators are acutely aware of the "market" signals generated by students' choosing (or leaving) their schools.

Traditional public schools are not the only schools feeling the strain of competition. Private and religious schools have seen their students switch to the public system through charter schools or interdistrict choice. In western Michigan, for example, the many charter schools managed by National Heritage Academies pose a real challenge for Christian schools. A growing number of parents view Heritage schools as an acceptable, and tuition-free, alternative to religious education. Private and religious schools in urban districts are also losing students to suburban public schools. Before the introduction of school choice policies, private schools were the only option for

choices of parents and schools.

A state's education system comprises distinct subsystems or *local ecologies*. A decision by the East Lansing Public Schools to recruit additional students, for example, may mean fewer students and less revenue for nearby public, private, or charter schools. It will have little or no effect on more distant organizations, which belong to other local ecologies. So a local ecology can be thought of as the education system within an area where students might feasibly commute to class on a daily basis. Educational organizations within a local ecology engage in strategic interaction. They draw on a common pool of students and resources, so gains for one may produce losses for another.

At least five dimensions of local context are important in determining the strategic responses of education organizations to choice policies:

- *Socioeconomic status*. Choice policies are likely to elicit less extensive system responses in areas where high-income families reside. These families are likely to have moved to a particular area because of its excellent public schools; charter schools and neighboring districts are unlikely to draw them away.
- *Socioeconomic diversity*. School districts with high levels of socioeconomic diversity face significant challenges as they try to satisfy diverse educational preferences. Faced with competing demands for specialized programs (for example, vocational, bilingual, and gifted and talented programs), these districts are more likely to view new competitors as a serious threat.

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city residents dissatisfied with their local public schools. Now many of these parents are choosing to return to public schools.

### The Emerging Market for Schooling

Policy debates encourage single-minded positions: either school choice policies are good or they are bad. In fact, though, the systemic effects of school choice policies depend first on the local context in which the policies are implemented and second on the rules that govern the

- *School district enrollment size*. Choice policies are likely to elicit more extensive responses in large districts, where individual families have less influence over policies and programs than in small school districts.

- *Population density*. Low-density areas pose challenges to new entrants to the education system, including charter schools, because it is difficult for them to attract enough students to survive. Interdistrict transfers may be especially attractive in low-density areas, however, because some children must travel much farther to their

local public school than they would to a school in an adjacent district.

- *Population growth.* When funding follows students, the impact of competition is greater in areas where school-age population growth is slow or declining, as any loss of students to charter schools or nearby districts is immediately seen on the bottom line. Schools in rapidly growing areas find that keeping pace with rising demand is trouble enough; they may even welcome the departure of students to new alternatives.

The effects of school choice also depend on the rules governing charter schools and traditional school districts. For instance, Michigan's charter school law allows many organizations to grant charters, including local school districts, intermediate school districts, community colleges, and state universities. State universities can charter schools anywhere in the state, and they have issued more than 80 percent of the charters in Michigan. As a result, most Michigan charter schools are completely autonomous from the surrounding school districts, and it is difficult for school districts to block their entry. They enter the marketplace as competitors for the students and resources of existing schools.

Policy choices on other questions are decisively important in determining how choice and competition affect local education systems. For instance:

- *How much money do choice students bring with them?* The competitive stakes of choice policies are defined by the amount of money that schools gain or lose when students switch schools. Systemic responses increase as the financial stakes grow.

- *Can schools select their students?* Every school has an interest in selecting the students that it chooses to admit. Rules that grant greater discretion over admission and expulsion decisions to schools may lead to competition based on the composition of enrollments rather than the quality of academic programs.

- *How many choices do parents have?* Rules regarding the supply of publicly funded choice schools have a powerful impact on both the nature and the extent of competition among providers. For example, a "cap" on the number of charter schools may simultaneously limit the competitive challenge to traditional public schools and intensify the competition among charter school applicants.

- *How are schools held accountable?* Choice policies rely on both market forces and standards to promote school

## New Options (Figure 1)

*The number of students taking advantage of charter schools and interdistrict choice in Michigan has increased fivefold since the 1996–97 school year. Meanwhile, enrollment in traditional public schools statewide has dropped by 40,000 students.*

School year	Traditional public school enrollment	Interdistrict choice enrollment	Charter school enrollment
1994-95	1,653,949	-- <sup>a</sup>	--
1995-96	1,669,430	--	4,449
1996-97	1,663,712	5,611	11,370
1997-98	1,662,954	10,191	21,175
1998-99	1,662,820	14,252	33,293
1999-00	1,637,296	17,440	46,149
2000-01	1,622,915*	26,024	58,000*

<sup>a</sup>program not established

\*tentative figures

SOURCE: Michigan Department of Education

accountability. The relative weight assigned to these two mechanisms matters greatly for the nature and extent of systemic effects. Choice policies are likely to produce more differentiated responses if accountability is mainly based on schools' ability to attract students. With increasing reliance on standards for curriculum, student assessment, or teacher certification, responses to choice will be less varied.

In the end, the systemic effect of school choice depends on the interaction between the rules embedded in statewide policy and the features of a local ecology. Actors in some areas will adopt new strategies in response to policy changes. Actors in other areas will remain unaffected. The effects of choice vary widely across Michigan, but patterns nevertheless emerge.

## Responses to Charter Schools

Most Michigan charter schools are located in metropolitan areas, where the population is dense and diverse, and per-pupil funding is higher. Some rural charter schools target well-defined niche markets; for example, the Nah Tah Wahsh Public School Academy in the Upper Peninsula focuses its curriculum on Native American students. Within metropolitan areas, clear patterns emerge in charter schools' location. Charter school enrollment rates are five times higher in central cities than in high-income suburban districts. In suburban areas, charter schools are

more likely to locate in districts with lower incomes, greater socioeconomic diversity, and close proximity to central cities.

Charter schools have elicited a range of strategic responses from organizations within the education system. Some responses are autonomous and competitive. Others are cooperative alliances with other organizations in the education system. Many schools, school districts, and EMOs are simultaneously engaged in both types of behavior.

Some existing schools and school districts are working together to take advantage of choice policies. In metropolitan Detroit, for example, some intermediate school districts (ISDs) have chartered schools targeted to niche markets that are difficult for a single local school district to serve. In suburban Macomb County the ISD has established a charter school for special-needs students that enrolls children from several local school districts. The ISD in Wayne County has chartered a number of different schools, including the Henry Ford Academy, which aims to produce technologically sophisticated candidates for employment in the auto industry. These schools attract pupils from school districts throughout Wayne County.

Cooperation among some actors may pose a competitive threat to others. Suburban Oak Park is happy to rent its vacant school buildings to charter schools because most of the charter school students come from Detroit rather than Oak Park. Several Michigan school districts have contracted with Edison Schools to manage one or more of their schools, at least partly to forestall the possibility of direct competition with Edison charter schools. Edison's contract with Mt. Clemens Public Schools stipulates that a percentage of the Edi-

charter schools has been competitive. Apart from new investments in marketing, local administrators have redeployed central office administrators to schools and classrooms. Some districts have added all-day kindergarten programs in response to local charter schools or increased their expenditures on new technology. Others have added specialized academic programs, vocational options, or magnet schools. Many have worked to align their curricula more closely with state standards in order to increase student test scores. Not all of these moves can be ascribed directly to the impact of school choice policies, but taken together they mark a concerted effort to make the district more attractive to parents in an increasingly competitive environment.

### Responses to Interdistrict Choice

Interdistrict choice policies have also evoked strategic responses. Some districts have colluded to limit the impact of choice, while others have entered into vigorous competition with one another.

Under Michigan's interdistrict choice plan, school districts can choose whether to accept nonresident students, but they cannot prevent resident students from enrolling in other districts. About half of Michigan's 555 school districts enroll nonresident students. Rural districts are more likely to participate than metropolitan districts. Within metropolitan areas, participation rates fall as community income and housing values rise.

Some school districts have opted out of interdistrict choice for fear of attracting students who would alter their schools' racial or class composition in ways that would upset district residents.

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son students must come from outside the district, so that the Edison schools do not simply cannibalize enrollments in the district's traditional public schools. The Detroit Public Schools have chartered nine schools, including some that were previously private schools. The schools receive more money from the state than they were able to obtain from tuition. They thus get a leg up on other private school competitors, while Detroit's school district receives a chartering fee and some degree of influence over the schools' management.

In other Michigan school districts the response to

Interdistrict choice tends to reinforce patterns of growth and decline in the residential housing market. Communities that had experienced long-term enrollment declines before the advent of choice policies have suffered further losses with the adoption of interdistrict choice policies. Growing districts have gained additional students through choice. Many fast-growing suburban districts do not participate in open enrollment, however, because they are hard pressed to accommodate rapidly increasing numbers of resident students.

Student mobility under interdistrict choice reflects a

pattern of “upward filtering.” Students are generally moving to districts with better educational outcomes and higher socioeconomic status than their home districts. On average, they are also moving to districts where the share of students who are African-American is much lower than in their home districts.

Michigan’s interdistrict choice policies allow all of the school districts in a county to opt out of the state’s rule regime and substitute one that they develop themselves. These local plans typically place limits on the number of students who may enter or leave districts within the county. Students remain free to leave the county altogether, but distance prevents such mobility for all but a few students. Where local school choice plans are in effect, fewer students enroll in neighboring school districts than in comparable areas elsewhere in Michigan. This form of collusion protects vulnerable school districts like Grand Rapids and Flint from a precipitous loss of students and revenues.

In most parts of the state, the heterogeneous interests of local school districts preclude collusive responses to school choice policies, and districts have consequently adopted a variety of strategies to take advantage of their competitive position in the education system. Several districts are actively seeking to attract students and revenues from neighboring districts. A key setting for this drama in Michigan is in mid-sized cities, such as Saginaw, Jackson, Pontiac, Niles, Adrian, Inkster, Ecorse, and Hillsdale. These districts have all lost substantial enrollment and revenue to neighboring districts with higher-income residents.

## Net Results

The question remains whether these responses are likely to produce general improvements in the education system. Do schools and school districts have to improve the quality of the educational services that they provide in order to survive in the emerging market for schooling?

In most Michigan localities, school choice policies have had little impact. Charter schools cannot match the level of services that wealthy suburban districts provide, so they pose no competitive threat. Rapidly growing communities are likewise immune to competitive pressures from school choice. Choice policies are also unlikely to produce systemic improvements in rural areas because the potential market for schooling is too thin to support many new entrants. Interdistrict transfers in rural areas are motivated at least as much by convenience as by differences in educational programs.

Within metropolitan areas, charter schools and interdistrict choice are drawing students primarily from cen-

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tral cities and moderate-income suburbs. In some of these districts the threat or reality of large losses of students and revenues has provided the impetus for positive changes. In Lansing, for example, the school district has responded to a steady exodus of students to charter schools and nearby school districts with a variety of new initiatives, including all-day kindergarten and magnet schools. These efforts have paid off in stable enrollments and budgets, after several years of decline.

In an expanding set of Michigan’s most hard-pressed urban districts, however, choice policies have overwhelmed the local capacity to respond and accelerated a spiral of decline. These districts, which include Detroit Public Schools, serve most of the poorest students in Michigan. Rather than spurring improvement, choice policies have made conditions in their schools even bleaker.

Whether competition from charter schools can eventually spur academic improvements in traditional public schools also depends on the academic performance of the charter schools themselves. In Michigan the available evidence suggests that charter schools perform no better—and often worse—than nearby public schools on state assessments. Of the 15 lowest-performing “districts” recently identified by the Michigan Senate, for example, 11 were charter schools. This is at least in part because many charter schools attract students who performed poorly in traditional public schools. As long as it remains so, traditional public schools are unlikely to feel much pressure from charter schools to improve their academic performance.

With the introduction of choice and competition, some boats rise, and most rock gently in place. But some boats sink. If policymakers aim to improve the educational opportunities available to the poorest students, they will have to develop strategies to turn around the schools—charter schools and traditional public schools—that these students attend. The market won’t do it for them.

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