



# Putting dollars before scholars? Evidence from for-profit charter schools in Florida<sup>☆</sup>



John D. Singleton

Department of Economics, Duke University, United States

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## ABSTRACT

This paper compares for- and non-profit management of charter schools in Florida using a unique dataset combining enrollment and student proficiency data with the annual independent financial audits filed by all charter schools. Comparisons reveal that independent for- and non-profit charter schools locate in similar markets and serve similar student bodies, whereas for-profits belonging to a network locate in lower income, denser, and more Hispanic areas. Bearing out the concerns of parents and policymakers, regression estimates indicate that, among independent charters, for-profits spend less per pupil on instruction and achieve lower student proficiency gains. By contrast, among charter schools belonging to a network, for-profits spend approximately 11% less per pupil, but expenses on student instruction are not being cut. The estimates, which control for differences across schools in student composition and other characteristics, imply that an equivalent level of per pupil expenses purchases about 0.03 $\sigma$  higher student proficiency at network for-profit charter schools.

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## 1. Introduction

For-profit management of charter schools has elicited a great deal of recent controversy. Policymakers and parents worry that for-profit management orients schools toward the bottom-line rather than education, incentivizing for-profits to cut costs (Abrams, 2016; Belfield & Levin, 2015; Wang, 2014). This concern is particularly salient in the education market where quality may be difficult to observe (Glaeser & Shleifer, 2001). Legislation banning for-profit management of charter schools reached the Governor of California's desk in 2015, with similar bills under consideration or already enacted in Mississippi, New York, Ohio, and Tennessee, among other states.<sup>1</sup>

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E-mail address: [john.singleton@duke.edu](mailto:john.singleton@duke.edu)

<sup>1</sup> The California bill was vetoed partly out of concern that ambiguous language would also have restricted charter schools from contracting with (for-profit) vendors for food services and other operations.

For all the debate engendered by for-profit management of charter schools, however, empirical analysis has lagged behind the public interest. While a substantial literature studies the effectiveness of charter schools, the concerns over for-profit management have not received evaluation owing largely to lack of data on charter schools' management and allocation of financial resources. This neglect is doubly problematic because the effect of for-profit management on schools' behavior is theoretically ambiguous: a profit incentive may in fact lead charter schools to operate more efficiently – an advantage that may be all the more important for growing and expanding effective charter schools.

This paper compares for- and non-profit management of charter schools in Florida. This setting, featuring a charter-friendly environment in which for- and non-profit charter schools compete for students, is particularly well-suited for this comparison. Since the 2004–5 school year, the for-profit share has grown by 80% to nearly half of all Florida charter schools. The unique dataset assembled contains information from the annual independent financial audits and accountability reports filed by all Florida charter schools. As a result, the data provide a rich portrait of schools' inputs and finances over time, including total expenses and expenses allocated toward student instruction. These resource allocations are then combined with enrollment and summaries of student performance of end-of-grade exams, facilitating the first analysis of how for-profit charter schools differ in their student composition, their use of taxpayer money, and their ability to raise student learning.

Three questions guide the research: First, do for- and non-profit charter schools differ in their characteristics and behavior and, if so, along what dimensions? Second, given that many charters expand into networks of affiliated schools that share governance, mission, and marketing, are there important differences between for- and non-profits among schools that belong to a network (as most for-profits in Florida do) and those that do not? Finally, are the observed differences in spending patterns, student achievement, and efficiency between for- and non-profits explained by differences in school characteristics, such as location, student composition, and network size?

The data reveal robust differences between non- and for-profit managed charter schools on average. Non-profits appear socioeconomically and demographically similar to traditional public schools in Florida. Further, whereas independent non- and for-profit charter schools largely serve similar markets and student bodies, network for-profits locate in denser, more Hispanic areas, which is in turn reflected in their student composition. In terms of student proficiency on end-of-grade exams, students at independent for-profits perform below independent non-profit and public students. However, network for-profit charter schools display the highest student proficiency levels while also spending over \$1000 less per pupil annually.

Recognizing the many possible explanations for the observed differences between for- and non-profit charter schools, the analysis then estimates regressions to control for differences in school characteristics, such as the subsidized lunch status and demographic composition of students, the age of the school, and location. This empirical approach, which is successfully validated against matching and fixed effect estimates of charter school effectiveness in Florida, is applied to evaluating differences between non- and for-profit charters in the allocation of financial resources, student proficiency gains, and school efficiency.

Bearing out the concerns of parents and policymakers, the results indicate that independent for-profits spend about 6% less per pupil annually on student instruction than independent non-profit charter schools. Moreover, independent non-profits significantly outperform independent for-profits in terms of student proficiency gains. By contrast, among charter schools belonging to a network, the results reveal that for-profits spend approximately 11% less per pupil annually while students attending network for-profits achieve larger proficiency gains. Unlike among independent charters, however, expenses on student instruction are not being cut. Together, these differences represent a significant efficiency advantage: The estimates imply that an equivalent level of per pupil expenses buys about  $0.03\sigma$  higher student proficiency in math and reading at network for-profit charter schools. Results that isolate within-school variation in network size suggest this premium stems from the most efficient for-profits expanding into networks. These findings, which have important implications for policy and the development of the charter sector, provide evidence that for-profit charter schools are able to economize and expand without compromising student education.

The remainder of the paper is organized as follows. Section 2 describes the institutional environment of charter school operation in Florida. The data sources are described and initial comparisons of for- and non-profit charter schools by network status are presented in Section 3. In Section 4, the empirical approach to evaluating the effects of for-profit charters is described and validated. The estimation results are presented in Section 5. Finally, Section 6 concludes with a discussion of the implications of the findings and directions for further research.

## 2. Background and literature

Florida authorized the creation of charter schools in 1996 and the first schools opened for the 1996-7 school year. Since then, the Florida charter sector has grown into one of the largest nationwide both in terms of enrollments and the number of schools. In the 2013-14 school year, 625 charter schools served over 8% of all Florida public school students, including more than 13% of students in Broward and Miami-Dade counties. 2013-14 charter enrollment represents about a 100% increase over the prior 7 years. This vitality of the Florida charter sector reflects the state's comparatively charter-friendly environment. Florida charter schools receive the majority of their funding, per-pupil disbursements from the Florida Education Finance Program (FEFP), at par with districts. While the local school districts retain authorization authority, discretion is strictly limited and caps on charters or charter enrollment are not permitted. As in other settings, Florida charter schools may not apply any admissions criteria and participate fully in the state accountability programs.

Along with the rapid growth of charter schooling in Florida, the past 20 years has also witnessed the development of corporations that manage charter schools. Often termed either charter or education management organizations, these corporations provide a variety of services to charter schools that aim to take advantage of scale economies in school management. Such services potentially include human resources support, financial management, reporting requirements, facility maintenance and possibly acquisition, and legal compliance. For charter school operators, contracting with a management organization represents a division of labor in exchange for a fee (usually a percentage of enrollment).<sup>2</sup> While all charter schools themselves are 503(c)(3) non-profit entities by state statute, Florida charters may contract with a for-profit management organization.<sup>3</sup> For-profit management of charter schools in Florida has grown substantially in recent years. As displayed in Fig. 1, the share of all charter schools that were for-profit stood at a little over 25% in the 2004-5 school year. By contrast, the for-profit share of schools exceeded 45% in 2012-13, representing an 80% increase. The share of students attending for-profits consistently exceeds the school share, approaching 50% of all charter students in 2012-13. These trends, which contribute to the need for empirical analysis of for-profit charter school management, raise a number of questions.

First, given the “hybrid” organizational form wherein legally non-profit charter schools are managed by for-profit organizations, do such schools differ in characteristics or behavior from schools without or with non-profit management organizations? If differences exist, a second set of questions then regards their meaning and importance. In a nutshell, economic theory predicts that for-profit charter schools should operate efficiently due to the profit motive. However, if output quality is difficult to ascertain and monitor, for-profits may have incentives to increase profits at the expense of education (Glaeser & Shleifer, 2001). For example, for-profits might cut costs on student instruction by hiring less qualified teachers – a possibility that is reflected in the concerns of parents and policymakers. An important added layer is that many charters belong to a network, characterized by shared governing board members and typically common mission, marketing, and curricular design and focus, that may contract with a management organization (for-profit or otherwise). The assembled data,

<sup>2</sup> “Control” may also figure into the cost side of contracting. See Marsh Dalton and Warren (2016) for an analysis of hospitals' decision to outsource operations.

<sup>3</sup> A charter contract is held by the school itself in Florida, not the management organization.

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