REACH National Center for Research on Education Access and Choice

How Should the Government Regulate Charter Schools? State Policy Patterns and Causal Effects

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Overview

Charter schools are privately operated public schools funded by the government with oversight from school districts, state education departments, or other government authorizers. This gives charter schools autonomy from many government rules and regulations, allows them to specialize and innovate in particular types of education, and gives parents more choices. With this autonomy also comes some additional accountability. If a charter school is not meeting the terms of its agreement, the government can close it or turn control over to another charter operator.

However, we have little evidence about the appropriate mix of policies, the balance between autonomy and government oversight, and the trade-offs involved. In this brief, we describe how charter regulation varies across states, show how those regulations are related to charter school outcomes, and provide evidence of their policy effects. The purpose is to help address the larger question: how should the government regulate charter schools?

USING DATA THAT COVER THE VAST MAJORITY OF CHARTER SCHOOLS THROUGHOUT THE UNITED STATES, WE FIND THAT:

- States with no charter caps, multiple charter authorizers, and more robust contract renewal standards have higher charter market shares.
- However, charter schools in states with no charter caps also have lower charter achievement growth, as measured by CREDO. In contrast, states with more equitable funding have higher charter achievement growth.
- The above conclusions provide some evidence of a quality-quantity trade-off. For 8 of the 11 policy variables, the relationship with charter market share is the opposite of the relationship with charter achievement growth.
- Adding a statewide authorizer has a positive causal effect on the number of charter schools that open.

To our knowledge, this is the first evidence studying the array of charter school regulations and their effects on students and schooling. One potential reason for this gap in the research is that regulatory changes often come in larger packages of reform that make it difficult to isolate particular policy aspects, such as having a statewide charter authorizer, from other policies. While we have taken various steps to address this problem, we still interpret our conclusions about the causal effects of regulation with some caution.

Background

Governments regulate all kinds of private organizations. Labor and workplace safety rules are designed to protect workers. Environmental rules protect the general public from hazardous waste. Food and drug regulations ensure that consumers have information to make wise decisions. Anti-trust rules help maintain competition and protect consumers. These and other regulations come from all levels of government—local, state, and federal—and are intended broadly to allow markets to work while reducing their unintended effects.

Governments also regulate schools. Most children in the United States attend schools that go much further—they are regulated and directly operated by local government school districts. Teachers, principals, and staff are government employees working in government-owned buildings and subject to rules created by locally elected school boards.

In the early 1990s, some concerns about this role of government led to the creation of charter schools. Even as enrollment in charter schools has reached 7 percent of the national total, there remains considerable debate about the appropriate scope and focus of these regulations. In his 2020 campaign, for example, President Biden emphasized a need for stricter federal rules for providing start-up funding for new charter schools in the federal Charter School Program—a platform that he acted upon when entering office. While charter policy is primarily a state matter, the federal CSP facilitates the start of new charter schools that shape the long-term future of charters. Discussions about this law also set the tone for conversations about regulation at the state and local level.

Certain general principles have been proposed to guide the design of charter and other school regulations. For example, the lead author of this report has **proposed** that governments should ensure that schools are **funded** at a level that allows them to meet stated goals, **accountable** for performance and public purposes, **accessible** to all students regardless of background, **transparent** in how they use public funds and make decisions, and **engaged** with community groups in decisions regarding what kinds of charter schools should be opened. These criteria are designed to address specific weaknesses in schooling that arise when we leave decisions to the free market.

Governments could pursue these principles, or others, with varying degrees of intensity and in different ways. As in other kinds of markets, charter industry and advocacy groups sometimes argue that regulation, while less intense than that applied to traditional public schools, is still too invasive and can have unintended side effects. Charter leaders generally prefer to be left alone to make decisions themselves. Below is a list of some of the main categories of regulation that industry groups think are most relevant to charter schools:

SCHOOL FUNDING LEVELS

Any contract between the government and a private organization has to stipulate how funding the government will be dispersed to schools. States generally pay a fixed amount per student, sometimes weighted to provide more funding to students with greater needs. In general, these funding levels are less than what traditional public schools receive, especially when accounting for the cost of facilities, but this gap varies across states.

ACCOUNTABILITY AND CHARTER AUTHORIZATION

A government agency or delegate has to decide which organizations will be allowed to open charter schools, write and oversee contracts with charters, and ensure compliance with other rules beyond the contracts. In the charter sector, the organization responsible for these tasks is called the "charter authorizer." School districts are the most common authorizer type, but state departments of education, universities, and other local governments can also authorize charter schools in some states.

Charter authorizers set the terms of the contracts specifying what charter schools are expected and required to do within the bounds of state law. For example, some states have default closure rules that automatically trigger closure when charter schools do not meet specific standards. Other state rules pertain to the renewal process. In a few states, the authorizers are held accountable for the quality of schools under their jurisdictions.

CHARTER CAPS

The number of charter schools that open depends in part on funding, accountability, and authorization rules mentioned above. However, some states also have hard caps on the number or share of charter schools that can open. When this cap has been reached, authorizers cannot open additional schools.

OTHER RULES AND REGULATIONS

While part of the goal of charter schools is to give them more flexibility than traditional public schools, most states still apply many of the same rules to charter schools. The question is, how many and what types of exemptions are there? Some of these rules pertain to how schools admit and enroll students, whether they can hire uncertified teachers, whether they must provide transportation and the qualifications and categories of people who serve on charter school boards.

How should the government regulate charter schools?

This is an essential question that the current analysis aims to address. In the next section, we focus on how variation in state charter laws is associated with measures of the quantity and quality of charter schools that open. A deeper examination of the effects of statewide authorizers follows.

Finding #1

SOME SPECIFIC ELEMENTS OF CHARTER REGULATION ARE RELATED TO STATE CHARTER SHARE, ESPECIALLY CAPS ON THE NUMBER OF SCHOOLS, RENEWAL STANDARDS, AND THE NUMBER AND TYPE OF CHARTER AUTHORIZERS.

This section focuses on the relationship between the rankings by three industry groups and various measures of charter enrollment shares and charter quality. The three industry groups are the Center for Education Reform (CER), the National Alliance for Public Charter Schools (NAPCS), and the National Association of Charter School Authorizers (NACSA). These groups have ranked states on the extent to which the above policy elements—equitable funding, alternative authorizers, etc.—are present in each state. Using regression analysis, we study the relationship between these rankings and various charter outcomes.

Figure 1 shows the relationship between charter shares and the industry ranking components. NAPCS's "no charter caps" and CER's "number of schools allowed" reflect similar policies and both are associated with higher charter market shares. While this might seem obvious, it reinforces that the caps do restrict charter openings. If the caps were above the number of actual charter schools that authorizers wished to open, then the caps might not make a practical difference, but Figure 1 shows this is not the case—the caps matter.

Figure 1: Correlation between Charter School Market Share and Industry Rating Components

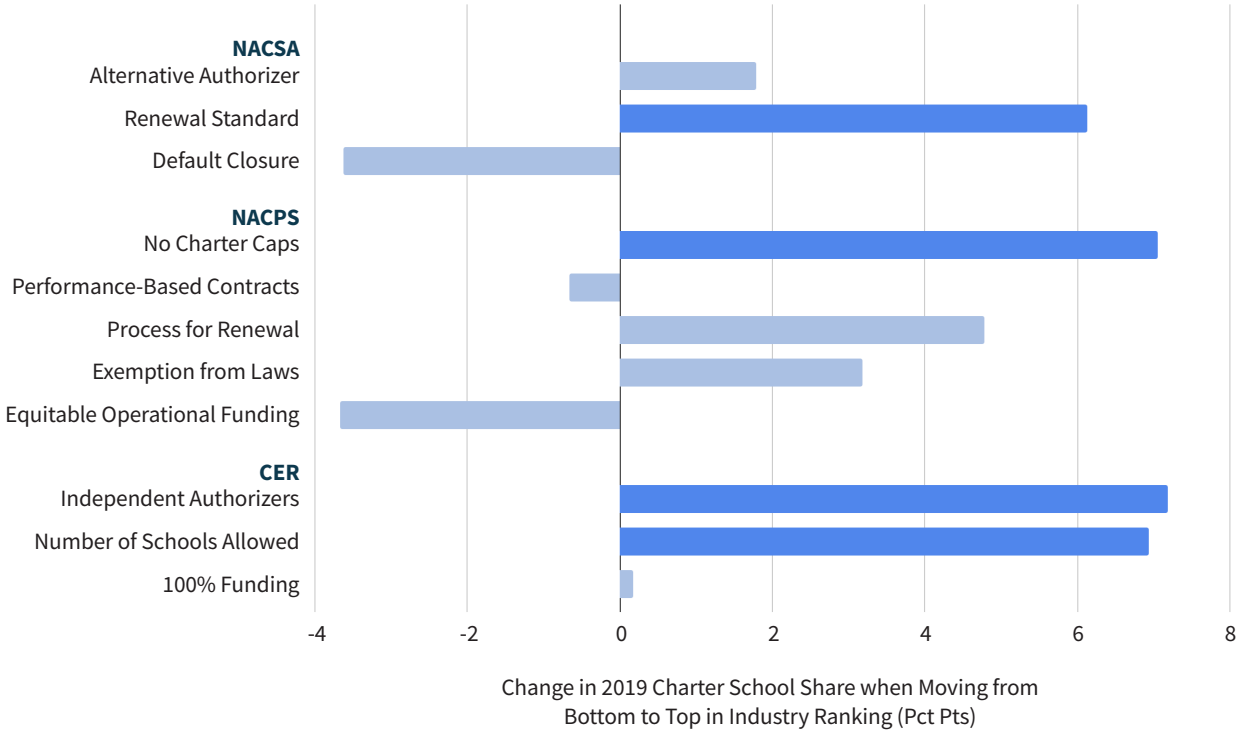


Figure notes: Each bar reflects the relationship between each state policy component and charter school market share in the state, controlling for the other policy components and other differences in student and state characteristics. We carry out three separate regression analyses, one for each of the three industry rankings. For example, in the CER section, the relationship between market share and 100% charter funding comes from an analysis in which we control for the other two CER components (number of schools allowed and whether independent authorizers are permitted). Darker bars are statistically significant and lighter bars are insignificant. See the last section for a discussion of the decision rules associated with statistical significance.

NACSA ranks states higher if they have a renewal standard, which is also positively associated with charter market share. NAPCS's process for renewal shows the same pattern but is not statistically significant.

We emphasize that these correlations should not be interpreted as causal effects. On the contrary, we are using this analysis to identify policies that **might** be important and which warrant additional investigation using causal analysis, which we explain later.

Finding #2

THE ELEMENTS RELATED TO THE *QUANTITY* OF CHARTER SCHOOLS ARE GENERALLY NOT RELATED TO THE *QUALITY* OF CHARTER SCHOOLS.

Next, we considered the relationships between the industry ranking components and CREDO's 2023 state-level measures of charter school contributions to academic achievement. Figure 2 shows that three estimates are statistically significant. Charter quality appears lower when there are no charter caps and/or the policy encourages a large number of charter schools.

Conversely, charter quality is higher when they receive more funding. While this estimate is not always statistically significant when we use different statistical methods, the result fits with the idea that increased funding impacts school quality, especially for schools, like charter schools, that tend to serve more disadvantaged students.

Another noteworthy pattern is that the direction of the relationships in this figure, focusing on academic achievement, is generally opposite that in Figure 1, which focused on the quantity or charter market share. The results for 8 of the 11 policy variables display a pattern where the relationship with CREDO achievement growth (Figure 2) is the opposite of the relationship with charter market share (Figure 1). Also, for no policy variable, does the relationship with charter quality and charter quantity go in the same direction, with either one statistically significant. This provides some evidence of a quantity-quality trade-off.

Figure 2: Correlation between industry Rating Components and Charter School Quality

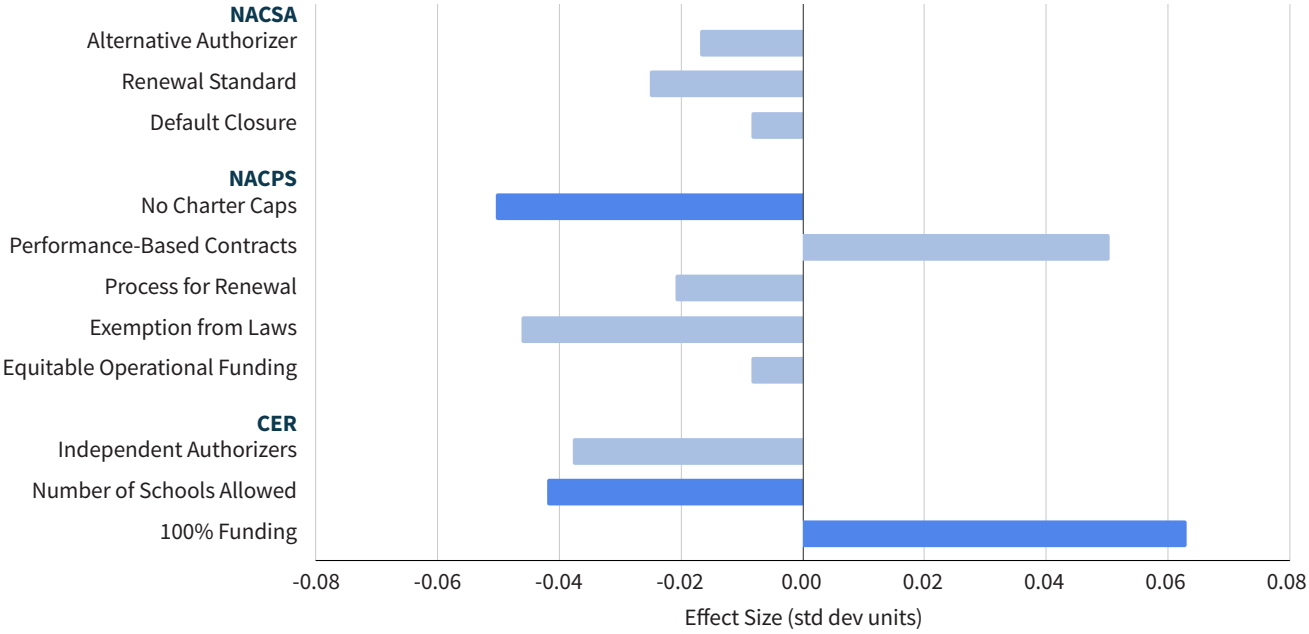


Figure notes: The main difference here, relative to Figure 1, is that we are focused on charter school quality, as measured by the state-level participant effects from CREDO (2023), instead of market share.

These CREDO-based results are the most convincing and direct measure of charter quality, but we considered two broad indicators of how charter schools influence student outcomes: (a) the probability that low-performing charters close relative to high-performing charters and (b) the probability that charter schools located in districts that are low-performing. These are not measures of the quality of the charter schools themselves but their potential, long-term impact on all students.

We might expect the closure of low-performing schools to be closely related to the accountability elements of the policies. The technical report provides some indication of this. All four accountability-focused policy elements—process for renewal, performance-based contracts, default closure, and renewal standards—are positively related to the likelihood that low-performing charter schools close. However, only one of these four is statistically significant (process for renewal).

The patterns differ, however, when we switch to the quality of the traditional public school districts in which charters are located. Independent authorizers and equitable funding direct charter schools into lower-performing districts. However, we continue to focus mainly on the CREDO quality measures as these are the most direct measures of charter quality.

Finding #3

ADDING A STATEWIDE AUTHORIZER SEEMS TO INCREASE THE NUMBER OF CHARTER SCHOOLS THAT OPEN.

The overarching goal of this analysis is to understand the causal **effects** of charter school policies. The above correlational analyses help with this by directing our attention and future analyses to the policies that are most likely to have effects.

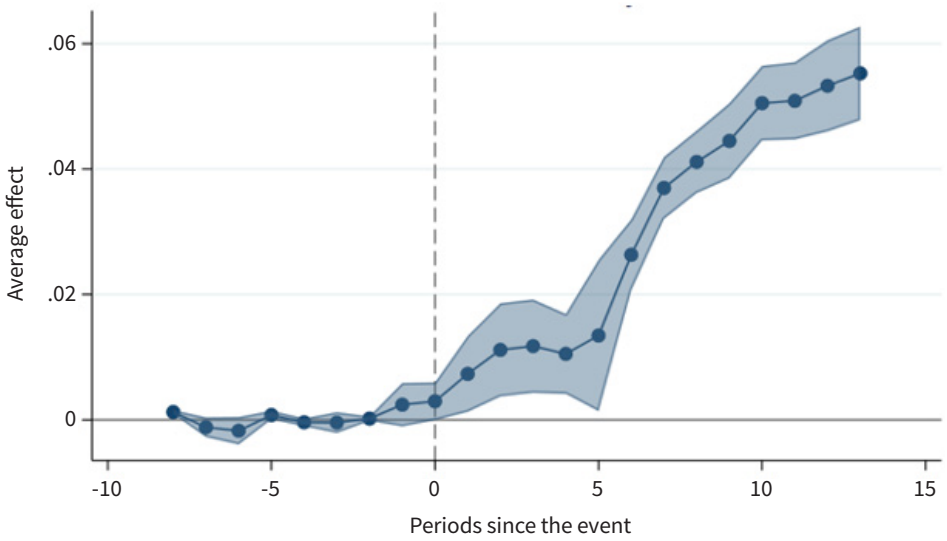
An alternative/independent authorizer is among the factors significantly associated with charter share (see the CER components in Figure 1). Therefore, we tested the causal effect of statewide authorizers by finding states that added a statewide authorizer during our analysis. When there are statewide and other authorizers, anyone can authorize a charter school within any local jurisdiction.

We also identified states that had no change in authorizers and used this as a comparison group in difference-in-differences analyses, which compare the trajectory of these groups of states before and after some states experienced the policy change.

Some of the results using this method are shown in Figure 3 below. Each dot represents the difference between the comparison and treatment groups of states at each point in time. The results are convincing because the two groups had similar charter share trajectories before some states changed their policies. We see a slight upward shift in the charter share in the few years after the policy change and a larger increase at about the five-year mark.

To put this in perspective, the effect 6 years after adoption implies that the statewide authorizer increased the charter market share by about 3 percentage points. This is a large effect, considering the average market share nationally is about 7 percent.

Figure 3: The introduction of a statewide authorizer increases the charter share



Notes: The figure plots the differences in charter share between states that added a statewide charter authorizer to states that did not. More specifically, these results use the Callaway and Sant'Anna difference-in-differences method.

The amplification of the effects after five years could reflect that it takes time for a new authorizer to begin operation, solicit charter proposals, and review them, and then still more time for the school to open. For these reasons, it would be surprising to see an immediate, large effect, and the fact that the effects are delayed gives us more confidence that we are seeing an actual policy effect.

As explained in the next section, we carried out this analysis in many different ways, and the general pattern reinforces what we have shown in Figure 3. Unfortunately, the data are insufficient to allow us to study the effect of alternative/independent authorizers on charter school **quality**. We were able to study the correlation between industry rankings and charter quality earlier because we only needed quality data for a single point in time for that purpose. Investigating the effects on charter quality requires a much longer data set, which we hope to carry out in future years.

How Did We Carry Out the Analysis?

CORRELATION BETWEEN STATE POLICY RANKINGS AND CHARTER MARKET SHARE

This portion of the study examines the 2014 to 2019 school years in the National Longitudinal School Database (NLSD), an annual near census of schools in the United States. The database is compiled by the authors of this study and others at the National Center for Research on Education Access and Choice (REACH). The linked components of the database that we rely on include but are not limited to, the Common Core of Data (CCD) from the US Department of Education, the Stanford Education Data Archive (SEDA), Center for Research on Education Outcomes (CREDO), U.S. Census and American Community Survey demographic data, and the National Association for Public Charter Schools (NAPCS) database of all charter schools in the US. Data on openings and closures were collected by REACH center staff. We use charter regulation policies in 42 states with at least one charter school in the 2014-15 school year.

All the figures are based on regression analyses that include the following state-level covariates: median household income and population shares of school-age children, married households, race, educational attainment, and students in poverty.

While we only report a single set of results for each research question, the technical report provides many additional estimates, including those without controls and those based on state ratings instead of rankings. We note any major differences in the text. In the above figures, our decision rule was to report as statistically significant any estimate that is of roughly similar size in the other estimates and statistically significant ($p<.10$) at least half the time.

CORRELATION BETWEEN STATE POLICY RANKINGS AND CHARTER SCHOOL QUALITY

This part of the analysis is very similar to the above, except that we switch to school quality, as measured by CREDO and SEDA.

First, we use the CREDO data to measure the achievement growth of charter schools themselves (see Figure 2). Second, we use the SEDA achievement growth data to place charter schools in different performance categories and then test whether the low-performers are more likely to exit than the higher-performers (see technical report). Third, we use the SEDA data on traditional public school districts to test whether charter schools are more likely to be located in low-performing districts (see technical report). For consistency, our main analyses use the “bottom third” to identify low-performing schools/districts. We then used a bottom half to check whether the choice of threshold affected the results (it did not).

DIFFERENCE-IN-DIFFERENCES ANALYSES OF THE EFFECT OF STATEWIDE AUTHORIZERS

Difference-in-differences is a standard method for studying the effects of public policies. We used the simple method (two-way fixed effects) and a newer method that is appropriate where the treatment starts in different periods across observations (in this case, states).

For the results of this type of analysis to be convincing, we have to assume that no unobserved factors affect the outcomes that are also correlated with the timing and location of state authorizer policy changes. One potential problem is that other charter policies (e.g., charter funding) might have changed simultaneously as the charter authorizer policy in the treatment states. To address this concern, we omit states whose charter laws underwent significant changes other than authorizer expansion during the analysis period from our sample. Another concern is that comparison states adopted different charter policy changes (e.g., tried to increase charter market share in some way other than a statewide authorizer). More broadly, we assume that the comparison and treatment groups would have followed the same trends in charter market share without the policy change.

We focus on authorizers able to authorize charter schools across jurisdictions in a state. This can include the state department of education, independent state charter commissions/boards, or any other state-wide authority that can directly receive and approve applications from charter schools. In our analysis, we define one group of states that had any type of statewide authorizing expansion. This group includes eight policy-change states (Arizona, Colorado, Georgia, Idaho, Illinois, Indiana, New Mexico, and Ohio). For example, since 2000, Georgia allowed charter authorization by local school districts and the state board of education. But, in 2008, Georgia also created the Georgia Charter School Commission, an independent charter board serving as an additional state-level authorizer. We also define a more limited group of policy-change states that initially allowed only for local authorization and later created a statewide authorizer; this group includes only Idaho and Illinois.

We also separately examine two types of comparison states. The first type includes three states that only offer local district authorizing for the duration of our data (Kansas, Virginia, and Wyoming). The second comparison group consists of the above states and ten other states that had statewide authorizers during the panel. The results are generally similar regardless of which comparison we made.

Twelve states are omitted from our sample because they have yet to enact a charter law or have enacted their charter law too recently to allow us to include them over the analysis period. Another 21 states are omitted because their charter law experienced extraneous changes during the period of analysis that could affect charter enrollment separately from the statewide authorizer. For example, some states changed their charter caps at the same time they added a statewide authorizer. Similarly, categorizing states whose authorizers remain constant but who experience these other types of changes as comparison states could lead us to under-estimate the impact of authorizer expansion in treatment states if these other changes also led to increases in the performance of charter markets in the states that did not undergo authorizer expansion. We therefore omitted some comparison states that experienced major policy changes over than the statewide authorizer.

While we are forced to restrict the analysis to only certain states, the fact that the results are similar regardless of which comparison group we used provides some confidence in the findings.

Other REACH work related to this study

At REACH, we are interested in a wide array of policies that affect how school choice works for disadvantaged students, including policies related to government oversight, enrollment, information, and transportation that are central in this analysis of charter school regulation.

In other research, we have explored the effects of charter entry on the outcomes of the entire school districts where they're located. These results show positive effects on districtwide test scores and high school graduation rates. This research also suggests that the first charter entrants tend to have more positive effects and that the positive effects become smaller when the charter market share exceeds 30-60%. This is relevant to the potential impacts of charter caps. While all state caps are far below the levels where we no longer see improvement, some districts within these states have charter market shares above 30-60%.

We also have several studies on the **effects of charter school accountability**, which is a key role for charter authorizers. Our findings suggest that, in the 100% charter system in New Orleans, charter schools are more likely to keep their best teachers, perhaps because of the accountability standards that these schools are held to. However, these charter schools also have trouble attracting high-quality teachers and high turnover rates.

About the National Center for Research on Education Access and Choice (REACH)

Founded in 2018, REACH provides objective, rigorous, and applicable research that informs and improves school choice policy design and implementation to increase opportunities and outcomes for disadvantaged students.

REACH is housed at Tulane University with an Executive Committee that includes researchers from Tulane, Michigan State University, the University of Pennsylvania, Syracuse University, and the University of Southern California. The research reported here was exclusively funded by the Institute of Education Sciences, U.S. Department of Education, through Grant R305C180025 to The Administrators of the Tulane Educational Fund. The opinions expressed are those of the authors and do not represent the views of the Institute or the U.S. Department of Education.

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