School Choice Policies: How have they affected Michigan’s education system?

David Arsen, David N. Plank & Gary Sykes

July 1, 2002

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Introduction
School choice policies have brought about important changes in Michigan’s education system. With the changes in education finance brought about by Proposal A and the introduction of charter schools and inter-district choice, Michigan has moved farther than any other state toward the creation of a competitive market for schooling. The number and variety of choices available to many parents has increased greatly, and schools and school districts are adjusting to a new competitive environment.

In this report we investigate how the introduction of school choice policies has changed Michigan’s education system. Past research on Michigan’s school choice policies has focused on characteristics of the newly formed charter schools. We focus instead on the responses of traditional public school districts, and how choice policies have changed relationships among school districts and other actors in the educational system.

An important rationale for school choice policies is that they will spur competition in the educational marketplace. School choice policies are often characterized using standard concepts from the economic theory of markets. Parents are envisioned as consumers of educational services, while schools are the producers. Choice theorists anticipate atomistic competitive responses by schools, as they seek to attract students by improving their educational programs.

Choice policies, however, create new choices for the producers as well as the consumers of education services. How do schools respond? Schools confront a range of possible strategic responses to choice policies, including not only competition, but also
cooperation and collusion with other producers. These choices moreover are
interdependent. The actions of one school district affect the choices of others, and
patterns of strategic interaction within the system may also change over time.

School choice policies are having very different impacts across local areas in the state.
We seek to identify systematic patterns in these impacts as the consequence of two
forces. First, where do new competitors enter the educational system? Second, how do
existing schools respond?

To explore regional difference in policy impact, we rely on two kinds of data. First, we
analyze current statistics on the location of charter schools and the cross-district
movement of students to explore the geography of school choice and to learn where
school choice policies are having their largest impacts. Second, we examine patterns of
strategic interaction among actors at the local level, based on data from a survey of
superintendents from Michigan’s 57 Intermediate School Districts, to learn how the
different strategies adopted by superintendents and others influence the local market for
schooling. We also present case studies on school choice dynamics in three metropolitan
areas: Detroit, Grand Rapids, and Lansing. We conclude the report with an assessment
of policy implications.

Michigan’s Policy Framework
system for funding schools, the amount of money that different districts were able to
spend on their schools was determined mainly by the value of taxable property within the
district, and also by the degree to which local voters were willing to tax themselves to
support local schools. When school districts wanted to increase spending they turned to
local voters to approve an increase in the property tax rate. Local revenues “belonged” to
the local school district.

Since the approval of Proposal A, Michigan schools and school districts have received
almost all their operational revenues from the state. The amount of money that schools
receive depends mainly on the number of students they enroll. When enrollment rises, they receive more money. When enrollment falls, they receive less. The only way that districts can increase their spending is by attracting more students.

Under Proposal A, educational revenues effectively “belong” to students, who take them to the public school they choose to attend. And households in Michigan have a growing array of choices about where to enroll their children. Michigan’s first charter school law was passed in 1993, and the number of students enrolled in charter schools has increased steadily in the years since. In 2000-01 there were 184 charter schools in Michigan, enrolling approximately 56,417 students.

In addition, the Legislature has expanded opportunities for households to enroll their children in school districts other than the one in which they reside. Michigan’s original inter-district choice law restricted household choices to schools within the same Intermediate School District as the student’s home district. In 2000, however, choice options were expanded to include schools in all of the ISDs bordering the student’s home ISD. The number of school districts that are “open” to students from other districts has continued to grow, as has the number of students taking advantage of these opportunities. In 2000-01 approximately 5 percent of public school students were “choice” students, enrolled either in charter schools or in a school district other than their own.

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1 Per pupil allocations from the state differ across school districts as a function of differences in spending before the approval of Proposal A. Historically high-spending school districts were “held harmless,” which means that they continue to receive more funding per pupil than their less affluent neighbors. Some very high-spending districts continue to levy local property taxes to supplement the allocations they receive from the state.

2 Michigan’s constitution includes an airtight prohibition against public funding for private or religious schools, which was reaffirmed by voters in November 2000.
### Table 1
Michigan's Emerging Market for Schooling

<table>
<thead>
<tr>
<th>School Year</th>
<th>Number of PSAs</th>
<th>Number of PSA Students</th>
<th>PSA Students As a Percentage of K-12 Students</th>
<th>Number of Interdistrict Choice Students</th>
<th>Interdistrict Choice Students As a Percentage of All K-12 Students</th>
<th>Percentage of Districts Accepting Nonresident Students</th>
<th>Choice and PSA Students As a Percentage of K-12 Students</th>
</tr>
</thead>
<tbody>
<tr>
<td>96-97</td>
<td>79</td>
<td>12,047</td>
<td>0.8</td>
<td>7,836</td>
<td>0.5</td>
<td>36.8</td>
<td>1.24</td>
</tr>
<tr>
<td>98-99</td>
<td>138</td>
<td>34,319</td>
<td>2.2</td>
<td>14,723</td>
<td>0.9</td>
<td>45.2</td>
<td>3.01</td>
</tr>
<tr>
<td>00-01</td>
<td>184</td>
<td>56,417</td>
<td>3.5</td>
<td>25,553</td>
<td>1.56</td>
<td>58.3</td>
<td>5.02</td>
</tr>
</tbody>
</table>

These are significant changes. On the one hand, most Michigan households now enjoy a variety of publicly funded choices among schools, including neighborhood schools, other schools within their own school district, public schools in nearby school districts, and charter schools. On the other hand, schools and school districts that seek to increase funding or expand programs now find themselves obliged to compete for students and the revenues that they bring. Taken together, Proposal A and Michigan's school choice policies have created what amounts to a public sector voucher system, and an increasingly competitive market for schooling.

### The Emerging Market for Schooling

What do we mean when we talk about the "education system"? For the purposes of this analysis we define the educational system as the set of organizations that produce elementary and secondary educational services. This set of organizations includes at a minimum traditional public schools and school districts, intermediate school districts (ISDs), private schools, charter schools, and for-profit providers of educational services.

Michigan's education system comprises a number of distinct subsystems, which we characterize as local ecologies. A local ecology can be thought of as the education system within an area where students might feasibly commute to school on a daily basis. A decision by a local school district to recruit additional students 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, however, because these belong to other local ecologies. In Michigan, school choice policies have had large effects in some local ecologies, and relatively minor effects in others. Within many local ecologies, there have also been dramatic differences in the effects across local school districts.

School choice policies place organizations that comprise the educational system in strategic interaction with one another. Where do new competitors enter the educational system? How do existing organizations respond? The answers to these two questions will depend on the social and demographic characteristics of local areas.

A primary factor governing choice policies' local systemic impacts is the nature and extent of parental discontent with existing schools. Any local education system reflects the history of past household choices. Some parents have changed their residence to gain access to better public schools. Others have chosen to send their children to private or religious schools at their own cost, or to educate their children at home. Families make the best choices they can subject to their preferences, their incomes, and the prices of alternative options. Some households remain dissatisfied with the choices available to them, and hope for something better. The level of residual dissatisfaction with existing alternatives varies across local ecologies.

**Social and Demographic Context**

At least five dimensions of local context are important in determining the extent to which school choice policies affect the schools and school districts within a local ecology.

1. *Socioeconomic status.* Choice policies are likely to elicit less extensive system responses in areas where well-educated, 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.

2. *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 (e.g., vocational, bilingual, gifted and talented) these districts are more likely to view new competitors as a serious threat.

3. **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.

4. **Population density.** Low-density areas pose challenges to new entrants to the educational system, including charter schools, because it is difficult for them to attract enough students to survive. Inter-district 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.

5. **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.

**Strategic Interaction**

With the introduction of school choice policies, public schools and school districts that previously controlled their own separate pools of students and revenues now find themselves obliged to compete with one another and also with charter schools in a single, larger pool. Moreover, in Michigan this new competition for students and revenues is under most circumstances a zero-sum game. The size of the enrollment pool is essentially fixed, and gains for one school consequently imply losses for another. As a result, the many actors in the local education system face new and unfamiliar strategic choices, including choices about whether to compete or cooperate with their new rivals.
Inter-district choice and charter schools pose very different kinds of challenges for Michigan's public schools and school districts. Charter schools are new competitors in the previously protected environments of public school systems; inter-district choice places school districts in implicit or explicit competition with one another for students and resources. The two may therefore elicit very different strategic responses.

Strategic interactions among schools and school districts can reflect any of three broad patterns: competition, cooperation, and collusion. The specific character of strategic interaction observed within a local ecology is the product of two distinct factors. On the one hand, within a single local ecology different schools and school districts face different threats and opportunities in the competition for resources. Some enjoy significant advantages in this competition, while others are severely handicapped. Some have much to gain from school choice policies, while others have much to lose. The character and magnitude of these differences is a major determinant of the strategic choices made by specific schools and school districts in the emerging market for schooling.

On the other hand, the strategic choices that individual schools and school districts make about whether to compete or cooperate with one another may be influenced by broader agreements encompassing some or all of the educational organizations within a local ecology. Strategic choices depend partly on an individual calculus of advantage and opportunity, but they also may be based on a collective assessment of "what's good for kids" or "what's good for public education." Depending on the relative weight of individual and collective interest in these decisions, schools and school districts in some local ecologies may choose to work together to manage or mitigate the impact of school choice policies.

In the end, the systemic impact 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 impacts of choice vary widely across Michigan, but patterns
nevertheless emerge. In the following section of the report we provide current data on
the geography of school choice in Michigan, with a focus on the question of where school
choice policies have had their greatest effects. We then turn our attention to patterns of
strategic interaction within local ecologies, to explore how local leaders have responded
to school choice policies, and how the character of these local responses affects the ways
that school choice policies play out within the local ecology.

**The Market for Schooling in Operation**

The impacts of school choice policies are not determined simply by demographic
circumstance. The character and depth of these impacts depends also on the strategies
that local actors adopt in a changed policy environment. In this section we present some
evidence on the patterns of strategic interaction that we observe in different parts of
Michigan’s education system.

Our analysis is based on data collected in interviews with the superintendents of each of
the state’s 57 Intermediate School Districts (ISDs). We interviewed ISD superintendents
because their administrative positions offer them a unique perspective on patterns of
strategic interaction in the local market for schooling. We conducted most of our
interviews in 2000, and some in 2001 and 2002. In the twelve ISDs where school choice
policies have had their greatest impact we conducted our interviews with superintendents
face-to-face; we conducted the remaining 45 interviews by telephone.

**Competition, Cooperation, and Collusion**

Strategic interaction within a local ecology may reflect any of three broad patterns:
competition, cooperation, and collusion. The strategies that local actors adopt are based
on a complex calculus of individual and collective interest. For example, school districts
may significantly increase their claim on resources by competing to recruit additional
students from neighboring districts, but only at the cost of opening themselves up to
retributive action from their neighbors and perhaps diminishing the institutional prestige
and legitimacy of public education in general. The school districts in a local ecology may
act together to limit the choices available to parents, thus protecting members’ existing
claims on resources, but some districts will bear a larger share than others of the cost, which renders collusive bargains unstable. The complexities inherent in calculating the costs and benefits of different strategic choices have produced significant variation in patterns of strategic interaction in Michigan’s 57 Intermediate School Districts, as the data in Table 2 show.

### Table 2

<table>
<thead>
<tr>
<th>Relationships among Local districts</th>
<th>Number of ISDs</th>
<th>Percentage of ISDs</th>
</tr>
</thead>
<tbody>
<tr>
<td>More competitive</td>
<td>15</td>
<td>26.8</td>
</tr>
<tr>
<td>More cooperative</td>
<td>16</td>
<td>28.6</td>
</tr>
<tr>
<td>Both</td>
<td>13</td>
<td>23.2</td>
</tr>
<tr>
<td>No change</td>
<td>13</td>
<td>23.2</td>
</tr>
<tr>
<td>Total</td>
<td>57</td>
<td>100</td>
</tr>
</tbody>
</table>

Some of the survey responses from ISD superintendents suggest that the degree of competition among local school districts has increased with time, as financial conditions have worsened and the potential for gains (or avoidance of losses) with competitive strategies has become clearer to school district administrators. For example, the superintendent of one mid-Michigan ISD characterized the balance between competition and cooperation as “a toss-up,” while making it clear that the balance was now shifting in favor of competition.

Beneath the surface of cooperation a lot of competition is beginning to emerge, and this is likely to continue. Initial unity based on hostile reactions to choice is now dissipating as school districts begin to consult their own needs.

Other respondents saw the trend moving in the opposite direction, however, as local administrators adapted to the new policy environment. According to another mid-Michigan ISD superintendent,
The knee-jerk reaction was competitive, but when districts realized there would not be a mass exodus they actually started to cooperate more than they did prior to choice.

As these and similar responses make clear, strategic responses to school choice policies include a mix of competition and cooperation in virtually all local ecologies. The balance between these is not uniform, however. In some ISDs competitive responses predominate, while in others cooperative strategies have been sustained or even enhanced. It is therefore necessary to look more closely at the strategic choices that local actors have made to respond to a changed policy environment.

**Competitive Responses**

Michigan’s inter-district choice policy allows local school districts to decide whether they will allow non-resident students to enroll in their schools. The decision to “open” district schools to non-resident students is the most straightforward indicator of competitive response on the part of local school districts.

As the data in Table 1 indicate, the number of school districts that have “opened” district schools to non-resident students has increased steadily over time. Substantially more than half of Michigan school districts now participate in inter-district choice. Some districts have enjoyed large gains in enrollments and revenues by attracting non-resident students; others have experienced significant losses.

When ISD superintendents were asked how intensely local school districts were competing with one another, they offered a range of responses, as the data in Table 3 show. Nearly half characterized the competition in their ISD as “moderate,” and approximately 40 percent indicated that local school districts were competing “very little” or “not at all.” In only four ISDs did the superintendents characterize the competition among school districts as “intense.”

Survey respondents were emphatic in attributing the move toward increased competition to financial exigency. An ISD superintendent from southwest Michigan stated flatly that
“All of the districts in the ISD need money, and all have become more aggressive as they seek to enhance enrollment.” A superintendent from southeast Michigan characterized relationships in his ISD as “competitive,” because “each district is trying to increase their enrollments.” Most superintendents acknowledged that increased competition was an inevitable by-product of the move toward choice, but some lamented that increased competition had led to a “loss of trust” among local superintendents, and “destroyed opportunities for collaboration and joint ventures.”

<table>
<thead>
<tr>
<th>TABLE 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extent of Competition Among Local Districts (As Characterized by ISD Superintendents)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of ISDs</th>
<th>Percentage of ISDs</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>6</td>
</tr>
<tr>
<td>Very little</td>
<td>20</td>
</tr>
<tr>
<td>Moderate</td>
<td>27</td>
</tr>
<tr>
<td>Intense</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>57</td>
</tr>
</tbody>
</table>

Other indicators of competitive response include investments in marketing, the creation of special programs aimed at attracting additional students to the district, and chartering schools. As Table 4 shows, one or more school districts have employed marketing specialists in more than half of Michigan’s ISDs, and districts in about a quarter of ISDs have launched specialized programs aimed at least in part at attracting non-resident students to the district. Districts in a similar number of ISDs have adopted other, unspecified competitive strategies to increase local enrollments.

<table>
<thead>
<tr>
<th>Table 4</th>
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</thead>
<tbody>
<tr>
<td>Competitive Responses to Choice Policies by LEAs</td>
</tr>
</tbody>
</table>

| Districts in the ISD employ marketing specialists | 31 | 54 |
| Districts in the ISD offer specialized programs | 13 | 23 |
| Districts in the ISD adopt “other” competitive strategies | 15 | 26 |
| Districts in the ISD charter their own schools | 0 | 0 |
Local school districts (LEAs) have taken advantage of their statutory authority to charter schools in four ISDs, as Table 5 shows. Surprisingly, however, ISD superintendents do not characterize LEA decisions to charter schools as a “competitive” strategy. There are two plausible explanations for this curious response. On the one hand, it is possible that local decisions to charter schools are made with the concurrence of neighboring districts, as with schools chartered by ISDs. (See below.) Insofar as this is the case, a decision by a local district to charter a school would not reflect an aggressive attempt to attract students from other districts but instead an agreement with neighboring districts to provide a needed service. Alternatively, it is possible that the schools chartered by local school districts reflect an effort to compete with local charter schools, as in Detroit, rather than with neighboring school districts. Schools chartered by a local school district are likely to be especially attractive to students who live in the chartering district itself, some of whom may already be enrolled in schools chartered by other agencies. Under these circumstances there may be advantages to the local district in issuing its own charters, and little or no competitive challenge to other districts in the ISD. Detroit Public Schools has chartered seven schools, and virtually all of the pupils in these schools are likely to be Detroit residents. Only three other Michigan school districts (in Kent, Manistee, and St. Clair ISDs) have chartered schools, and each of these has chartered only one.

Table 5
Schools Chartered by Local School Districts

<table>
<thead>
<tr>
<th>Number of Schools</th>
<th>Number of LEAs</th>
<th>Percentage of LEAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>53</td>
<td>93</td>
</tr>
<tr>
<td>1</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>7</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>10</td>
<td>57</td>
<td>100</td>
</tr>
</tbody>
</table>

Cooperative Responses
As the discussion above suggests, one of the strongest indicators of cooperation in the local market for schooling is the decision by an ISD to charter schools. Because of the
financial, political, and administrative vulnerability of ISDs to their constituent school districts, the decision to charter schools can only be taken with the virtually unanimous consent of local superintendents, and their consent is unlikely to be forthcoming if they perceive ISD charters to be a threat to their own enrollments and revenues. As a result, the data in Table 5 indicate that fewer than one in five ISDs has chartered schools, and only three (Wayne RESA, St. Clair, and Kent) have chartered more than one. In the relatively few instances where ISDs have authorized charters, the schools tend either to serve clearly defined niche markets, or to provide educational programs that would be too small or too costly for local school districts to offer on their own.

Table 6
Schools Chartered by Intermediate School Districts

<table>
<thead>
<tr>
<th>Number of Schools</th>
<th>Number of ISDs</th>
<th>Percentage of ISDs</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>47</td>
<td>82</td>
</tr>
<tr>
<td>1</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>7</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>21</td>
<td>57</td>
<td>100</td>
</tr>
</tbody>
</table>

ISDs periodically hold meetings that bring together all local superintendents in the district to discuss issues of common concern. Such meetings provide a setting in which member districts could discuss their individual or collective responses to school choice policies. In some ISDs these discussions have produced collusive bargains that restrict the choices available to parents and handicap charter schools in the local market for schooling. (See below.) Even where local actors do not strike agreements to collude, however, discussions of possible responses to school choice policies reflect an effort to balance individual and collective interests, and to sustain habits of trust and communication in a changed policy environment.
Table 7
Discussions at the Superintendents’ Roundtable About Responses to Choice Policies

<table>
<thead>
<tr>
<th></th>
<th>Number of ISDs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Superintendents have discussed charter schools</td>
<td>33</td>
</tr>
<tr>
<td>Superintendents have discussed inter-district choice</td>
<td>22</td>
</tr>
<tr>
<td>Superintendents are familiar with Kent/Genessee plans</td>
<td>28</td>
</tr>
</tbody>
</table>

Apart from collective discussions about chartering schools or managing competition, cooperative strategies include a wide variety of actions. For example, school districts in many ISDs have entered into cooperative relationships with local community colleges to provide “post-secondary” and vocational enrollment options for high school students. Community colleges could offer these programs on their own, and compete with nearby school districts for students and revenues under Michigan’s school choice policies. In fact, however, community colleges in all parts of Michigan have worked closely and cooperatively with ISDs and local school districts to develop programs and share revenues as they move to provide additional enrollment options for students.

Some cooperative initiatives are only partly or indirectly attributable to the introduction of school choice policies. Many school districts and most ISDs have entered into partnerships with outside organizations including community colleges, state universities, and others. Many of these pre-date the introduction of school choice policies, and cannot be attributed to them. In some instances, though, school choice policies have spurred the creation of new partnerships, and the strengthening of existing ones. In Lansing, for example, a number of successful tutoring and parent/community involvement programs have been initiated with support from General Motors, the UAW, Michigan State University, and an extensive network of community volunteers. Similar efforts are underway in schools and school districts across the state.

Cooperation among some actors may pose a competitive threat to others, especially in the case of cooperation between local school districts and private-sector providers of

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3 In 1995 the President of Lansing Community College threatened to charter a school to house a vocational education initiative when the Lansing School District appeared reluctant to enter into a cooperative arrangement. A cooperative program was quickly established.
educational and other services. For example, Oak Park is happy to increase its own revenues by renting 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 stipulated that a percentage of the Edison students must come from outside the district, so that the Edison schools would not simply cannibalize enrollments in the district’s traditional public schools.

**Collusive Responses**

Agreements among local superintendents to share resources or to develop cooperative programs in order to advance collective interests may under some circumstances give way to explicitly collusive arrangements, under which local educators agree to limit the extent to which they compete with one another. On the positive side, these kinds of arrangements may provide time and “breathing room” for hard-pressed urban districts to make needed improvements in order to enhance their competitive position in the local market for schooling. On the negative side, however, collusive agreements may function simply to protect the prevailing distribution of students and revenues, easing the pressure for change and improvement that competition might otherwise provide.

We observe two kinds of collusion in Michigan’s emerging market for schooling. First, the Michigan law governing inter-district choice allows all of the school districts in an ISD to “opt out” of the state’s choice policies together, provided that they agree to develop a school choice plan of their own. Several ISDs have taken advantage of this provision to develop local policies to govern inter-district choice. Some of these plans are considerably more restrictive than the state’s plan, while others conform closely to the state’s regulations. Second, educators in some ISDs have sought to devise collective responses to the competitive challenge posed by charter schools. The principal feature of these efforts is a refusal to extend the benefits of cooperation to local charter schools, but
they may sometimes include explicit efforts to handicap local charter schools in the competition for students and revenues.

As the data in Table 7 show, approximately 40 percent of ISD superintendents report that they and their local superintendents have developed local plans to govern inter-district choice. In five ISDs (Ionia, Kent, Monroe, Muskegon, and Saint Joseph), this meant that all districts in the ISD opted out of Section 105, and the ISD established its own inter-district transfer plan in lieu of the state plan. In other cases, the ISD established its own inter-district transfer plan, but some districts nevertheless admitted non-resident students under Section 105. In still other cases, the “ISD plan” amounted to all school districts agreeing to opt into Section 105, and simply “letting the chips fall where they may.”

<table>
<thead>
<tr>
<th>ISD Plans for Inter-District Transfers Among Local Districts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All ISDs</strong></td>
</tr>
<tr>
<td>No ISD plan</td>
</tr>
<tr>
<td>ISD has own plan</td>
</tr>
<tr>
<td>- At least some districts have 105 transfers</td>
</tr>
<tr>
<td>- No districts have 105 transfers</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

The provisions of local inter-district choice plans vary across Intermediate School Districts. For example, under PA 105 local school districts can decide how many non-resident students they will accept in a given year, but they cannot prevent resident students from enrolling in other school districts. In contrast, the plan adopted in the Kent ISD fixes limits on inter-district transfers for both sending and receiving districts. These limits constrain the choices of some local school districts, which may find themselves prevented from recruiting as many students as they would like from their neighbors. They also constrain the choices of parents, who may find themselves barred from choosing schools that they prefer for their children.

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4 The limit in Kent both ISDs was originally set at one percent of enrollment in both sending and receiving school districts. Superintendents in Kent County increased the limit to two percent in the 2001-02 school year. See discussion below.
Cooperative responses to school choice policies extend only imperfectly and sometimes not at all to charter schools. Schools districts generally view charter schools that receive their charters from public universities as hostile competitors. The relationships between charter schools and ISDs, however, are evolving and vary across ISDs and within ISDs among charter schools. Instances of ISD support for charter schools are growing. Nevertheless, cooperative ISD programs aimed at sharing instructional or administrative resources often do not include charter schools. This may reflect charter schools’ preference to minimize contact with the ISDs, or a collusive effort by ISDs to exclude charters from the benefits of cooperation. Beyond this, competition from charter schools may offer a powerful spur to cooperation among traditional schools and school districts. For example, one ISD superintendent from southwest Michigan asserted that the threat posed by charter schools had “brought local superintendents together” to meet the challenge.

Collusive arrangements are inherently unstable, and difficult to sustain over time. Collective efforts to restrict competition require the members of the colluding group to share costs and forego potential gains in ways that limit the rewards available to individual members. Even in cases where the net gains for all members of the group are substantial, therefore, at least some individual members have an incentive to seek even larger gains by breaking ranks and “cheating” on the agreement. In ISDs where local superintendents have agreed to limit the number of choice students that they will accept, for example, a superintendent who refuses to observe the agreed-upon limit may be able to increase enrollments and revenues substantially by accepting students who would otherwise be prevented from moving by the ISD plan. In ISDs where superintendents have agreed not to “market” their districts to one another’s students, the first to break ranks and advertise the virtues of her district may enjoy a significant competitive advantage. There is some evidence that local inter-district choice plans are under stress in both Kent and Genessee Counties.
Local Case Studies
The main effects of Michigan’s school choice policies have been felt in the state’s major metropolitan areas, where population density, diversity, and proximity support the emergence of an increasingly competitive market for schooling. The new dynamics introduced by school choice have brought about significant changes in local education systems in metropolitan Detroit, Grand Rapids, Flint, Lansing, and Pontiac, and in some smaller cities as well.

School choice policies have not had the same effects in all metropolitan areas, however. Variability in impact is partly attributable to differences in social and demographic context, but also to differences in the strategies adopted by key actors in each local ecology. In this section of the report we provide brief case studies of the different effects that school choice policies have had on the local education system in metropolitan Detroit, Grand Rapids, and Lansing.  

School choice and the acceleration of failure in Detroit
Nowhere are the stakes created by school choice policies higher for local school districts than in Metropolitan Detroit. With a large population and close proximity among school districts, some districts face significant opportunities to increase enrollments and funding by recruiting nonresident students. Other school districts face the prospect of a corresponding loss of enrollment and revenue as resident students transfer to neighboring districts. To complicate the picture, wide differences across school districts in wealth, school funding, socio-economic status, and ethnic and minority diversity mean that the political risks associated with accepting nonresident students cannot be ignored.

In 2001-02, 53 of the 83 school districts in Macomb, Oakland, and Wayne Counties offered some type of choice option for non-resident students. Some of these districts are only accepting students for alternative education high school completion programs, but

5 The case study on metropolitan Detroit was prepared with the help of Dr. Randy Liepa.
several are also accepting students in their K-12 programs. As Table 9 shows, more than 8,000 students in metro Detroit were attending schools in other districts in 2000-01.

The opportunity to increase revenues appears to be the main motive that is causing school districts to participate. This appears to be especially true in areas where population growth is stagnant due to an aging community, or in “landlocked” districts with limited space for residential growth within the community. For example, Royal Oak is a relatively affluent suburban community with good public schools and a fixed housing stock, where enrollments have been declining due to demographic changes. Districts like Royal Oak have come under increasing financial pressure as population in the metro area has continued to shift to the north and west.

### Table 9
**School Choice Participation in Metropolitan Detroit, Wayne, Macomb, Oakland Counties**

<table>
<thead>
<tr>
<th>School Year</th>
<th>Charter Schools</th>
<th>Charter School Students</th>
<th>Inter-district Choice Students</th>
<th>Percentage of Metro-area K-12 Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Charter Schools</td>
<td>Chartered Student</td>
<td>Inter-district Choice Student</td>
<td>Percentage of Inter-district choice</td>
</tr>
<tr>
<td>1996-97</td>
<td>27</td>
<td>4,687</td>
<td>1,766</td>
<td>.75</td>
</tr>
<tr>
<td>1998-99</td>
<td>56</td>
<td>17,914</td>
<td>3,924</td>
<td>.83</td>
</tr>
<tr>
<td>2000-01</td>
<td>78</td>
<td>31,252</td>
<td>8,461</td>
<td>.99</td>
</tr>
</tbody>
</table>

At the same time, political resistance in the local community has led several school districts to “opt out” of participation in inter-district choice. In some districts where choice was hotly debated, the key issue revolved around local concerns about allowing inner city students into suburban schools. Two districts that fit this description were Redford Union and Ferndale, small suburban districts that border Detroit. These school districts struggled with the possible loss of current parents threatening to leave and/or withdraw support for their schools. The school boards in these districts were faced with the difficult dilemma of balancing short-term financial survival against a potential loss in long-term reputation. The issue sharply divided residents in the two districts. These
divisions were reflected on their school boards and in conflict between the school board and the superintendent. Both districts eventually decided to “opt out” or to limit their participation in inter-district choice.

The school board in the Wayne-Westland school district initially decided to participate in inter-district choice in order to enhance district revenues. After two years of participation, however, the school board once again “opted out” as the perceived disadvantages of allowing nonresident students into their district were seen to outweigh the financial rewards. Several other districts have continued to opt out as they philosophically are opposed to taking students and revenues from other districts, and feel the possible political disadvantages of allowing nonresident students in their doors outweigh any prospect of financial gain.

The question of whether or not to participate in inter-district choice has been less controversial in areas where perceived social difference between neighboring districts are not as large. Thus, there are regions within the metropolitan area, including downriver Detroit, where participation in choice is more widespread than elsewhere. In addition, some school districts located in relatively poor communities have opened their doors to non-resident students, but they have had few takers. In these communities the issue of whether or not to accept nonresident students has not been controversial.

In some parts of the metro area the local market for schooling is intensely competitive. School districts including Southfield and Royal Oak have mounted costly marketing campaigns including television advertisements aimed at recruiting nonresident students. A growing number of districts in all regions of metropolitan Detroit have produced radio and print media ads to market their schools. Neighboring districts have found themselves obliged to respond in kind, seeking either to increase their own non-resident enrollments or to persuade resident households to remain in district schools.

The overall percentage of students utilizing choice options remains small as a percentage of the total student count in metro Detroit school districts, but the emergence of an
increasingly competitive market for schooling has produced substantial gains for some school districts, and substantial losses for others. In Oakland County, for example, the affluent districts of Royal Oak and West Bloomfield have successfully attracted non-resident students who have helped to offset a decline in the number of resident young people. Nearby districts including Ferndale and Oak Park have lost students to their more affluent neighbors. These districts in turn have sought to replace departing students with non-resident students from districts further down the prestige hierarchy, including Detroit. Similar dynamics are observed in Wayne County, where school districts with high concentrations of low-income households including Detroit, Inkster, and Ecorse have lost students to more prosperous districts including Dearborn Heights #7, Riverview, and Southgate.

The creation of an increasingly competitive market for schooling in metropolitan Detroit has had very different effects in different school districts within the metro area. For the relatively prosperous, high-prestige suburban districts in Wayne and Oakland Counties school choice policies pose a novel dilemma, in which the potential financial gains from recruiting non-resident students must be balanced against the political costs of providing educational services to students who may be different from the majority of resident students. Some of these districts have taken advantage of the financial opportunities that choice provides, by aggressively recruiting students and expanding programs. Others have sacrificed the opportunity to increase revenues by “opting out” of participation in inter-district choice. These decisions depend mainly on local calculations of comparative advantage by each district, and very little if at all on collective judgments about how to organize and manage the local market for schooling.

At the opposite end of the prestige hierarchy, school districts do not confront this dilemma. Instead, they face the prospect of a steady loss of students and revenues to more favorably situated districts. This is a long-standing trend that pre-dates school choice policies, but choice policies have accelerated the process. Stemming this trend would require, at a minimum, that these districts significantly improve their programs and performance, in order to make themselves more attractive to resident and non-resident
students. This, however, is desperately hard to do in an environment of declining enrollments and revenues. The state takeover of Detroit Public Schools has increased administrative efficiency and stabilized leadership in Detroit, and the agreement between Inkster Public Schools and Edison Schools has produced some programmatic improvements in Inkster, but both districts (and others in the metro area) appear to be trapped in a spiral of decline that will be almost impossible to reverse without more intensive outside intervention.

**Managing the market for schooling in Grand Rapids**

The market for schooling operates quite differently in Grand Rapids than it does in Detroit, primarily because local superintendents have worked together to manage the market and limit the impact of competition on local school districts. The school districts in Kent Intermediate School District have “opted out” of participation in the state’s inter-district choice plan since its inception, choosing to operate instead under a plan of their own design. The key feature of the KISD plan is the limit that it places on the percentage of students who can transfer in or out of a local school district. This limit was initially set at one percent of total enrollment, but it has been raised to two percent in the past year. In further contrast to the state’s plan, the KISD plan also allowed local school districts to restrict the number of students who left for other districts. This provision has now been removed, but until 2001-02 Grand Rapids Public Schools only permitted 30 students to leave the district each year, of the approximately 300 who applied to transfer under the KISD plan.

Under pressure from state legislators, Kent County superintendents raised the cap on inter-district transfers from 1 to 2 percent in 2001-02, and removed the provision in the

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6 The case study on metropolitan Grand Rapids was prepared with the help of Ms. Ann Allen.
KISD plan that allowed local school districts to limit the number of students leaving the district. The consequent increase in inter-district mobility represents a major change for Grand Rapids Public Schools, and for other school districts in Kent County.

As a result of the changes in the KISD plan, Kent County districts have opened more places for non-resident students, and more families have taken advantage of school choice options in the last two years. For the 2001-2002 school year Kent County school districts advertised for a total of 1,252 available slots, placing 686 students in schools outside their home districts. School districts in the KISD have advertised a total of 1,566 available slots for the 2002-2003 school year, and have placed 802 students in schools outside their home districts. The percentage of Kent County students who take advantage of inter-district choice remains very small, however.

### Table 10
School Choice Participation in Kent County

<table>
<thead>
<tr>
<th>School Year</th>
<th>Charter Schools</th>
<th>Charter School Students</th>
<th>Inter-district Choice Students</th>
<th>Percentage of County K-12 Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Charter Schools</td>
</tr>
<tr>
<td>1996-97</td>
<td>10</td>
<td>1,799</td>
<td>95</td>
<td>1.99</td>
</tr>
<tr>
<td>1998-99</td>
<td>17</td>
<td>4,361</td>
<td>261</td>
<td>4.78</td>
</tr>
<tr>
<td>2000-01</td>
<td>19</td>
<td>5,630</td>
<td>261</td>
<td>6.11</td>
</tr>
</tbody>
</table>

Most of the school districts in the county continue to adhere to the 2 percent cap imposed by the KISD plan, but for 2002-03 Grandville Public Schools has announced 213 openings for non-resident students, which represents about 3.5 percent of the current district enrollment of 6,002.
Lifting the limits that Grand Rapids Public Schools placed on students exiting the district also helped open up choice movement in Kent County. In the last two years, Grand Rapids Public Schools have increased the number of slots made available through the county-wide choice program. For the 2001-2002 school year, Grand Rapids Public Schools made 240 spaces available for incoming students, accepting 32 students. For the 2002-2003 school year, the district advertised 325 slots and accepted 35 students. In 1997, in contrast, the district made available 25 slots, and accepted 8 students.

As in metropolitan Detroit, political resistance to educating non-resident students has led some districts to open fewer places than the 2 percent cap would allow. Indeed, in the past year eleven Kent County school districts have reduced the number of non-resident students that they will accept under the KISD plan. Most of these districts border the city of Grand Rapids.

The danger of losing more students to choice, charters and private schools has caused Grand Rapids Public Schools to develop their own schools of choice plan within their district. A proposal is currently being considered to open up the district's choice plan, allowing any student to enroll in any school, provided the building has the capacity to take on more students. That is if a building can tolerate more students, staff will be allocated to provide services to the incoming students. District administrators report that the plan has already created a stronger climate of competition among schools in the district. Building principals and staff looking to bring more resources to their buildings are doing what they can to recruit students from other schools in the district.

The collusive agreements entered into by local superintendents in metropolitan Grand Rapids have had two main effects. On the one hand, they have helped to protect Grand Rapids Public Schools against the dramatic losses of enrollment and revenue experienced by Detroit, Lansing, and other urban school districts. On the other hand, they have served to “quarantine” students in the GRPS, by limiting the number of GRPS students who were able to transfer to nearby suburban districts. Political pressure from the Legislature and a new willingness by local superintendents to “break ranks” have
increased opportunities for choice in the past year, but the local market for schooling nevertheless remains under relatively tight control.

School choice, competition, and organizational renewal in Lansing

Michigan's school choice policies have created one of the state's most dynamic local markets for schooling in metropolitan Lansing. The local ecology comprises parts of three Intermediate School Districts, each of which borders on the Lansing School District, and there has been considerable student mobility across district and ISD boundaries. Most of the school districts in metropolitan Lansing accept non-resident students through inter-district choice, but a few have elected to "opt out." Suburban DeWitt opened spaces for a few students for the first time in 2000-01, for example, but political resistance to educating non-resident students led the district to close its borders once again in the following year.

As Table 11 shows, approximately 2.5 percent of students in the metropolitan area are attending school in districts other than the one where they reside, and the percentage is far higher in Lansing and its immediate suburbs. In East Lansing and Waverly, for example, more than 10 percent of all students enrolled in 2000-01 were non-resident; in Haslett and Okemos, the percentages were 6 and 4 percent respectively. Almost 700 students from the Lansing School District were attending schools in these four districts as a consequence of inter-district transfers.

<table>
<thead>
<tr>
<th>School Year</th>
<th>Charter Schools</th>
<th>Charter School Students</th>
<th>Inter-district Choice Students</th>
<th>Percentage of Metro-area K-12 Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996-97</td>
<td>6</td>
<td>1,744</td>
<td>437</td>
<td>2.48</td>
</tr>
<tr>
<td>1998-99</td>
<td>6</td>
<td>2,172</td>
<td>874</td>
<td>3.14</td>
</tr>
<tr>
<td>2000-01</td>
<td>10</td>
<td>2,747</td>
<td>1,693</td>
<td>4.04</td>
</tr>
</tbody>
</table>

Table 11
School Choice Participation in Metropolitan Lansing, Ingham, Clinton, Eaton Counties
After several years of steady decline, however, enrollments in the Lansing School District stabilized in 2000-01. It is too early to assess whether this represents a long-term reversal in the district’s fortunes. Nevertheless, it is significant that an urban district has managed at least in the short-run to stabilize enrollment in a highly competitive environment.

There are a variety of reasons for this turnaround, but the main ones reflect an aggressive response by district leadership to the competitive challenges posed by inter-district choice and charter schools. The school board gave priority to slowing the fall in enrollments in the district, building significant incentives for improving enrollments into the superintendent’s contract. The district also invested in new programs aimed at holding students in the district, or even attracting non-resident students. These included all-day kindergarten, magnet schools, and an extensive marketing campaign featuring radio, print, and outdoor media. In addition, Lansing scores on MEAP have begun to show improvement, though they remain well below regional averages.

Stabilization in Lansing enrollments has exacerbated financial difficulties in charter schools and some nearby school districts, which have in recent years relied on Lansing households to provide a steady flow of students and revenues. Some suburban districts have responded to new and unanticipated competition from Lansing by creating programs that are explicitly aimed at further increasing the enrollment of non-resident students and enhancing district revenues. East Lansing recently decided to retain an early elementary program in which more than two-thirds of the students do not reside in the district, and Okemos has recently announced the opening of a Montessori program that will be open to non-resident students.

**Charter Schools in the Local Market for Schooling**

The discussion above has focused on the strategic interactions among local school districts, as they respond to the threats and opportunities introduced by inter-district choice. Another choice option allowed under Michigan law is charter schools. As noted above, charter schools represent a different kind of competitor in the local market for schooling, for three main reasons. First, they have no pre-existing claims on students or
resources. They must compete with existing schools and school districts for every student that they enroll, which places their interests in direct conflict with those of existing institutions. Second, most Michigan charter schools have received their charters from public universities, which means that they have no institutional loyalties or obligations to local school districts. Finally, charter schools are not obliged to provide the full array of educational services that traditional public school districts offer. Instead, they are free to specialize in particular kinds of services, including specific grade-level configurations and curricular emphases. In Michigan charter schools tend to specialize in the low-cost areas of the education system, including elementary education. They have also tended to avoid providing high-cost services, notably including special education services. This flexibility may offer charter schools a competitive advantage in the local market for schooling. Together, these three features give the competition between charter schools and traditional public schools a sharper edge than the competition among schools and school districts within a local ecology.

More than 45 percent of all Michigan charter schools are located in Metropolitan Detroit, and nearly four times as many students are attending these schools as are enrolling in traditional school districts under inter-district choice policies. In Wayne, Oakland, and Macomb counties, there are 80 charter schools in operation, which together enroll more than 30,000 students. This represents almost 5 percent of all public school students in the metro area, as Table 11 shows. In Wayne County alone, almost 7.5 percent of students are enrolled in charter schools.

There were about 6,216 students enrolled in 18 charter schools in Kent ISD in Spring 2001, which represented more than 6 percent of all public school enrollments. In metropolitan Lansing there were ten charter schools in 2000-01, which together enrolled approximately 2,552 students. About 4 percent of students in the Lansing metropolitan area, and almost 6 percent of students in Ingham County, were enrolled in charter schools.
In both metropolitan Detroit and Grand Rapids Public Schools a few schools have received their charters from Intermediate School Districts and local school districts. As was noted in the preceding section, Wayne RESA has chartered seven schools, and Detroit Public Schools has chartered the same number. Kent ISD has chartered two schools: a hospitality program for secondary school students and a Reggio Emilia elementary school started in partnership with Aquinas College. ISDs and LEAs in metropolitan Lansing have chartered no schools.

In all three regions, charter schools are with few exceptions located in or on the boundaries of the urban center of the metropolitan area. (In Oakland County, most are located on the boundaries of Detroit, or in Pontiac.) Competition from charter schools has had its greatest impact in inner city districts, and a smaller but significant impact in some inner-ring suburbs.

The number of charter schools in Michigan has barely increased in the past year, because the statutory “cap” on the number of charters that can be authorized by public universities, and the previously rapid growth in charter school enrollments has slowed significantly. Some growth continues, as existing schools increase the number of students that they enroll, but for now the challenge that charter schools pose for local districts is relatively limited.

Local Variation in the Market for Schooling

How can we account for differences in local markets for schooling that we observe across these three cases? The fundamental dynamics of choice and competition are the same in all three metropolitan areas. School choice policies have created attractive opportunities for schools and school districts with successful programs and strong reputations to increase their enrollments and revenues. They have generated correspondingly perilous threats for districts that do not enjoy these advantages, including especially the core urban districts. Moreover, there is no reason to suppose that the propensity to cooperate differs across metropolitan areas. The average endowment of benevolence and altruism is no greater among superintendents in Kent County than it is in Wayne County, and the rules
that govern the local market for schooling are the same across local ecologies. The ways in which school choice policies have affected local education systems nevertheless vary significantly across the three metropolitan areas, and these variations require explanation.

The most notable difference among the three metropolitan areas is the successful effort by local superintendents in Kent County to manage the local market for schooling and to "protect" Grand Rapids Public Schools from the consequences of competition. This kind of collective action is not observed in metropolitan Detroit or Lansing, and the competition among schools and school districts for students and revenues is consequently more open and intense in these other regions. Schools and school districts have been guided almost entirely by their own interests in their decisions whether to participate or "opt out" of inter-district choice, and several districts have come to rely heavily on inter-district transfers to sustain their budgets and programs.

Another difference that deserves explanation is the relatively intense competition among traditional schools and school districts in metropolitan Lansing, as contrasted with Detroit and Grand Rapids. In Ingham County more than 3 percent of all students are enrolled in districts other than the one in which they reside. The corresponding number of "choice" students is far smaller in Kent County, at least in part because of collusion among local superintendents, but it is considerably smaller in metro Detroit as well. In Wayne County, for example, only 1.3 percent of students took advantage of the opportunity to enroll in other districts in 2000-01.

Closely related to differences in the percentage of students who take advantage of inter-district choice is the percentage of students who are enrolled in charter schools. When Michigan's first charter schools opened, the share of students who enrolled in charter schools was higher in Ingham than in either Kent or Wayne Counties. In the years since, however, the rate of growth in charter school enrollment has been considerably faster in the other two counties than in Ingham. In 2000-01 more than 7.5 percent of all public school students in Wayne County were enrolled in charter schools, up from less than 1 percent in 1996-97. In Kent County more than 6 percent of public school students were
in charter schools in 2000-01, three times as many as in 1996-97. In Ingham County, in contrast, the share of students in charter schools increased only from 3.4 percent in 1996-97 to 5.7 in 2000-01, a shift of fewer than 1000 students.

The final difference to be explained is in the ways that the core urban districts have responded to the increased choice and competition introduced by school choice policies. In Kent County successful efforts to “protect” Grand Rapids Public Schools against dramatic losses in enrollments or revenues have reduced the urgency of improvements in the core urban district. In metro Detroit competition from charter schools and nearby school districts has reduced enrollments in Detroit and some other districts by 10 percent or more. The consequent loss of revenue has handicapped these districts in their efforts to improve programs for their students.

In metropolitan Lansing, in contrast to both Detroit and Grand Rapids, the core urban district has responded aggressively and successfully to the competitive challenge posed by choice. New leadership, new programs, and significant investments in marketing and community outreach slowed and finally reversed the previously steady decline in enrollments in the Lansing School District. Lansing thus offers an exemplary—but possibly unique—example of how choice and competition can work to improve local education systems.

Three factors are especially important in developing an explanation for the different ways that school choice policies have affected these three metropolitan areas. The first is differences in the rate and distribution of population growth. As Table 12 shows, both Ingham and Wayne Counties experienced population declines in the years between 1995 and 200. In Kent County, in contrast, population increased by 8.5 percent. In metropolitan areas where population is fixed or declining, school choice is a zero-sum game. The stakes in the competition for students are high, because gains for one school or school district imply losses for another.
Table 12
Population Growth in Michigan and Selected Counties, 1995-2000

<table>
<thead>
<tr>
<th></th>
<th>Population</th>
<th>Change</th>
<th>Percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000</td>
<td>1995</td>
<td></td>
</tr>
<tr>
<td>Michigan</td>
<td>9,952,006</td>
<td>9,659,871</td>
<td>292,135</td>
</tr>
<tr>
<td>Ingham</td>
<td>279,230</td>
<td>284,929</td>
<td>(5,699)</td>
</tr>
<tr>
<td>Kent</td>
<td>575,934</td>
<td>530,818</td>
<td>45,116</td>
</tr>
<tr>
<td>Wayne</td>
<td>2,058,550</td>
<td>2,131,160</td>
<td>(72,610)</td>
</tr>
</tbody>
</table>

In addition, the incentive to compete aggressively for students and revenues is strengthened in districts where enrollment is declining. Enrollments declined in three quarters of the school districts in the Ingham ISD between 1995 and 2000, including four of the five suburban school districts bordering the Lansing School District. In Wayne County enrollments fell in more than a third of all districts. Individual districts are more likely to engage in autonomous competitive actions as their level of financial distress increases. For school districts that have higher socioeconomic status than neighboring districts, the short-run gains from competing are likely to outweigh the long-run gains from cooperating or colluding, even if in the long run gains to colluding might be higher. Administrators and elected board members in districts facing financial distress tend to have very short time horizons, and they are more likely to feel compelled to break ranks with other districts and seek to draw nonresident students. In areas where population is increasing, in contrast, the incentive to compete is reduced, because enrollments and revenues are growing. Under these circumstances, cooperative arrangements among schools and school districts are far easier to organize and sustain. Population growth in Kent County was one of the key factors underlying the capacity of local superintendents to manage the local market for schooling.

The second factor explaining differences across metropolitan areas in the impact of school choice policies is the degree of economic and racial diversity across school districts within each metropolitan area. As the Detroit case study makes clear, diversity matters for two distinct reasons. On the one hand, the concentration of poor and minority students in Detroit Public Schools and a handful of inner-ring suburbs means that many
children from these districts are at a profound educational and social disadvantage relative to their peers in nearby suburbs. On the other hand, many suburban districts are fiercely protective of their educational advantages, and often of their racial or ethnic identities as well. Along with the disproportionate size of the Detroit Public Schools, these two aspects of diversity create a virtually unbridgeable distance between the least-advantaged students and improved educational opportunities. They also make it far harder, if not impossible, for schools and school districts to enter into cooperative or collusive agreements with one another. The social and economic distance between the core urban district and the nearby suburbs is narrower in metropolitan Grand Rapids and Lansing, both of which retain substantial white and middle-class populations.

The third factor explaining differences across metropolitan areas in the impact of school choice policies is the capacity of the core urban district to marshal external support for educational improvement. In metropolitan Grand Rapids local superintendents worked together under the auspices of the Kent ISD to “protect” Grand Rapids Public Schools, but this effort was not accompanied by significant efforts to support change or improvement in the urban district. In metropolitan Detroit, the Legislature mandated a mayoral takeover of the Detroit Public Schools, and state officials have considered or threatened takeovers in other districts including Highland Park and Inkster. These moves have produced important administrative changes in Detroit and Inkster, but as in Grand Rapids external resources aimed at improving the performance of urban schools have not accompanied them.

In metropolitan Lansing, in contrast, the threat to the Lansing School District posed by competition from charter schools and neighboring school districts mobilized a powerful collective response from a variety of external sources, including the Mayor’s office, General Motors, and Michigan State University. Leaders from these and other organizations worked together (over the initial opposition of the Lansing school board and superintendent) to encourage administrative changes in the district and to rally corporate and community support for tutoring programs and other educational
improvements. These efforts were clearly instrumental in the revitalization of the Lansing School District.

**Conclusion and Implications for Policy**

How has choice changed Michigan’s education system? The short answer to this question is “It depends.” The answer depends first on the local context in which school choice policies are implemented. School choice policies have had different impacts in different parts of the state. The answer also depends on the strategies adopted by actors within local education systems, including—but not limited to—local school administrators and school boards. Decisions by local leaders about whether to cooperate, compete, or collude with their neighbors have also had an important influence on how school choice policies have affected local education systems.

The market for schooling is not a simple one, in which atomized producers compete to offer the best service at the lowest cost. Naïve policy prescriptions that assume this kind of a market are likely to prove misguided, and potentially damaging. The market for schooling needs to be carefully regulated, to insure that incentives are aligned with the multiple public purposes that we expect schools to pursue.

**Context matters**

The impacts of school choice policies differ significantly between urban and rural regions of the state, and across districts within regions. In urban areas of Michigan, the implementation of school choice policies has led to the creation of a crowded and increasingly competitive market for schooling. The great majority of charter schools are located in metropolitan areas, typically in or on the boundaries of the core urban school district, where they pose a competitive challenge to urban and low-income suburban school districts. In addition, many school districts in metropolitan areas have become more aggressive in their efforts to increase enrollments by attracting non-resident students. Some of these students come from nearby private schools or charter schools, but many come from neighboring school districts.
In rural areas, in contrast, the market for schooling is too thin to support much competition. There are few charter schools in rural Michigan, and rural school districts have adopted few overtly competitive policies. This does not mean that school choice policies have had little impact, however. Because enrollments in many rural school districts are relatively small, the gain or loss of even a few students can make a dramatic difference to local programs and budgets. In many rural districts the advent of school choice policies has exacerbated the problem of falling enrollments brought on by out-migration and population decline.

Leadership matters
As the case studies of metropolitan Detroit, Grand Rapids, and Lansing indicate, the impacts of school choice policies may vary significantly in consequence of the choices made by local leaders, including but not limited to local educators. In metropolitan Grand Rapids, for example, effective collusion among district superintendents has constrained the flow of students out of Grand Rapids Public Schools, and restricted the extent to which school districts compete to increase enrollments at one another’s expense. There is evidence that these collusive arrangements are now under stress, partly in response to political pressure from the Legislature and partly in response to the increased cost of collusion as enrollments and revenues begin to decline in some key districts.

In metro Detroit and Lansing, in contrast, local superintendents have found themselves unable to strike binding agreements to restrict competition, and an increasingly competitive market for schooling has flourished. In both areas individual school districts have moved aggressively to increase their enrollments at the expense of their neighbors, with extensive marketing campaigns and the introduction of special programs for students. As a result, several school districts in metropolitan Detroit now attract more than 10 percent of their enrollments from nearby school districts, as does East Lansing in metropolitan Lansing. In contrast, some districts in these areas—notably Detroit and Pontiac—have failed to attract virtually any non-resident students to their public schools, while losing large numbers of students to nearby districts.
The Detroit and Lansing case studies make it clear that leadership matters in another way as well. In both metropolitan areas central city school districts were the big losers under school choice policies, as charter schools and suburban school districts successfully sought to attract students out of urban schools. In metro Detroit the loss of students continues unabated in core urban districts, which find themselves trapped in an accelerating downward financial spiral. In Lansing, in contrast, an energetic new superintendent in the Lansing School District has received strong support from the Mayor, the local business community, and the local university. New leadership and new programs have helped to halt the downward slide in enrollments and stabilize district revenues.

*School choice as reform strategy*

In the final analysis, the big question about school choice policies is not whether they change the education system but whether they promise improved educational opportunities for Michigan students. There is still no unequivocal answer to this question, but some preliminary conclusions can now be drawn.

1) School choice policies continue to have their greatest impact in high-poverty urban communities. Charter schools are disproportionately located in or near urban school districts with substantial minority populations. Student flows under inter-district choice reflect a process of “upward filtering,” in which students leave districts with high percentages of poor and minority enrollments and enroll in districts in which the share of poor and minority students is lower. The main impact of these policies is therefore felt in Michigan’s core urban school districts, which are losing students and revenues to charter schools and neighboring school districts. Secondary impacts are felt in suburban school districts, which must balance the opportunity to increase revenues by admitting non-resident students against the political cost of enrolling choice students, when non-resident students are in most cases more likely to be poor and/or black than resident students.
2) Rather than leading to innovation or general improvement in the performance of Michigan schools, school choice policies have served to reinforce the prestige hierarchy among schools and school districts. As the notion of “upward filtering” suggests, Michigan households that take advantage of school choice policies have chosen school districts for their children that are of higher socio-economic status than the districts where they reside. Urban households have moved their children to suburban school districts; some suburban households have moved their children to higher prestige districts nearby. Competitive advantage in the market for schooling depends on the resources and perceived prestige of the school districts in a local ecology. Districts with more money and higher socio-economic status find themselves in a much better position to market their product than those with fewer resources and lower socio-economic status.

Because of this dynamic, school districts that “opt in” to inter-district choice have generally tended to market themselves on the basis of their existing programs and advantages. High-prestige districts that open places for non-resident students can attract as many students as they wish, or at least as many as the local community will tolerate. Lower-prestige districts can do little to compete with their higher-status neighbors. Some, like Lansing, have launched aggressive efforts to keep resident students in the district. Others, like Oak Park, have sought to replace departing students with students from districts further down the prestige hierarchy. Those at the bottom of the hierarchy, including Detroit, have experienced a steady decline in enrollments.

3) Michigan’s school choice policies have made some families better off, but they have also made other families worse off. Much of the public debate about school choice policies hinges on the relative size and moral standing of these two groups. On the one hand, households that take advantage of school choice policies to enroll their children in different schools are clearly better off in consequence of the change, with their children enrolled in schools that they prefer to the available alternatives. Advocates of school choice policies argue that it is unjust to leave
these children “trapped” in failing schools, or to prevent their families from choosing schools that better meet their educational expectations.

On the other hand, households that continue to enroll their children in schools and school districts that lose students under school choice policies are made worse off by these policies. The schools that they attend lose revenues when enrollments decline, and may be obliged to cut programs as a result. Moreover, the choices of some households to remove their children from a school typically results in the departure of the most highly motivated students and the most deeply engaged households, which further diminishes the capacity of the school (or district) to improve.

This problem is exacerbated by the powerful incentive built in to Michigan’s school choice policies for “choice” schools to specialize in the education of students who cost less to educate, including elementary students and students who do not have special needs. The practice of “cost-creaming” leaves the problem of educating high-cost students to schools and school districts that already face the greatest educational changes, further reducing their capacity to improve their performance. If it is unjust to require some children to remain in “failing” schools when they would prefer to leave, it is equally unjust to assign the consequences of school failure to children whose families prefer their neighborhood public schools or are unable to switch to other choices.

4) School choice policies bring the problems of Michigan’s low-performing schools and school districts into sharp focus. Choice intensifies the challenges that these districts face, and diminishes the resources that they have available to meet these challenges. They need help, and the key policy question is where the help will come from. The Lansing School District was able to call on political and organizational support from the surrounding community, including the Mayor’s office, General Motors, and Michigan State University, but most urban districts do not have these kinds of resources available to them. In 2001-02 the Michigan
Department of Education was able to provide assistance to ten low-performing schools (not school districts) under the “Partners for Success” program, with mixed results. It is clear that the present resources and capacities of the state do not begin to approach the scale of the effort that will be needed to improve the educational opportunities provided to Michigan’s poorest children.

By themselves, school choice policies cannot solve this problem. Advocates of school choice often argue that when households are allowed to choose the schools that their children attend poor schools must improve their performance, or “go out of business.” In fact, however, the available evidence suggests that schools that lose students and revenues under school choice policies do not close. Instead, they get worse. The children who remain enrolled in them are made worse off, not better off, by school choice policies.

5) Addressing the problems of Michigan’s low-performing schools and school districts will therefore require not only the competitive pressure that school choice policies bring to bear, but also the kinds of cooperative efforts that have emerged in response to school choice policies in some school districts and ISDs. As we have argued throughout this report, competition among schools and school districts can produce significant gains for some students, but only at the risk of producing corresponding losses for others. In contrast, cooperative strategies can produce improved educational opportunities for all students, by encouraging specialization, exploiting scale economies, and pooling resources in the service of common goals. Cooperation can enhance the efficiency and effectiveness of resource use in a variety of areas, including shared academic programs, technology programs, professional development activities, and curriculum alignment and assessment initiatives. Cooperative arrangements may encompass not only traditional public schools and school districts, but other organizations as well, including charter schools and charter school authorizers, private-sector management companies, and community colleges.
Local actors have adopted cooperative strategies on their own in some parts of Michigan, but finding ways to encourage and strengthen cooperative relationships elsewhere—from the Upper Peninsula to metro Detroit—is a valuable role for Intermediate School Districts, which are singularly well placed to support communication and collaboration among the many organizations that comprise the education system in a local ecology. Strengthening incentives for these organizations to cooperate with one another—as well as to compete with one another—should be a priority for state policy.