

AZ Public, Private & Charter Schools

Taxpayer Transparency, Oversight, and Accountability

Arizona has a reputation nationally for its “choice” environment for educational options. There are many educational systems in Arizona including virtual, blended, charter, private and traditional brick and mortar public schools. Over 84% of the student population use the traditional public school model while the remaining attend charter, private, or virtual schools. Public education is the “great equalizer” that holds our democracy together from generation to generation, and from rural, to suburban, to urban communities across America. It is the duty of all citizens to protect the value of education in a democracy so everyone has a brighter future ahead.

The purpose of this document is to summarize options to ponder, adjust, fully implement, and/or investigate further around the impact of our current educational structure. Are we correctly maximizing the use of Arizona’s public tax dollars? All Arizona taxpayers want oversight of their tax dollars to guarantee wise resource allocation. The taxpayers also want to encourage educational innovation, risk-taking, equity, and equality throughout the State. The current educational models in Arizona are long on risk and innovation, and short on transparency, oversight, equity, and accountability.

The following is a list of possible reforms, in no particular order, which would allow all educational models to be under the same levels of scrutiny and checks-and-balances. In particular, virtual, charter, and private schools have less oversight by the voting public than traditional public schools for their use of Arizona tax dollars. Part of the problem is the incorrect premise that regulation will reduce creativity. The Arizona Legislature and governmental agencies have a long history of passing rules, regulations, and laws about oversight of public education issues and exempt charter schools from these guidelines. If this premise of “less is more” is true, then all constricting regulations should be removed from similar educational systems until the playing field is level, allowing for more creativity in all models.

There are positives to consider when being able to compare performance of competitors. The popular term of return on investment (ROI) is not foreign to business, so why wouldn’t education fall under that same premise since it is the largest percentage of the State budget? If the level of oversight and transparency were the same between systems, parents would have consistent financial and academic performance data when comparing schools. Currently, parents cannot easily obtain comparison materials without painstakingly extracting data from multiple websites and doing their own analysis. This process forces parents to make decisions of school choice based on their neighbor’s anecdotal data or trusting promotional materials put forth by the educational institution without a common reference point or industry standard.

Therefore, if Arizona is going to increase the transparency and accountability for tax dollars spent by K-12 educational institutions throughout the State, uniformity of financial and academic data is paramount. The following recommendations are for consideration for ALL educational systems that use Arizona taxpayer dollars.

All K-12 systems that use Arizona taxpayer dollars should be required to:

- **Complete the District Spending Report required by the Auditor General per statute.**

Rationale: It is a taxpayer and parental right to be able to easily compare budgets, classroom costs, administrative expenses, etc.; being able to compare one sheet of paper would be great for parents. Much of a required data that public schools complete is already collected by other educational outlets so would not be too hard for all to complete the same form. Currently charter schools serve 16% of the population and receive 27% of the State dollars, while not producing significantly different academic results. Completing similar forms for comparison will allow parents to make informed choices;

- **Account for dollars allocated to the classroom.**

Currently, there is no requirement for a minimum percentage of each tax dollar to be dedicated to the classroom. If parents have comparative data, they will be more likely to choose the schools that put maximum dollars into classrooms. Currently charter schools administrative costs average 20%, while public schools are at 10% throughout the State; these high admin costs at charter schools reduce the amount allocated to teachers and the classroom for educational purposes. Parents are not aware of this important piece of data such as this to help them make better decisions about the maximum number of dollars focused on their child by their educational provider;

- **Eliminate discriminatory enrollment practices against families based on access or ability support their child's education financially.**

Rationale: The purpose of public dollars are to provide educational opportunity for all students regardless of parental financial capabilities. By installing wait-lists, extra enrollment forms, uniforms, essays for entry, and/or attendance or discipline requirements, students are excluded from many choice environments as shown by an ACLU study completed in 2017. The ACLU discovered over 50% of the 471 charter schools they investigated had policies that "excluded or deterred" students with disabilities, weak grades, low test scores, behavioral problems, limited access to money, or parents without legal status;

- **Have consistent percentages of special needs students with similar disabilities matching surrounding demographics in the zip codes where the school resides.**

Rationale: School systems with lower numbers of special needs students and reduced numbers of students with significant disabilities than their surrounding peers have learned effective ways to keep out these students and should not be rewarded financially for this practice. Taxpayers should be assured that segregation of special needs or students with disabilities is not being financed by their tax dollars. When competing charter and private schools have different demographics than a neighboring public school, a weighted formula should be applied to these special needs students, encouraging all schools to be inclusive of special needs children and students with disabilities;

- **Only receive funding for special needs students they serve and the corresponding resources to the disability.**

Rationale: More financial support should be provided to those schools and school districts who provide the actual services to special needs students. The level of disabilities that require more cost should be weighted differently in a new approach. The easiest solution would be to switch the Group A and Group

B weights in the Special Education funding formula, since the higher costs are in Group B and those students are frequently “counseled out” to public schools, demonstrated by their higher concentration of students with special needs and students with more severe disabilities. The above-mentioned ACLU report from 2017-18 discovered many charter schools had caps on the number of special needs students they were willing to serve.

The Director of Research for AASBO and ASBZ, Dr. Anabel Aportela, reported in 2018, using 2016 data, Unified Districts had the highest rates of students with disabilities; they averaged 10.35% of Group A students while charter schools averaged 7.75% and unified school districts averaged 2.11% of Group B students, while charters averaged .99%. Dr. Aportela also found that over 60% of AZ school districts have a significant special education funding gap between actual costs while over 60% of charters do not have a special education funding gap at all. This lack of gap from charter school costs comes from the types, quantity, and level of severity of special needs students that are served in charter schools;

- **Employ school leadership that is accountable to the taxpayers in Arizona.**

Rationale: Currently, charter school authorizers can self-appoint themselves and family to the Superintendent/leadership positions and pay millions without oversight from taxpayers. For example, in 2017 and 2018, as reported by Craig Harris of the AZ Republic, House Representative Eddie Farnsworth collected \$13.9 million from his charter operation while paying his teachers \$8K less than the state average. Mr. Farnsworth sold his schools to his foundation that he set up with his brother and business partners, making himself the Chief Executive Officer. Primavera CEO Damian Creamer paid himself \$9.9 million over two years to run this highly ineffective on-line school with the highest dropout rate in the state of Arizona. The State Charter Board allowed these two examples to occur because it was deemed as legal and an appropriate use of taxpayer dollars. This is common throughout the charter world as shown by the average administrative costs being 75% higher than public schools; 90% of those operators have higher administrative costs than their public school counterparts as reported by Craig Harris of the Arizona Republic;

- **Publically elect all board and oversight members of all Arizona school districts that receive any public tax dollars to reduce conflict of interest issues and increase accountability to the taxpayer.**

Rationale: Currently, many publically elected parents of charter school students serve on public school boards throughout Arizona, while charter school boards are self-appointed without any oversight from the taxpayers, thus limiting non-charter parents from participation on charter boards;

- **Follow the same procurement laws and be held to the same transparency, accountability, and regulation standards.**

Rationale: Currently, charter and private school systems are not required to follow the same procurement laws and regulations required by public school districts. Taxpayers need to be assured their tax dollars are being used wisely and not for personal gain or religious reasons;

- **Report to the Arizona Department of Education and taxpayers the amount of dollars expended to management companies and limit the amount of operational profit.**

Currently, there is also no limit on transferring profit to management companies. For example, American Leadership Academy founder Glenn Way paid himself between \$18 and \$37 million of taxpayer dollars through no-bid contracts to build his schools as reported by Craig Harris of the AZ Republic;

- **Return all physical assets to the Arizona taxpayers.**

When public schools go bankrupt or reduce buildings, the assets are returned to the taxpayers through tax reductions on future collections. Any public school land asset cannot be sold without the vote of the people, while charter school authorizers can go bankrupt, sell the assets, and keep the profit from the buildings paid for by the taxpayers. They can also close an operation that is unsuccessful and retain the physical assets;

- **Follow the same Conflict of Interest codes that are required for the Legislature and public schools.**

Rationale: Taxpayers need to be assured that private and charter school leaders, board members, and authorizers are not using taxpayer dollars for personal gain and/or hiring family members, relatives, or business acquaintances to protect their financial interests;

- **Maximize taxpayer dollars on school infrastructure. Charter schools should not be built within 20 miles of an A or B school building in rural Arizona or within 5 miles in a Suburban or Urban setting**

Rationale: Building temporary, 20-year charter and private schools next to a 100-year public school with public dollars who are already academically successful is a waste of taxpayer dollars. For example, Deer Valley Unified School District parents have access to 39 private and charter school buildings built or supported by taxpayer dollars in a school district where 95% of the 38 school buildings are an A or B rated. The plethora of charter and private school options existing in this northern Maricopa County suburban area is there for one reason: profit. If charter authorizers and private school boards were in the business for the betterment of society, they would build schools in Arizona where the need is greatest;

- **Defend with demographic research and data to the State Board of Education on infrastructure needs before building more charter schools in a state with slow student enrollment growth.**

Rationale: A statewide cap on charter schools should be in place until a statewide study can be conducted on the right balance of educational models needed to serve Arizona's students. Charter school construction in Arizona should not continue until it can be proven the current 539 charter schools are a good use of taxpayer dollars and have not saturated the market. The current educational model drains limited resources from traditional public schools where 84% of the student population is served. Several of the East Coast and Midwest states have found that capping charter schools allows public, private, and charter schools to succeed without stretching the taxpayer educational dollar too thin or saturating the educational market beyond its effectiveness.

Every time a new school system is added to an area, more buildings, administration, and support staff are required to run these operations. In some areas of Arizona, this does not make economic sense. For

example, in suburban Arizona, much of the correct capacity already exists, so why should taxpayers support the construction of the exact same business across the street from each other?

When public school districts want to add schools to their area, they must convince voters and/or School Facilities Board of the need and allow for a public bond vote. Charter and private schools can build anywhere, with limited oversight on the impact upon the public school educational structure of the region or state. Charter authorizers have figured out the best location to build a private or charter school is right next to a successful public school. For example, in December of 2018, the state charter authorizing board granted another charter to Integrated Education Foundation to operate next to Norterra Canyon Elementary, one of the highest scoring schools in all of Arizona. Maricopa County is full of these examples of charters popping up next to successful public schools; Suburbia is where the most money can be made, so they will keep multiplying in these zones and leave when they are no longer profitable;

- **Prove to the Department of Education that enrollment numbers of racially diverse students mirror that of the surrounding population. This will reduce the encouragement of using taxpayer dollars to segregate the population.**

Rationale: School choice does not reduce racial segregation in Arizona as shown by Matthew Hom, PhD of the Yale Department of Economics. Dr. Hom did his PhD dissertation in 2017 specifically on Maricopa County school of choice students and showed that school choice is not encouraging racial integration as presented, but actually segregating Maricopa County students and families. In 2018, Applied Economics shared similar data from the Arizona Department of Education that reinforced this finding. They showed since 2000, charter schools captured over half of the 271,600 new student-increase in statewide enrollment; almost 58,000 of the student-increase at charters were white while about the same number were Hispanic. During this same time-period, the increase in enrollment for traditional public schools saw a jump of over 171,000 in Hispanic enrollment, while the white enrollment decreased by almost 90,000; charters are segregating Arizona and taxpayers are paying for it.

- **Remove for-profit and business status for charter and private schools**

Rationale: Making millions of dollars off the Arizona taxpayer for the education of Arizona's youth should not be an option for charter and private schools. By allowing Arizona charters and private schools to operate as a business and as a public school district allows these entities to "double-dip" in both worlds. For example, on August 9 of 2020, Craig Harris of the Republic reported that Arizona charters received nearly \$100 million in Payment Protection Plan loans from the federal government, while not needing the revenue to survive the COVID-19 pandemic having millions already in the bank. Legacy Charter received the most in Arizona at \$6.2 million in a forgivable loan. The average to all Arizona charter schools who received the PPP loans was about \$1,149 per student. Thousands of small-businesses closed during the pandemic, who actually needed the money to survive, but Arizona Charter schools jumped in line to take advantage of the program, because they could. An audit by the Republic showed an "overwhelming majority of the Arizona charters schools that obtained PPP loans did not need the money." Arizona public schools, which educate 940,000 students, were not eligible for the PPP loans because they are not classified as a business.

Another example of the lack of oversight and accountability, the owner of three Arizona charters, American Virtual Academy (Primavera) , StrongMind, and Verano Learning CEO, Damian Creamer paid

himself \$10.1 million over two years, 2017 and 2018, to run the three schools. In December of 2020, Craig Harris reported that Primavera shipped another \$10 million to its partner school, StrongMind after receiving nearly \$2.2 million in PPP loans.

In conclusion, the premise of school choice in Arizona is to provide parents and students with more opportunities for academic success. The national research is mixed at best on this experiment; the best outcome of school choice has been competition. In this quest for educational opportunities, school choice has done more to increase racial and special needs segregation and drain the limited resources from traditional public education by creating more government, infrastructure, administration, and waste of taxpayer dollars on for-profit and non-profit educational models without oversight. The fact that Arizona continues to be at the very bottom for per-pupil funding for public education in the nation every year reinforces the reason why charter schools in Arizona need more scrutiny.

The most important issue facing public education accountability in Arizona today is the lack of oversight of taxpayer dollars by the voters for the private use of public education dollars. Without public oversight by taxpayers, charter and private school authorizers in Arizona will continue to hire themselves, friends, and family members to build, staff, and sustain educational operations without public scrutiny for the limited tax dollars provided to educate our youth. The infrastructure will be paid for by Arizona taxpayers but kept in the authorizer's possession, even if unsuccessful. The purpose of this document is to be the voice for the parents and community members of Arizona who deserve transparency and accountability with their hard-earned tax dollars.