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Charter schools use taxpayer funds for questionable transactions

Phoenix – September 17, 2017 - A new policy report reveals that up to 77 percent of Arizona's charter school holders use their state taxpayer funds for potentially questionable financial transactions.

Specifically, many charter schools conduct business with a related party, in other words a for-profit business owned by the charter holder, a member of the school's corporate board or a relative of either. In 2013-14, related-party financial commitments were worth half a billion dollars of state taxpayer funds, representing 48 percent of charter school expenditures for contracts, leases and rents.

Examples of these related-party transactions include:

- Purchasing curriculum from the charter school holder's for-profit company.
- Hiring teachers from an employment services firm owned by the charter holder's relative.
- Contracting consulting services from a member of the charter school's corporate board.
- Leasing property from the charter holder's parents.

In one case, a non-profit charter holder paid $12 million in one year to his own for-profit business to purchase curriculum software. In comparison, Mesa Unified School District spent less than 10 percent of this amount on their proprietary online learning management software.

"The practice of related-party transactions is illegal for public district schools but permitted for Arizona's charter schools," says Curt Cardine, a fellow with the nonpartisan think tank the Grand Canyon Institute (GCI) and principal author of the policy report *Following the Money: Twenty Years of Charter School Finances in Arizona*.

"State legislators created rules governing charter schools including financial regulations that are substantially less stringent than public schools. This was intended to give them greater freedom over their budgets, staffing, curricula and other operations to achieve outcomes of higher quality education and increased competition. While some charter schools use related-party transactions to achieve cost savings in the best interest of their students, in most cases they are used to produce questionable salaries and profits for the charter holders, at the expense of students and taxpayers."

The policy report also finds that charter school teachers earn 20 percent less than public district school teachers while their executives (often the charter holders) earn on average 50 percent more than their counterparts in similarly-sized public school districts. In one of the most egregious cases, Litchfield Park's Crown Charter School paid its top executive $276,350 annually to oversee 266 students, compared to Scottsdale Unified District's superintendent who earned $203,000 to oversee 25,000 students.

The policy report's key recommendations include that charter schools must:

- Conduct public competitive bid processes similar to public district schools.
- Ensure consistency among Annual Financial Reviews (AFRs), audits and IRS 990 filings.
- Adopt executive salaries comparable to similarly sized public district schools.
- Be subject to annual audits by the state Auditor General similar to public district schools.

"School choice is appealing to many families," said George Cunningham, the Grand Canyon Institute's Board Chair and a former state lawmaker. "The bottom line is that greater oversight is needed to ensure that taxpayer funds paid to charter schools are in fact used for the primary purpose of educating students. Transparency and accountability are required so parents can make an informed choice as to the best educational opportunities available to their children."

The policy report is the result of three years of exhaustive research and forensic accounting. Sources include AFRs, audits, federal IRS 990 forms for nonprofits, and interviews with staff from the Arizona State Board for Charter Schools and the Arizona Department of Education.

Click here to view the **Executive Summary** and **Policy Report**.

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