FOR IMMEDIATE RELEASE

Contacts:
Dave Wells, Research Director/Co-Author
602-595-1025 ext. 2, dwells@azgci.org
Max Goshert, Marketing Manager
602-595-1025, Ext. 3, mgoshert@azgci.org

Fighting Fire With Data

No substance in critiques of charter school finances report

Oct. 5, 2017 - On Sunday, Sept. 17 the Grand Canyon Institute (GCI) released a policy report that tracks the financial practices of Arizona's charter schools over the past 20 years. It found that 77% of charter schools use taxpayer money for questionable financial practices. Of the more than $1 billion charter schools receive in public funds each year, almost half is paid to related parties - the charter holder's own for profit business, corporate board members or relatives of either.

Last week, charter sector leaders criticized GCI's policy report, *Following the Money: Twenty Years of Charter School Financial Practices in Arizona,* with no substance behind their arguments. The president of the Arizona State Board for Charter Schools (ASBCS) responded to GCI's policy report by labeling the organization as anti-charter and claiming that charter schools are well-regulated. She was joined by the vice chairman of the Arizona Charter Schools Association, who is also the CEO of the Arizona Chamber of Commerce and Industry. He stated that charter schools are held to a high level of accountability and argues that a school’s academic performance should be the ultimate determination of its fiscal responsibility.

GCI is pro-school-choice
The Grand Canyon Institute is pro-school-choice. The recommendations that we make in our report are to ensure well managed, fiscally responsible charters create true school choice among all publicly-funded schools. Greater accountability will provide charters that do not engage in such activities a competitive advantage, allowing them to thrive and ultimately improve the academic performance of Arizona's charter and public district schools.

The misconception about the superior performance of charter schools
The claim by charter proponents that charter school students' performance is superior to public district school students is a misconception. Comparing similar students in the two systems tells the story differently. This superior performance claim is based on

comparisons of aggregate charter school and public district school scores on standardized tests. Charter schools attract proportionally more higher-performing, advantaged students and tend to "weed out" the lowest performers. Because charters rarely provide transportation, they enroll comparatively fewer students from lower income families. They also enroll comparably lower numbers of students with special needs. The result is higher aggregate test scores.

GCI's policy report cites the only recent studies that used student-level data to compare district and charter students of similar socio-economic and demographic backgrounds. Those studies, one from a research center affiliated with the Hoover Institution at Stanford and the other contracted by the Goldwater Institute, both found that overall Arizona district schools modestly outperform charters. Some charter schools, no doubt, do perform better than district schools, but that is not the case for most charters.

Simply put, aggregate data perpetuates the misconception that charter school students perform better than public district school students.

Academic success does not equal fiscal responsibility

One common critique of GCI's findings and other research that focused on charter school finances is that, academic performance should be the metric indicating whether a charter school is practicing fiscal responsibility. Data that indicates related-party transactions, excessive executive compensation, and shareholder payouts despite a lack of profitability has been routinely dismissed.

GCI does not see why academic performance and financial accountability should be mutually exclusive. Charter schools that engaged in related-party transactions that led to cost-savings were not included in the 77%. As taxpayers, why should we turn a blind eye to whether our money is being used inefficiently or unethically simply because of strong academic performance by students at a select few charter schools? Is it too much to ask that charter schools engage in both strong pedagogical practice and proper handling of taxpayer dollars?

GCI probed the prevailing economic theory referenced in the charter school marketplace. The theory is that once the state has given taxpayer money to the charter school the charter is free to spend it as they deem fit. Moving large sums of public money to a related party, for-profit corporate entity diverts taxpayer funding to companies that do not provide audited accounting to the state or the Arizona State Board for Charter Schools. This does not change the fact that the money came from public sources.

Arizona's charter schools are not well-regulated

The Grand Canyon Institute's comprehensive financial analysis found that charter schools were rampant with related-party transactions, a practice where charter school operators did business with for-profit companies owned by the charter holder, members of the school's corporate board or relatives of either. While this activity is illegal for public school districts, it has been allowed for charter schools to create cost savings.

However, GCI found that 77% of charter schools engaging in this practice do so in a manner that does not create costs savings for the charter entity. Therefore GCI concludes it is not in the best interests of students or the taxpayer. While charter schools are required under state law to disclose such activities, the *Arizona Daily Star* reported that the ASBCS does not keep track of such conflict-of-interest disclosures.

Furthermore, stringent oversight of charters at the school level is a dubious claim when the current law allows governing boards for charters as well as, when applicable, parent corporate boards that oversee multiple charters, to be composed of the following related-party combinations:

- One person, the charter holder.
- Two people, husband and wife who also hold the charter.
- Two charter holder couples.
- Relatives and owners of related party businesses.
- Charter holder serves as the board chair/president.
- Corporate Boards that are the same for related-party businesses dealing with the non-profit charter. Salaries, bonuses and distributions from these subsidiaries are not reported on the Audits. Money moving to the subsidiaries is noted in the Related-Party section of the Audit.

In addition, 113 charters did not post notices of upcoming board meetings or meeting locations on their websites as required by law. As a result, a complaint was made to the Arizona Attorney General for their failure to comply with Arizona Open Meeting Laws.

With no aggregate records kept of charter school financial activities, GCI researchers were forced to dive into financial documents charter-by-charter to determine how widespread the practice was. All charters from 1994 to 2015 were financially evaluated using forensic accounting. The result is a database with financial information pulled from Annual Financial Reports, audits and IRS 990 filings from every charter school that reports to the Arizona State Board for Charter Schools. This information was collected with cooperation from the ASBCS and the Arizona Department of Education.

GCI found that charter governing and corporate boards composed with the above related-parties invite the wolf to watch the hen house. Current charter law enabled the following examples of related-party transactions:

- Renting from a for-profit business or individual
- Purchasing goods and services from a related for-profit business or individual
- Leasing employees from a related party for-profit company or individual
- Loans and notes to a related-party for-profit company or individual
- Paying a related party for “board” services on the corporate board
- Consulting contracts to a related party, and a host of other dealings with parties related to the owners of the charter.
- Multiple related-parties on the payroll.

GCI also found that charter schools paid teachers on average 20% less than public school districts while paying administrators significantly more (about 50% greater than their counterparts in similar-sized public school districts). This lack of regulation has created an environment where those who control the purse-strings can enrich themselves and their families at the expense of students and teachers. For example, when a charter elects not to participate in the Arizona State Retirement System, the retirement contribution from the employer will likely be less than the ASRS 11.1%. Does that savings go to teachers as additional compensation or into the pockets of charter holders?

Next steps
Charter Schools in Arizona, including the one-in-four with good business practices, face a real danger of becoming associated with corruption instead of student success. That is not in anyone's interest. The Grand Canyon Institute wants to work with the Arizona State Board for Charter Schools and the Arizona Charter Schools Association to create a highly competitive environment that creates high-performing charter schools. We suggest starting with the report's key recommendations 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, *including using the same accounting method, Cash, Accrual, or Modified Accrual across all reports.*
- 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.

These policies will foster high-performing, fiscally responsible charter schools, which will give Arizona what it has strived for - true school choice.

If research like this matters to you, please consider a tax deductible donation to the Grand Canyon Institute to support our continuing work. Donations can be sent to the Grand Canyon Institute, PO Box 1008, Phoenix, Arizona 85001-1008 or click the link below.

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

The Grand Canyon Institute serves as an independent voice reflecting a pragmatic approach to addressing economic, fiscal, budgetary and taxation issues confronting Arizona.