

## Can Charter Dollars Fund Hawaiian Vacations?

*Dave Wells, Ph.D., Research Director*

Trish McCarty is appropriately being sued for her misuse of taxpayer funds for the operation of StarShine Charter School, which included \$3,500 spent on a Hawaiian beach hotel. While the Arizona State Board for Charter Schools (Charter Board) shut down this operation last year due to “egregious” financial mismanagement, it’s important to note why Trish got caught.

StarShine was shuttered after it violated the terms of its *federal* (not state) bankruptcy proceedings and that information was shared with the state Charter Board. The school was subject to federal oversight of its expenditures because it was unable to pay its creditors back in full. With federal oversight comes more stringent regulations and greater transparency than what is found in Arizona’s state charter laws.

While charter schools are required to undergo annual financial audits, many expenses are not exposed through this process. GCI knows of charter operators who have purchased luxury “school” cars or taken overseas “school” trips with family members — under current law these kinds of questionable expenses are unlikely to be revealed in audits. Glenn Way’s American Leadership Academy has [consistently failed](#) to reveal [expenditures adequately](#) and continues to operate.

In March 2018, the United States Trustee overseeing StarShine’s bankruptcy proceedings found further financial malfeasance and filed an emergency motion in bankruptcy court “to stem the tide of the state’s assets being squandered for Ms. McCarty’s personal use.”<sup>1</sup>

The StarShine case illustrates the need for improved oversight of the financial management of charter schools that do not meet the Charter Board’s financial performance expectations. Taxpayers should not have to rely on bankruptcy courts to discover malfeasance, if it occurs.

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<sup>1</sup> Arizona State Board for Charter School Special Meeting, March 20, 2018, transcribed audio, <https://asbcs.az.gov/board-staff-information/meeting-dates-materials>. For summary: [https://asbcs.az.gov/sites/default/files/March%2020%2C%202018%20Special%20Session%20Summary\\_0.pdf](https://asbcs.az.gov/sites/default/files/March%2020%2C%202018%20Special%20Session%20Summary_0.pdf).

Since StarShine’s bankruptcy proceedings became public last year the Charter Board has been given authority to close charter schools based on poor financial performance. The Charter Board is working to use its financial performance measures to more proactively assess and intervene in a manner to avoid future StarShines. But, nonetheless, almost all charters are not subject to public procurement bidding requirements and most simultaneously engage in related-party transactions. These practices are prohibited by district schools to prevent misuse of taxpayer funds. And while charter schools provide audits, any related-party contractors are not subject to audit meaning that how they use taxpayer funds is not known.

When StarShine declared bankruptcy in February 2016, [it was spending the same amount on debt service as in the classroom and student support services — only 30 cents of each dollar was making its way to the classroom or student support services](#) (Average for charter schools is 56 cents for each dollar.<sup>2</sup>)

Arizona has some excellent charter school operators. StarShine is an example of charter corruption—and in this case that corruption had been going on for years. Unfortunately, StarShine is not the only charter school that spends taxpayer funds on questionable purchases. Quality School Choice requires a more effective system of ensuring financial transparency and accountability for the public, parents, and the Arizona State Board for Charter Schools.

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<sup>2</sup> Annual Report for the Arizona Department of Education. Fiscal Year 2017 – 2018. Page II-37.