



OVERVIEW

Case Studies: Best Practices in Charter School Financial Management

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April 2020 — Over the past several years, the Grand Canyon Institute (GCI) has published a series of policy papers on charter school practices that have identified red flags in publicly available financial data. GCI has made recommendations related to the oversight of the state's funding of charter schools based on these findings.

At the same time, GCI has identified many practices among charter schools that *are sustainable and maximize the use of taxpayer dollars for the education* of their students.

With support from the Arizona Community Foundation, GCI has developed a series of case studies to highlight “best” practices employed by four financially and academically performing charter school organizations. GCI presents these case studies as exemplars for consideration by other current and future charter schools for replication.

The sustainable practices GCI has documented are not all specifically financial, but all have financial implications. They include:

- **Community-based school designs provide for engagement of families and other stakeholders.** The leadership of each school works with their communities to define their school's purpose and take steps to ensure that parents and community members are actively involved in school governance.
- **Professional development and competitive compensation enhance retention.** Time and resources are invested to maximize the training and support school leaders, teachers and para-professionals need to provide a quality education. In one case, this involves engaging an educational consulting firm to provide onsite professional development requiring 740-mile round-trip visits. Fair compensation is balanced with class size and classroom support.
- **Debt management and cash flow monitoring protects classroom spending.** Sufficient cash is kept in reserve to cover debt obligations and ensure that financial strains do not impact students' learning. Refinancing has provided significant savings on long-term interest payments, even if subject to refinancing penalty.
- **Vigilant management of borrowing protects net income.** Because borrowing is inevitable for most charter schools, finding the best lending sources and managing debt to reduce overall costs is crucial. In at least one instance, the charter school raised enough money for a 20% down payment allowing it to access commercial lending at one of the lowest interest rates paid by any charter school in the state.

- **Competitive procurement processes strengthen outcomes and encourage public confidence.** Competitive bids for items such as commercial loans, auditing services, and real estate services provide charter schools with additional insight and lowers costs. In addition, they send a positive message to a school's stakeholders that efficient use of resources is a priority.
- **Financial transparency provides accountability.** Detailed financial information available in public reports sends the message that a charter school takes seriously the stewardship of public funds and donations. Each of the charter schools featured have structured their organizations to allow for this accountability.
- **Sound governance and community oversight strengthens the organization.** Parents and other stakeholders with a range of expertise provide oversight and advice in governing the schools and planning their futures.
- **Nonprofit ownership of property and assets enhances sustainability.** Assigning property and asset ownership to nonprofit corporations ensures that their purpose continues for a charitable cause in perpetuity, regardless of changes in leadership.
- **Addressing achievement gaps requires time and resources.** Overcoming achievement gaps found in high-poverty communities presents challenges that require additional resources and warrants attention at the state-policy level.

Thank you to the charter school organizations that shared their experiences and insight with GCI.

Arizona School for the Arts is one of the state's oldest charter schools located in the Central Arts District of downtown Phoenix. The provides an extensive performing arts program to its students who are some of the highest achieving in the state.

Greats Hearts Arizona is one of the state's largest charter school networks with schools throughout the Phoenix metropolitan area including Maryvale where it serves a large Title I student population. Its nonprofit charter management organization has set the bar high for financial transparency.

Masada Charter School is a rare rural charter school that was designed through a community-centered process. Located in northern Arizona on the border with Utah, it has made key decisions that have overcome its remoteness from resources found in larger cities.

Northland Preparatory Academy is another of Arizona's oldest charter schools that has managed its finances in such a way that it has secured three commercial loans, a rarity in the charter market. Located in located in Flagstaff, the school has thrived with the active involvement of parents.

Arizona is viewed nationwide as a leader in the charter school sector enrolling 18% of public school students across the state. Given that history, there are valuable practices to learn from. GCI has attempted to document some of those practices through this project.

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The Grand Canyon Institute, a 501(c) 3 nonprofit organization, is a centrist think tank led by a bipartisan group of former state lawmakers, economists, community leaders and academicians. The Grand Canyon Institute serves as an independent voice reflecting a pragmatic approach to addressing economic, fiscal, budgetary and taxation issues confronting Arizona.