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## School Choice in Arizona: A Review of Existing Programs and a Road Map for Future Reforms

by Matthew Ladner, Vice President for Policy Research, Goldwater Institute; and Arwynn Mattix, former Policy Analyst, Goldwater Institute

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### EXECUTIVE SUMMARY

In 1994, Arizona lawmakers took the first steps toward parental choice in education through the open-enrollment and charter school laws. Later, lawmakers added reforms such as scholarship tax credits (1997 and 2006) and limited vouchers (2006). With 13 years of experience in school choice experiments, the time has come for Arizona to take stock of the past and make plans for the future. This paper examines the progress of the existing Arizona school choice programs and makes recommendations for their improvement and expansion.

Research from Harvard, UCLA, and other institutions has shown that Arizona's choice programs have improved public school performance and led to faster learning gains for students exercising choice.

Research also shows that choice programs are not plagued by some of the pitfalls critics feared. For instance, data show that parents are not motivated by segregationist impulses in choosing schools outside of their assigned public schools. Rather, parents choose schools with higher test scores.

Despite the promise of school choice, the pace of charter school openings has stalled in recent years, largely because of problems with the charter school authorization process. Allowing universities to authorize charter schools should help to expand the charter school market.

Likewise, Arizona's existing school choice programs are too small to create a widespread system of competition for students. Arizona's scholarship tax credit is limited, raising less revenue than would cover half of a single medium-sized school district's operating expenses. Enrollment growth in the public schools has far outpaced the creation of new parental options. Some abysmally performing Arizona districts, for example, have more students today than before the school choice implementation in 1994.

Parents and students have benefited from Arizona's positive, but limited, school choice programs. To fully enjoy the benefits of parental choice, lawmakers should create a personal use tax credit. Coupled with means-testing of the original scholarship credit, such a tax credit would create a universal system of school choice.

**GOLDWATER**  
I N S T I T U T E

## ***School Choice in Arizona: A Review of Existing Programs and a Road Map For Future Reforms***

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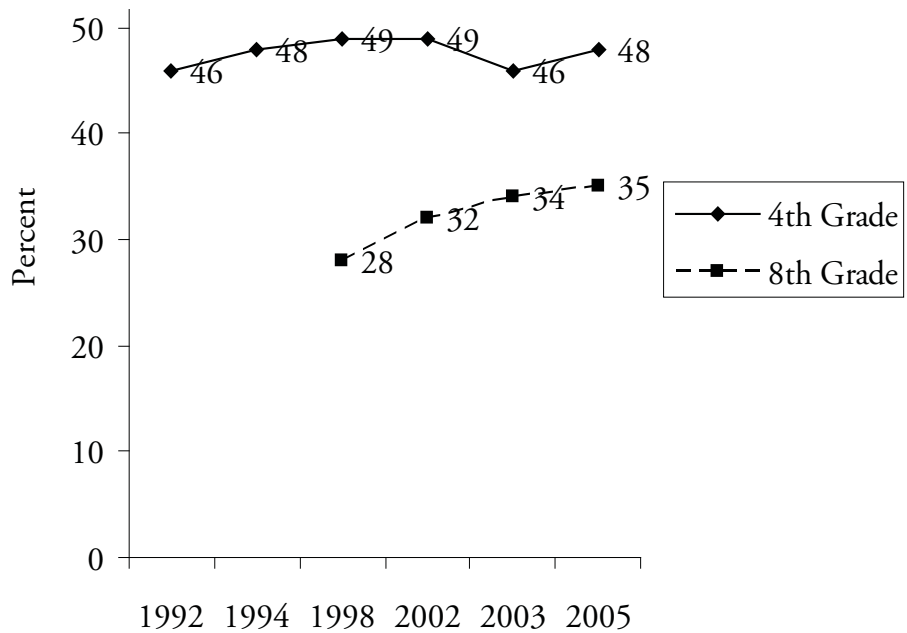
### **Education Reform in Arizona: Is It Working?**

The reform strategies for Arizona schools fall into three broad categories: testing and transparency, increased spending, and expanded parental choice. Far from being mutually exclusive, these three broad reform strategies have been employed simultaneously in Arizona. The spending strategy holds that increased resources will lead to improved student learning. The testing strategy holds that the combination of public transparency and the threat of sanctions will improve school performance. The parental choice strategy holds that schools improve performance when they have to compete for students.

At first glance, there is little evidence that any of these reforms have significantly improved school performance. Arizona’s 4th- and 8th-grade reading scores on the National Assessment of Educational Progress (NAEP) exam, for example, were lower in 2005 than in 1992. In fact, between 1998 and 2005, the percentage of 8th graders scoring below basic on reading increased 25 percent (see Figure 1).

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**Figure 1: Arizona NAEP Reading Scores, Percent Below Basic**



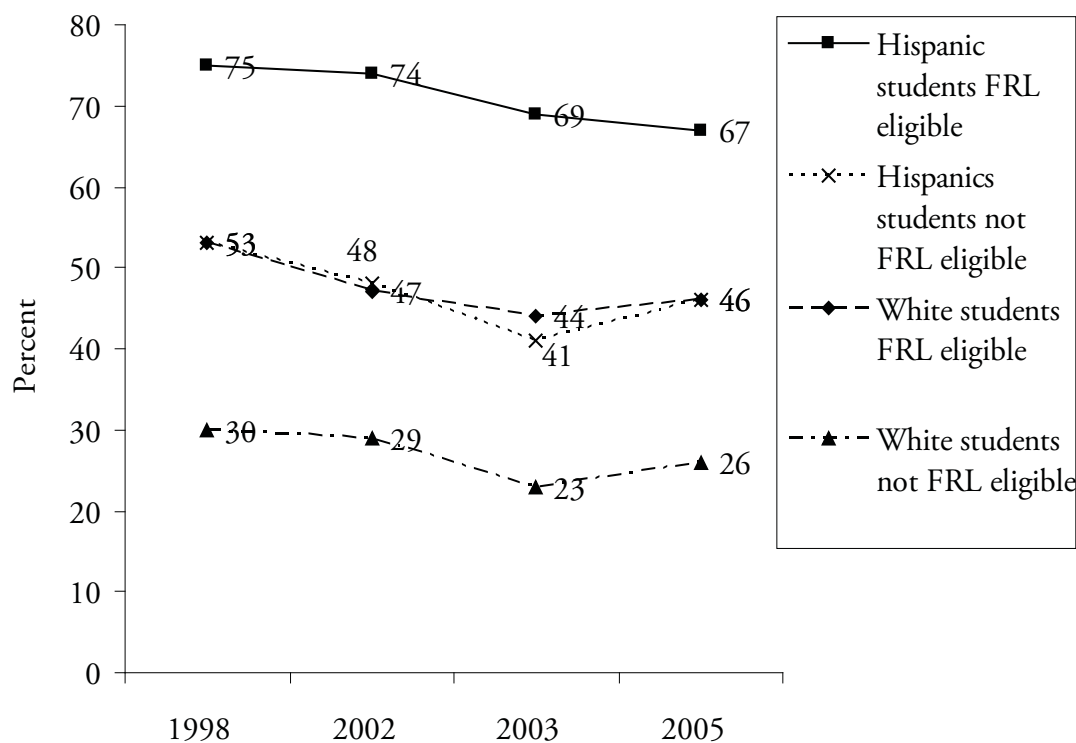
Source: U.S. Department of Education, Institute of Education Studies, National Center for Education Statistics, “State Profiles: Arizona,” <http://nces.ed.gov/nationsreportcard/states/>.

The composition of the Arizona student population was not static during this period. It simultaneously became less poor and less white. Arizona’s childhood poverty rate dropped by 12.1 percent between 1990 and 2000.<sup>1</sup> In 1990, whites made up 63 percent of the public school population, while Hispanics constituted 24 percent. In 2004, whites constituted only 48 percent of the public school population (and falling), while Hispanics made up 38 percent (and rising).<sup>2</sup> The public school population of Arizona is increasingly becoming “majority minority.”

Figure 2 traces 4th-grade reading scores for four groups of Arizona public school students: low-income white and Hispanic students and nonpoor white and Hispanic students. The data track the percentage of each group scoring “below basic,” meaning that they have failed to master basic literacy.

While the trend lines show a general decrease in the percentages of fourth graders scoring below basic, the equivalent 8th-grade trend lines show a general increase in

**Figure 2: Trends in 4th Grade NAEP Reading Scores—Percent Scoring “Below Basic” by Ethnicity and Income**



*While the trend lines show a general decrease in the percentages of fourth graders scoring below basic, the equivalent 8th-grade trend lines show a general increase in the “below basic” rates.*

Source: U.S. Department of Education, Institute of Education Studies, National Center for Education Statistics, “National Assessment of Educational Progress: The Nation’s Report Card,” <http://nces.ed.gov/nationsreportcard/> (using the cross-tabulation function of the NAEP Data Explorer).

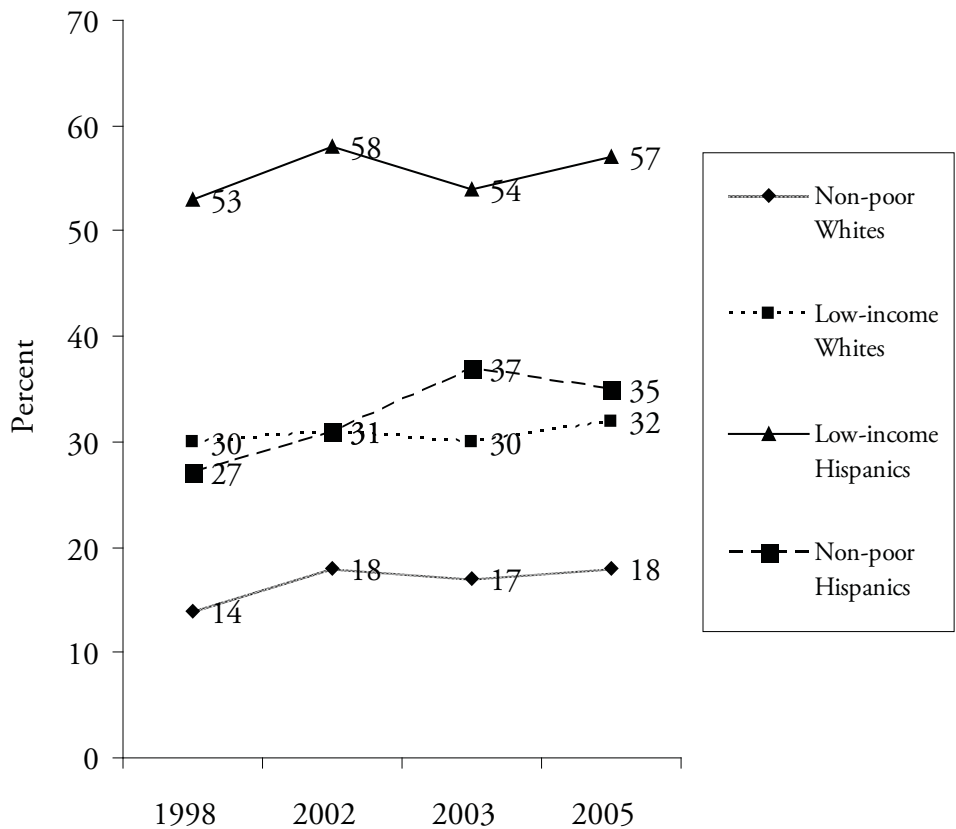
the “below basic” rates (see Figure 3). The trend lines also show a substantial ethnic achievement gap. Low-income whites and nonpoor Hispanics have nearly identical 4th-grade and 8th-grade “below basic” rates.

In short, despite increased spending, new standards and testing, and incremental steps toward school choice, there has been no substantial improvement in student reading scores in Arizona.

There is, however, strong school-level evidence that choice is effective. Because school choice is currently limited in Arizona, there are not enough students exercising choice to register a large amount of progress in the aggregate NAEP figures.

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**Figure 3: Trends in 8th Grade Reading—Percent Scoring “Below Basic” by Ethnicity and Income**



Source: U.S. Department of Education, Institute of Education Studies, National Center for Education Statistics, “National Assessment of Educational Progress: The Nation’s Report Card,” <http://nces.ed.gov/nationsreportcard/> (using the cross-tabulation function of the NAEP Data Explorer).

## Has Choice Delivered Academic Gains?

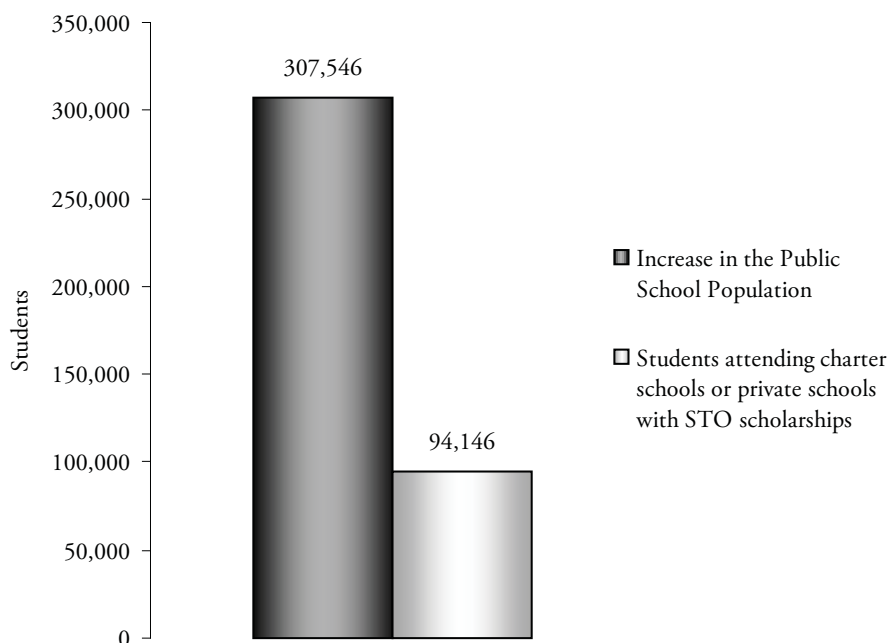
Arizona policymakers have been expanding K-12 parental choice options since the mid-1990s (see Appendix). In 1994, lawmakers passed the open-enrollment law, allowing public school transfers, and passed the nation's most expansive charter school law. In 1997, the state adopted the nation's first scholarship tax credit program to expand opportunities for students to attend private schools. The program gives individual taxpayers a \$500 tax credit for contributions to school tuition organizations (STOs), which give scholarships to help students attend private schools. The maximum donation for a couple was eventually raised from \$500 to \$625 by ballot initiative, and subsequently increased to \$1,000 (beginning in 2006) by the passage of the 2005 Marriage Penalty Elimination Act.

Aggregate statistics do not reveal that competition from school choice programs has improved public school scores in Arizona. Scholars have demonstrated, however, that school choice has led to academic gains at the school level, both in Arizona and elsewhere. There is solid evidence that Arizona's charter school students start at lower levels of achievement (often after having left a conventional public school) but make faster academic gains. There is also solid evidence from both Phoenix and Tucson showing that public schools facing competition for students have significantly higher annual test score gains.<sup>3</sup>

Figure 4 explains why school choice has not shown an impact on aggregate scores in Arizona: It simply is not reaching enough students

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**Figure 4: Competition for Arizona Students, 1994-2004**



Source: Arizona Department of Education, authors' calculation.

With Arizona’s current population growth, there are three students to take the place of every student who leaves the public school system for charter or private schools. We should therefore not expect to see movement in the aggregate simply because *the current high level of population growth and comparatively low level of school choice means that very few schools face competition.*

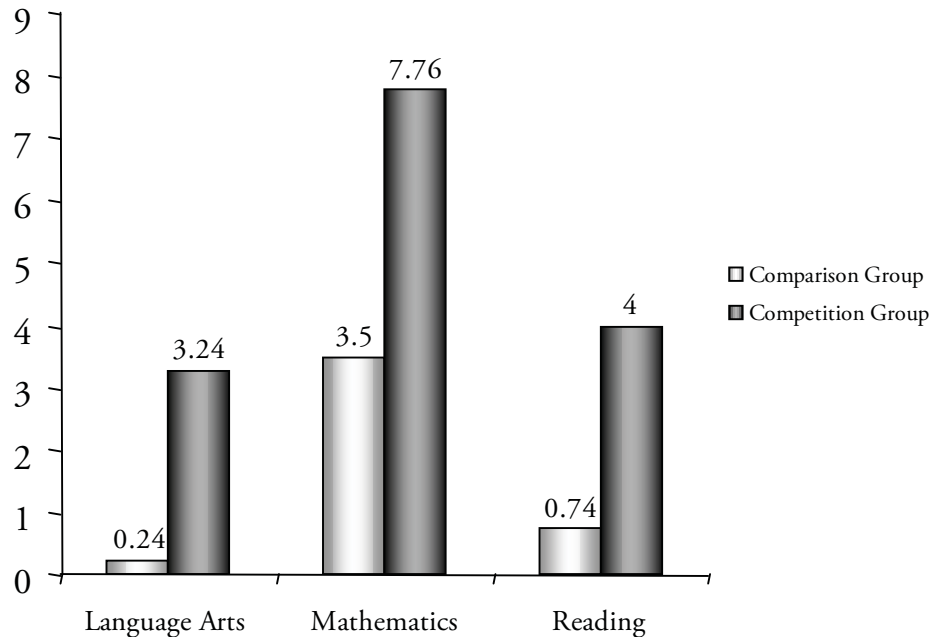
At the individual school level, however, researchers have found solid evidence that competition has improved public school performance. In 2001, Harvard economist Caroline Hoxby conducted the study most relevant to Arizona policymakers. In “The Rising Tide,” Hoxby studied the impact of Arizona charter schools on traditional public schools by comparing the achievement scores of students in public schools facing competition with public schools in less-competitive environments.

Hoxby found that 4th-grade reading scores at schools facing high levels of competition grew four times as quickly as scores in other schools. Fourth-grade mathematics score increases were three times larger; 7th-grade reading score increases were seven times larger; and 7th-grade mathematics gains were three times larger.

Hoxby wrote, “Let’s compare a municipality that did face charter competition, such as Phoenix, with its affluent suburbs. If Phoenix were to maintain its faster rate of

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**Figure 5: Relative 5th Grade Stanford 9 National Percentile Ranking Gains for Pima County 5th Graders, 2001-2004**



Source: Matthew Ladner, “Putting Education Reform to the Test: School Choice and Early Childhood Education Expansion,” Goldwater Institute Report No. 216, February 6, 2007, <http://www.goldwaterinstitute.org/aboutus/ArticleView.aspx?id=1397>.

improvement, it would close the achievement gap between its students and those in its affluent suburbs in less than ten years.”<sup>4</sup>

Replicating Hoxby’s analysis for 5th-grade Stanford 9 scores in a sample of Pima County elementary schools shows strong evidence of greater academic gains in public schools facing high levels of competition.<sup>5</sup>

Figure 5 shows two important pieces of information. First, Pima County schools facing competition for students made much larger gains than did schools not facing competition. Second, *other reforms Arizona has implemented, from AIMS Education Foundation testing to increased funding, show negligible utility in improving student test scores.* AIMS testing, funding increases, and expanding early-childhood education were strategies employed in both the schools facing competition and those not facing competition. The comparison group shows the ineffectiveness of those strategies.

The NAEP scores presented in Figures 1 and 2 confirm this conclusion. Hoxby’s Phoenix analysis and this Pima County analysis, however, show above-average gains in schools facing competition. Figure 5 isolates the impact of competition on schooling and reveals the relative ineffectiveness of other reform strategies absent competition.

The following pages evaluate each of the major school choice reform efforts, including open enrollment, charter schools, school vouchers, and tuition tax credits. In each case, suggestions for improvement will be offered. Finally, a road map for improvement of Arizona schools will be suggested.

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## School Choice Programs

In the early 1990s, Arizona policymakers created intradistrict choice options (transfers within the same school district) and interdistrict choice options (the ability to transfer students between school districts).

Arizona lawmakers followed these reforms by passing the nation’s most generous charter school law in 1994. In 2004-2005, 86,000 students, or approximately 9 percent of the total public school enrollment, attended Arizona charter schools. During the 2006-2007 school year, 466 charter schools operated in Arizona, enrolling an estimated 98,032 children.<sup>6</sup>

In 1997, Arizona lawmakers passed the nation’s first scholarship tax credit program, allowing donors to nonprofit scholarship groups to take a dollar-for-dollar tax credit against their personal income tax. In 2006, this program generated \$51

million for STOs, which provided 24,678 scholarships to help students attend private schools. The original scholarship tax credit program has been expanded twice, once by initiative in 2000 and again through the legislative process in 2005. In addition, an estimated 32,000 Arizona pupils exercised school choice through homeschooling in 2004-2005.<sup>7</sup>

Including the thousands of children attending magnet schools in Arizona (public schools without attendance boundaries), it is clear that more than 20 percent of Arizona children attend schools other than their assigned public schools. Lawmakers passed additional choice programs in 2006, creating a corporate scholarship tax credit, a voucher program for children with disabilities, and a voucher program for children in foster care that will further expand the number of students eligible to exercise choice.<sup>8</sup> Enrollment growth in Arizona, however, means that few public schools have suffered enrollment declines as a result of choice programs to date.

The corporate tuition tax credit allows businesses to receive credit against their state taxes for donations to approved STOs and nonprofits that distribute scholarships.<sup>9</sup> This measure builds on Arizona's existing individual tuition tax credit, which has awarded over 140,000 scholarships since its inception in 1998.

Unlike the individual contributions, the corporate contributions are limited to low-income students currently enrolled in public schools or entering the educational system for the first time. Families with incomes less than 185 percent of the reduced-price lunch stipulations are eligible—meaning that a family of four with a combined household income below \$66,000 would qualify.

The corporate tax credit is capped at \$10 million for fiscal year 2007, increasing 20 percent annually.<sup>10</sup> By 2011, the corporate contributions could amount to over \$20 million and could award maximum scholarships up to 5,000—or average scholarships to as many as 7,000—low-income students.

The Arizona Scholarships for Students with Disabilities Program, capped at \$2.5 million, is modeled after Florida's McKay Scholarship Program. The Arizona scholarships afford pupils with disabilities the opportunity to attend any public or qualified private school of their choice if their parent is dissatisfied with their progress in their current public school.<sup>11</sup> Not only does Arizona's disabilities scholarships program expand options for families, bypassing a costly and lengthy litigation process, but the program may also help mitigate the perverse incentives to mislabel children as having a severe learning disability.<sup>12</sup>

The Displaced Pupils Choice Grant Program allocates \$2.5 million in educational grants to foster children and former foster children in Arizona. Each grant is worth

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a maximum of \$5,000 and can be applied to public, charter, or participating private schools across the state.<sup>13</sup>

These incremental steps to increase parental choice in education, however, have not satisfied demand for educational choice in Arizona, as evidenced by charter school and STO waiting lists and an unmeasured number of parents who attempted to exercise public school choice but were unable to do so.

### **Why Parents Choose Other Schools**

Some fear that parents choose schools for pernicious reasons, creating undesirable results, such as increasing racial or economic segregation. According to the National Education Association, for example, “A pure voucher system would only encourage economic, racial, ethnic, and religious stratification in our society.”<sup>14</sup> Recent studies on choice programs, however, have demonstrated that private school choice programs do not increase segregation, but, in some instances, actually reduce segregation.<sup>15</sup>

Fortunately, enough data exist on Arizona public schools to empirically evaluate whether choice increases segregation in Arizona schools. The Arizona Department of Public Instruction gathers data on student test scores, racial and economic composition of the student body, and the number of students attending as open-enrollment transfers.

We collected these data from all of the traditional public elementary schools in Pima County using [www.GreatSchools.net](http://www.GreatSchools.net).<sup>16</sup> Dividing the number of open-enrollment transfers by the total student enrollment for each school yields a percentage of the student body attending a particular school as a result of open enrollment. The percentage of open-enrollment students serves as the dependent variable in a regression analysis.

The multiple regression technique allows us to test for the effects of several independent variables on the dependent variable, in this case the percentage of students in public schools who are attending under open enrollment. In the analysis, each school district has a percentage of students who have transferred into the school. The regression technique explains variance in the percentage of schools filled with transfers. A regression analysis gauges the independent impact of each independent variable while statistically holding the other independent variables constant.

The regression analysis presented in Table 1 investigates whether schools attract open-enrollment students based on three possible factors: reading scores, ethnic composition, and family income levels. The first variable, student test scores, includes 3rd-grade Terra Nova Reading Scores and 5th-grade AIMS reading scores in models

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presented in Table 2. Choice supporters believe that parents are primarily motivated by academic performance and move their children into relatively high-performing schools. The second variable measures whether racial and ethnic concerns play a role in open-enrollment transfers by including a separate control variable for the percentage of white students at each school. The third control variable evaluates possible economic segregation by analyzing the percentage of students with a family income making them eligible for a federal free or reduced-priced lunch. If the segregation hypothesis is correct, this variable will be negatively signed (meaning that parents avoid schools with high percentages of low-income children) and statistically significant (meaning that the strength of association between the independent and dependent variables is unlikely to have occurred by chance). The regression technique allows us to determine which types of public schools succeed in attracting open-enrollment students and which do not.

Table 1 demonstrates that parents make transfer decisions based on academic results, indicated by the statistically significant and positive findings for the reading score variable for both elementary and middle schools. In the case of both elementary and middle schools, schools with higher reading scores attract statistically significant higher percentages of transfers under the open-enrollment program. By contrast, both the race and income variables proved to be negative and economically insignificant in both the elementary and middle school samples. This finding indicates that parents do

**Table 1: Drivers of Open-Enrollment Transfers in Pima County Public Schools**

Elementary Schools		Middle Schools	
Reading scores (Grade 3 Terra Nova)	0.004 (0.172)*	Reading scores (Grade 5 AIMS)	0.008 (0.22)*
% of students free/reduced lunch eligible	-0.03 (0.001)	% of students free/reduced lunch eligible	-0.11 (0.22)
% of students Anglo	-0.25 (0.001)	% of students Anglo	-0.41 (0.22)
Constant	0.10	Constant	0.20
N	103	N	33
R-square	0.11	R-square	0.20

*Data Source:* Arizona Department of Education, U.S. Department of Education.

*Note:* Ordinary least squares regression; entries are unstandardized coefficients; Standard errors are in parentheses. \* p < 0.05; \*\* p < 0.01; \*\*\* p < 0.001

not choose schools based on racial or economic profiles.

Some schools do not effectively participate in open-enrollment because of a lack of space, and others have no open-enrollment students simply because no one wants to transfer there. In the former case, there may be a systematic bias toward lower numbers of open-enrollment transfers in very-high-performing schools simply because they are filled to capacity through the traditional method of school choice: buying a house in a neighborhood with high-performing public schools. If so, this analysis will tend to *underestimate* the role of academics plays in the demand for schools, since we are measuring actual transfers rather than the demand for transfers.

## Improving School Choice Programs in Arizona

Data indicate that school choice improves test scores, boosts parental satisfaction, and infuses accountability into the education system. Although Arizona has a relatively high number of educational choice programs, these programs are limited and only reach a small minority of students. Key changes would make these programs available to more students.

### Open Enrollment

Section 15-816.02 of the Arizona Education code limits the ability of students to transfer out of schools under a desegregation agreement with the Office for Civil Rights (OCR) of the U.S. Department of Education. The provision reads:

A school shall admit pupils who reside in the attendance area of a school that is under a court order of desegregation or that is a party to an agreement with the United States Department of Education Office for Civil Rights directed toward remediating alleged or proven racial discrimination unless notice is received from the resident school that the admission would violate the court order or agreement. If a school admits a pupil after notice is received that the admission would constitute such a violation, the school's district is not allowed to include in its student count the pupils wrongfully admitted. A school shall not be required to admit nonresident or resident transfer pupils if the admission would violate the provisions of the court order or agreement.

Essentially, this provision allows schools under an OCR agreement to veto the transfer of a student to another public school under the open-enrollment law. As

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of September 2006, 19 Arizona school districts operated under OCR agreements, including Phoenix Union, Scottsdale Unified, Mesa Unified, Tempe Elementary, and Tucson Unified.<sup>17</sup> Given that academics, not racial bias, is a primary factor in open-enrollment transfers, this provision of the code seems unwise. Alleged or even proven discrimination in past district practices should not interfere with a child's right to attend a school that his or her parent feels to be a better academic opportunity. The child, after all, had no role in such actions.

Furthermore, the wording of this statute makes it unclear exactly what would stop districts from preventing even minority children from transferring to more racially balanced schools. A financial incentive certainly exists to do so. Current law permits districts with OCR agreements to create "noncompetition" agreements with surrounding districts, whereby the surrounding districts agree not to take transfers under open enrollment. This practice could actually prevent transfers that promote integration (e.g., if a minority child sought to transfer out of a predominantly minority district into a more racially integrated district).

*The state should provide the maximum possible amount of transparency to facilitate accountability through open enrollment. School-level academic and financial information should be made easily accessible to parents on the Internet. Currently, both the Arizona Department of Education and private organizations such as GreatSchools.net make academic information accessible, but public school spending remains extremely opaque.*

The above analysis demonstrates that parents use academic data in their decisions to transfer students under the open-enrollment law, and do so without any systematic regard for the racial profile of the student body. Open enrollment, therefore, serves its intended purpose: rewarding higher performing schools with additional students while providing opportunities for parents to transfer their children.

Open enrollment operates in an elegantly decentralized accountability mechanism: parents make their own judgments concerning schools and request transfers to schools they find desirable. As demonstrated in Table 1, school performance data inform these decisions. Schools with strong academic results receive more students and state funding, while poorly performing schools lose students and funding.

To facilitate open-enrollment transfers, the OCR provision ought to be repealed, and any ability of schools to agree among themselves not to compete for students should be disallowed.

In addition, the state should provide the maximum possible amount of transparency to facilitate accountability through open enrollment. School-level academic and financial information should be made easily accessible to parents on the Internet. Currently, both the Arizona Department of Education and private organizations such as GreatSchools.net make academic information accessible, but public school spending remains extremely opaque. The Arizona Department of Education should continuously seek to improve public school transparency, making data easily accessible and comprehensible to the public.

## Scholarship Tax Credits

On April 7, 1997, Arizona governor Fife Symington signed House Bill 2074, allowing Arizona taxpayers to receive a tax credit for donations to private charitable organizations that give scholarships to help children attend private schools. Initially, an individual or couple could claim a credit for up to \$500 against individual state income tax. The maximum donation for a couple was eventually raised from \$500 to \$625 by ballot initiative, and subsequently phased into \$1,000 (beginning in 2006) by passage of the 2005 Marriage Penalty Elimination Act. A public school credit of \$200 for extracurricular activities also passed and was increased to a maximum of \$400 by the 2005 Marriage Penalty Elimination Act.

Figures 6 and 7 present funds raised, the number of donors, and the number of scholarships granted between 1998 and 2006.

Figure 6 demonstrates that the tax credit program has enjoyed strong revenue growth, especially between 2004 and 2005, when the maximum donation for couples was increased and the state's economy experienced heady economic growth. In 2001, Cato Institute analysts projected that the credit would reach \$58 million by 2015.<sup>18</sup> Between economic and population growth and changes to the law, scholarship organizations will likely exceed this estimate before 2015.

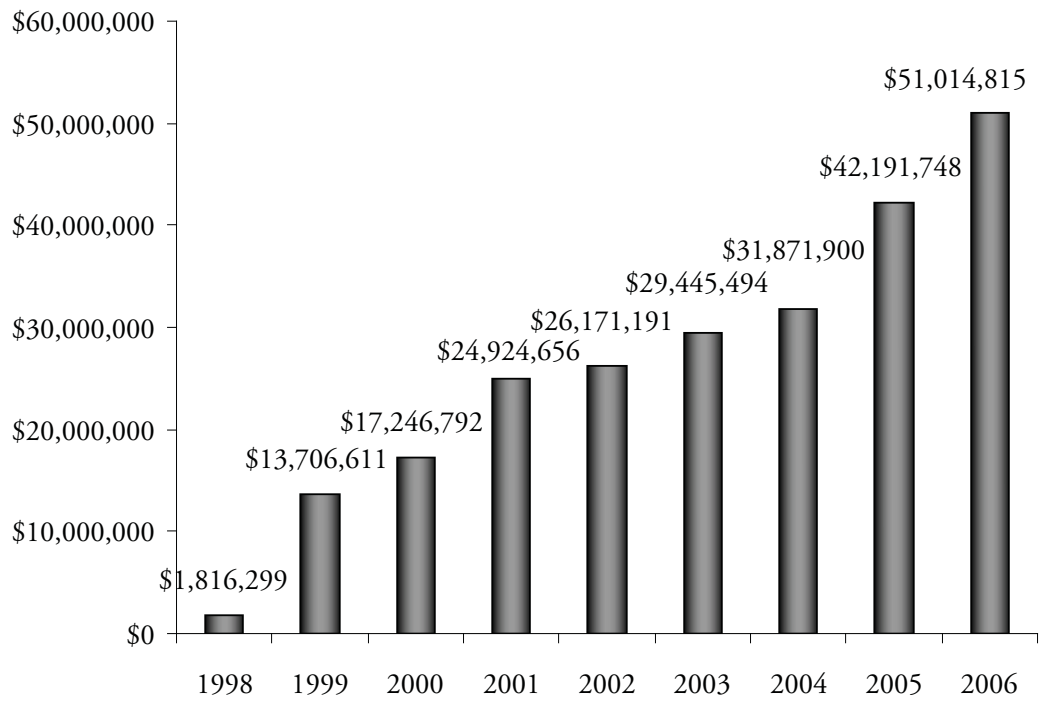
Despite the growth rate, the program remains relatively small. The total of all funds raised in 2006 was approximately equal to one-half of the expenditures of a medium-sized elementary district. For example, the 2002-2003 total expenditures of the Roosevelt Elementary District equaled \$83.9 million, compared with \$51 million for the individual scholarship tax credit in 2006. Figure 7 shows the number of scholarships granted through the program. The number of students the program aided in 2006 is about twice the enrollment of the Roosevelt Elementary district, closer in size to the Phoenix Union High School District. Against the backdrop of a \$5.4 billion K-12 budget, the scholarship tax credit ranks as equivalent to a small district in terms of budget, and a large district in terms of the number of students served.

In 2006, Arizona lawmakers expanded the scholarship tax credit program to businesses. That same year, corporate contributions reached \$7.4 million. Unlike the original tax credit, the business credit limits eligibility to students transferring from public to private school. The law also requires means-tested eligibility and contains an initial \$10 million cap, reaching \$20.7 million by 2010.<sup>19</sup> Assuming an average scholarship size of \$3,000, the corporate credit will serve just over 7,000 students once fully implemented.

While the tax credit programs have provided a lifeline for thousands of students,

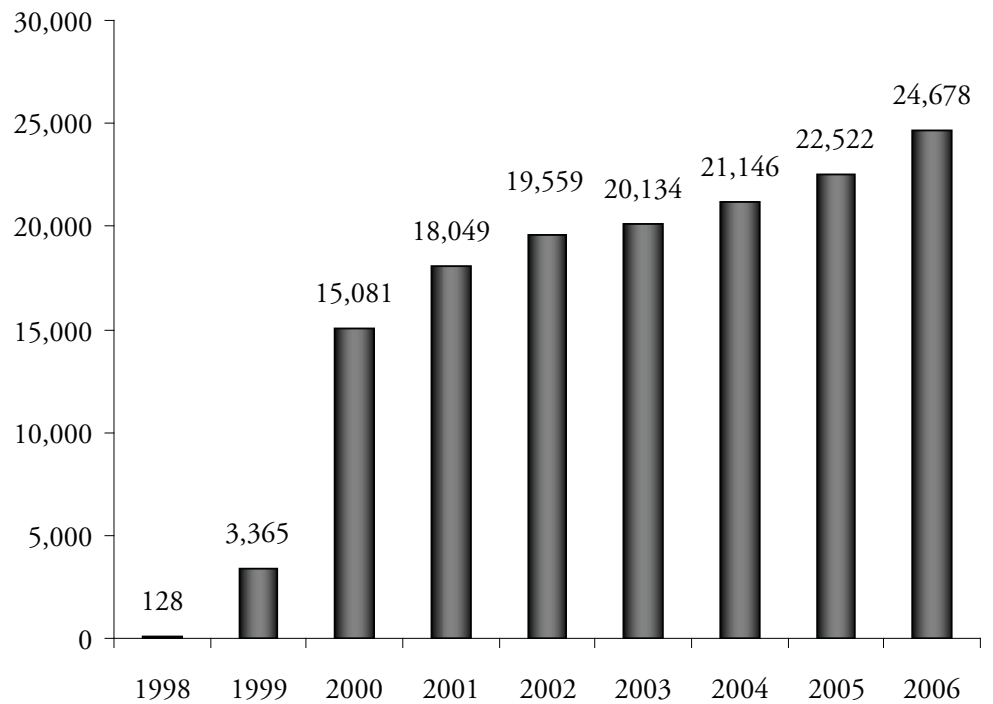
*To facilitate open-enrollment transfers, the OCR provision ought to be repealed, and any ability of schools to agree among themselves not to compete for students should be disallowed.*

**Figure 6: Revenue Raised by the Individual Scholarship Tax Credit**



Source: Arizona Department of Revenue.

**Figure 7: Scholarships Granted, 1998-2005**



Source: Arizona Department of Revenue.

their ability to create a competitive marketplace for schools remains severely limited. To become a more robust factor in improving Arizona education, the tax credit programs will need to serve more students. According to Lisa Snell, director of education and child welfare at Reason Foundation, “More than 5,700 Arizona children are on waiting lists for additional scholarships.”<sup>20</sup> As currently constituted, thousands of students will benefit enormously from the credits. The benefit to the public school system in reducing overcrowding and promoting increases in productivity, however, will remain limited without changes. According to the 2005 Goldwater Institute study *Survey of Arizona Private Schools*, “Fully using Arizona’s private school marketplace could reduce pressure on public schools, give parents more choices, and save hundreds of millions of dollars.”<sup>21</sup>

Taxpayers wishing to contribute to a scholarship organization currently face a cumbersome process. The contributions must be made by December 31 of a given year. Meanwhile, state income taxes do not come due until three-and-a-half months later on the following April 15. Aligning the dates from which taxpayers can make and claim credits would increase participation in the program. Additionally, it may be possible to allow taxpayers the option to divert a portion of their withheld state income tax to a scholarship tuition organization.

Such changes represent solid improvements, but would not begin to maximize the potential for tax credits to create a market in K-12 education. A universal tax credit would be a far more powerful vehicle for promoting school choice. Some school choice advocates believe that a universal tax credit is the best school choice alternative.<sup>22</sup> A universal credit essentially combines a scholarship credit with a personal use credit. Under a universal credit, taxpayers can claim a credit for a donation to a scholarship tuition organization (a scholarship credit) and for private school expenses associated with their own child (a personal use credit).

Arizona could effectively create a universal credit by passing a separate personal use tax credit to parallel the scholarship tax credit. The personal credit should be on a per-child basis so that families with multiple children could benefit in proportion to their expenses.

Arizona public policy should not discourage either public or private school attendance. Current policy skews heavily in favor of the public system. Taxpayers spend \$5.5 billion annually on total operating expenses for Arizona’s public school system. Parents must pay these taxes even if they send their children to a private school at their own expense. If parents decide to seek an education they find more suitable for their children, they effectively pay twice—once when they pay taxes, and again when they pay private school tuition and fees. A personal use credit would reduce this double payment penalty, expanding access to private schooling. In the process, such a

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credit could improve the performance of public schools by increasing competition for students and reducing public school overcrowding.

Personal use credits face challenges, however. First, policymakers would find it difficult to develop a personal use credit that both made a meaningful impact and provided greater aid to low-income families. Low-income families have smaller income tax liabilities and thus a smaller potential to benefit from a personal use credit.

A number of strategies could mitigate this problem. First, the personal use credit could be refundable. Refundable credits return money to the taxpayer even if the amount of the credit exceeds liability. Second, a separate voucher program could be created to provide additional aid to low-income families. A dual system of a personal use credit accompanied by a means-tested voucher would provide a system of universal choice while assisting economically disadvantaged families, who would be the only people eligible to benefit from both the personal use and voucher programs. A third possibility would involve enhancing both the individual and corporate scholarship tax credits and means-testing eligibility of the scholarship tax credit in concert with the creation of a personal use credit.

*A dual system of a personal use credit accompanied by a means-tested voucher would provide a system of universal choice while assisting economically disadvantaged families.*

## **Education Vouchers**

### *Scholarships for Pupils with Disabilities*

In 2006, Arizona lawmakers created two limited school voucher programs. The first offers vouchers to children with disabilities. Modeled after the Florida McKay Scholarship program, the Arizona Scholarships for Pupils with Disabilities program established a scholarship fund for students with disabilities to attend an adjacent public school, charter school, or qualified private school.

The legislation creating the program appropriated \$2.5 million from the General Fund to provide scholarships in fiscal year 2007. The maximum scholarship amount equals the amount of Base Support Level that the student would generate under the Basic State Aid funding, varying from roughly \$5,000 to \$25,000 per pupil depending on the severity of the disability. The Arizona Department of Public Instruction administers the program, and parents can apply for scholarships directly at the Department of Public Instruction.

The Florida McKay Scholarship program, which inspired the Arizona law, is the nation's largest school voucher program, serving 17,300 students with disabilities during the 2005-2006 school year.<sup>23</sup> The Manhattan Institute conducted a parental satisfaction survey of both parents who had used the program to transfer and those

who had used a McKay scholarship to transfer but had subsequently returned to a public school. The survey found that 92.7 percent of current McKay participants were satisfied or very satisfied with their McKay schools, while only 32.7 percent were similarly satisfied with their public schools. McKay parents found that their child's class size dropped dramatically, from an average of 25.1 students per class in public schools to 12.8 students per class in McKay schools. In public schools, 46.8 percent of disabled students were bothered often and 24.7 percent suffered physical assault, while in McKay schools, 5.3 percent were bothered often and 6.0 percent reported assault. Perhaps most telling, more than 90 percent of parents who had withdrawn their child from the program believe that it should continue to be available to those who wish to use it.<sup>24</sup>

Arizona has yet to see the full impact of this law, but one method for improving the program is already apparent: The money should follow the child. The Scholarships for Pupils with Disabilities program should make better use of existing resources, rather than depending on new resources. As it stands, the legislature must estimate demand for special needs scholarships each year. If demand exceeds the appropriation, the state would be obligated to put in additional funds. Instead, the state should simply deduct the appropriate funds from the school district or charter school from which the child is transferring. Public schools losing transfer students no longer bear the burden of educating the child, and money should follow the child. Parental demand could thereby decide the ultimate size of the program.

Another improvement to the program would be to include students covered under Section 504 of the Rehabilitation Act among eligible students. The Rehabilitation Act is a stand alone measure from the IDEA meant to ensure equal access for students with disabilities. Students covered under Section 504 but not yet under IDEA (in other words, the school districts have yet to develop an Individual Education Plan for the student) can be the among the most frustrated students in the public education system. Students identified as having a special need under the Rehabilitation Act should be eligible to receive a Arizona Scholarships for Pupils with Disabilities.

*The Scholarships for Pupils with Disabilities program should make better use of existing resources, rather than depending on new resources. Public schools losing transfer students no longer bear the burden of educating the child, and money should follow the child. Parental demand could thereby decide the ultimate size of the program.*

#### *Vouchers for Children in Foster Care*

In 2006, the Arizona legislature passed and Gov. Janet Napolitano signed into law a first-in-the-nation targeted school choice program for K-12 foster care students. Arizona's \$2.5 million scholarship grant program offers up to 500 foster children scholarships worth up to \$5,000. Any child placed in the foster care system is eligible, and the students can use the scholarship to attend private schools.

Goldwater Institute senior fellow Dan Lips proposed the voucher program and notes that it can help foster care children avoid frequent school transfers, giving them

the opportunity to enjoy educational stability.

With nearly 10,000 foster children in Arizona, eliminating the 500-student cap and aligning the funding for the program to match demand would make solid improvements to the program.

### **Charter Schools**

Charter schools are public, state-funded schools that afford parents and students academic choices beyond what traditional public schools offer. More autonomous in design than traditional public schools, charter schools have control over many school-level curriculum and management decisions.<sup>25</sup> While they are required to “provide a comprehensive education program of instruction,” they may “emphasize a specific learning philosophy or style or certain subject area.”<sup>26</sup> Table 2 shows the diverse programs Arizona charter schools offer.

Arizona is a recognized leader in the charter school movement. In 2005, the state received top marks from a Center for Education Reform (CER) progress report for having the strongest of all 41 charter school laws in the country.<sup>27</sup> The report explains, “The flexibility provided by the state law—and the numerous authorizers permitted, combined with an initial charter term of 15 years—is the hallmark of successful, quality growth.”<sup>28</sup> In CER’s 2006 rankings, Arizona fell to fourth, but was still among the six states and the District of Columbia to earn an “A” grade.<sup>29</sup>

The CER report also indicated a direct correlation between strong charter laws and successful charter schools.<sup>30</sup> With an “A”-rated charter law and charter schools topping state rankings, Arizona exemplifies that statement. Ranked by 2005 test scores, four of the ten highest-performing elementary schools in Maricopa County were charter schools, all of the top seven middle schools were charters, and six of the top ten high schools were charters, including the top four.<sup>31</sup> According to the CER report, “Arizona charter school students have mastered the most important part—academic achievement. They consistently rank among the top public schools in the state. Both state and national data, including the 2003 NAEP results, find charter students outperforming their conventional public school peers.”<sup>32</sup>

Charter school students are not only outperforming their traditional public school peers, they are also out-learning them, according to the 2004 report *Comparison of Traditional Public Schools and Charter Schools on Retention, School Switching, and Achievement Growth* by Lewis C. Solmon and Pete Goldschmidt. On average, the report explains, students attending Arizona charter schools “began with lower test scores than their traditional public school counterparts, and showed overall annual achievement growth roughly three points higher than their non-charter peers.”<sup>33</sup>

*Ranked by 2005 test scores, four of the ten highest-performing elementary schools in Maricopa County were charter schools, all of the top seven middle schools were charters, and six of the top ten high schools were charters.*

### *Arizona Charter Schools through the Years*

The nation's first charter school, St. Paul's Academy, opened its doors in Minnesota in 1992.<sup>34</sup> The following year, Arizona opened its first charter school. Over the following 13 years, one out of every ten charter schools nationwide was opened in Arizona. Table 3 shows the number Arizona charter school openings compared with national numbers over the same period.

While Arizona's charter school record looks impressive as a percentage of national figures, the number of charter schools opened in a given year has decreased substantially since 2003. Figure 8 illustrates the recent decline in Arizona's charter school openings, and Figure 9 captures the more consistent national trend.

Although Arizona's contributions to the charter school movement were unsurpassed between 1995 and 2002, Arizona charter school openings have recently declined as a percentage of the national total, as Figures 8 and 9 illustrate. Given the success of charter schools in Arizona, that decline is troubling.

Several factors might be contributing to the trend. It could be the case that Arizona has reached its charter school capacity. Waiting lists at charter schools throughout the state, however, indicate that there is both a market and a demand for successful charter schools. The decrease in new charter schools is likely due to other factors.

*Waiting lists at charter schools throughout the state indicate that there is both a market and a demand for successful charter schools.*

### **Charter School Authorizers**

One cause of the decline in charter school openings may be the charter school authorization process. New charter school operators must get approval from one of three authorizing authorities: the State Board of Education (SBE), the State Board for Charter Schools (SBCS), or the local school district serving students within the same boundaries as the potential charter school.<sup>35</sup> Table 4 shows the number of schools opened by the several authorizing authorities.

While numerous authorizers are permitted under Arizona law, the SBCS is responsible for nearly nine out of 10 charter schools opened in the state.

In 2003, the SBE, which had been responsible for the second most number of authorizations, placed a self-imposed moratorium on the approval of all new schools. Upon the recommendation of an Office of Strategic Planning and Budgeting report, the SBCS agreed unanimously to transfer the schools and funds from the SBE, "given with the stipulation that the State Board of Education keeps their statutory authority to sponsor charter schools with a one-year moratorium on this requirement."<sup>36</sup>

**Table 2: Arizona Charter School Programs**

School Type	Number	School Type	Number
Accelerated Academic	1	Health, Technology, College Pr	1
Accelerated Academics and Arts	4	Integrated Performing Arts, Un	1
Accelerated	1	Integrated Thematic	3
Agricultural	1	Integrated	1
Alternative for students with poor academics	1	Math, Science	3
Alternative	30	Math, Science, Technology	1
At Risk	2	Montessori	17
Back to Basics	1	Montessori, College Prep	1
Basic	32	Montessori, Holistic	1
Basics & College Prep	6	Montessori, Integrated Thematic	1
Basics, Performing Arts	2	Multi-age Classrooms, Gifted, Cultural	1
Bilingual	2	Multiple Intelligence Philosophy	1
Career Path	1	Performing Arts	5
Charter	51	Performing Arts, College Prep	1
College Bound	4	School-To-Work High Tech	1
College Prep	39	Science Based	1
College Prep, Performing Arts, Fine Arts	1	Science	1
College Prep, Visual & Performing Arts	2	Science, Technology, Thematic	1
College Prep, Vocational Ed	1	Secondary	4
Computer Repair	1	Technical	1
Computer-Based	1	Technical, Alternative	12
Computerized Instruction	2	Technology-based	12
Core Knowledge, performing Arts, General	1	Traditional	1
Cultural/Community Based	1	Un-graded Secondary	2
Education Philosophy	1	Visual & Performing Arts	1
Elementary	9	Vocational Education	2
Fine Arts	1	Vocational, Alternative	1
General	61	Waldorf Inspired	1
General, College Prep	2	Well-Rounded	1
General, Vocational, Technical	5	Work Experience, Alternative	2
Hands-On	1	<b>Total Responding</b>	<b>350</b>

Source: Arizona Department of Education, Charter Schools Search, <http://www.ade.state.az.us/CharterSchools/Search/SiteList.asp>.

On June 23, 2003, the SBE released an official notice to all SBE charter holders regarding the consolidation of oversight and services into the SBCS. Charter school operators could either retain their contract with the SBE or transfer their charter contract to the SBCS. According to minutes from an SBE meeting, “The fiscal year ’04 Budget moved all staff to the Charter Board.”<sup>37</sup> Accordingly, staff recommended the SBE continue its moratorium into 2004 because, “there is not funding or staff to perform additional reviews if the State Board were to take this responsibility back.”<sup>38</sup> Senate Bill 1405 continued the moratorium for fiscal years 2004-2005.<sup>39</sup>

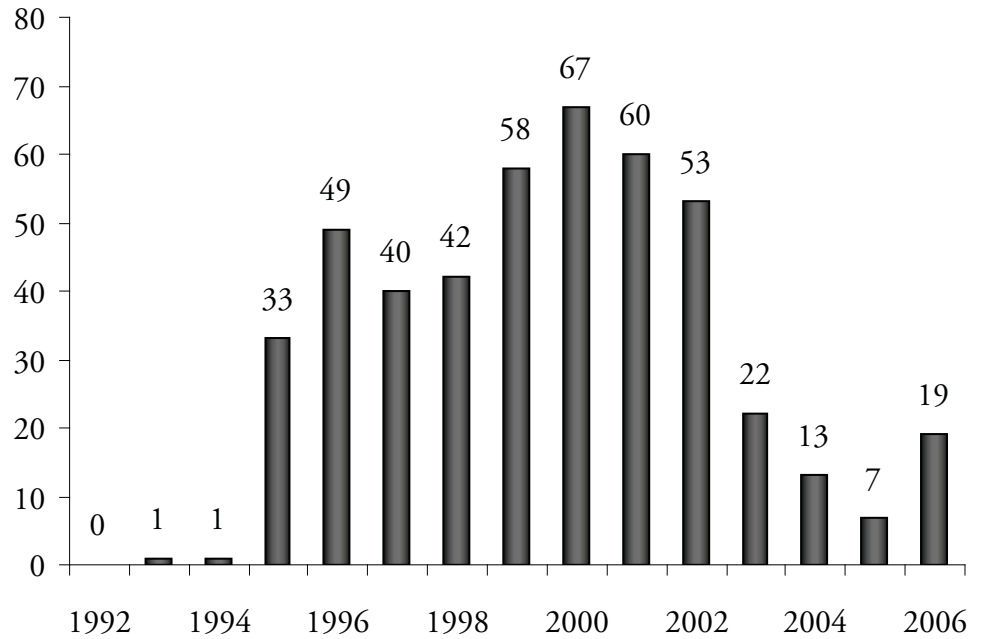
With local districts sponsoring just seven charter schools in total, the moratorium left only one effective authorizing board in the state to sponsor, continue, and oversee the vast majority of Arizona’s many charter schools. Christy Farley, then executive director of the SBE, argued that the 2003 moratorium “has not been detrimental to the expansion of quality charter schools,” since “twenty-three new schools were sponsored by the State Board for Charter Schools.” Given the average of 50 openings

**Table 3: Charter Schools by Year Opened—Arizona Trends Compared with National Trends**

Year	Charter School Openings, Nationwide	Charter School Openings, Arizona	Arizona as a Percent of Total
1992	1	0	0.0
1993	30	1	3.3
1994	47	1	2.1
1995	128	33	25.8
1996	148	49	33.1
1997	212	40	18.9
1998	360	42	11.7
1999	412	58	14.1
2000	368	67	18.2
2001	372	60	16.1
2002	346	53	15.3
2003	308	22	7.1
2004	459	13	2.8
2005	416	7	1.7
2006	381	19	5.0
Total Operating	3,988	465	11.7

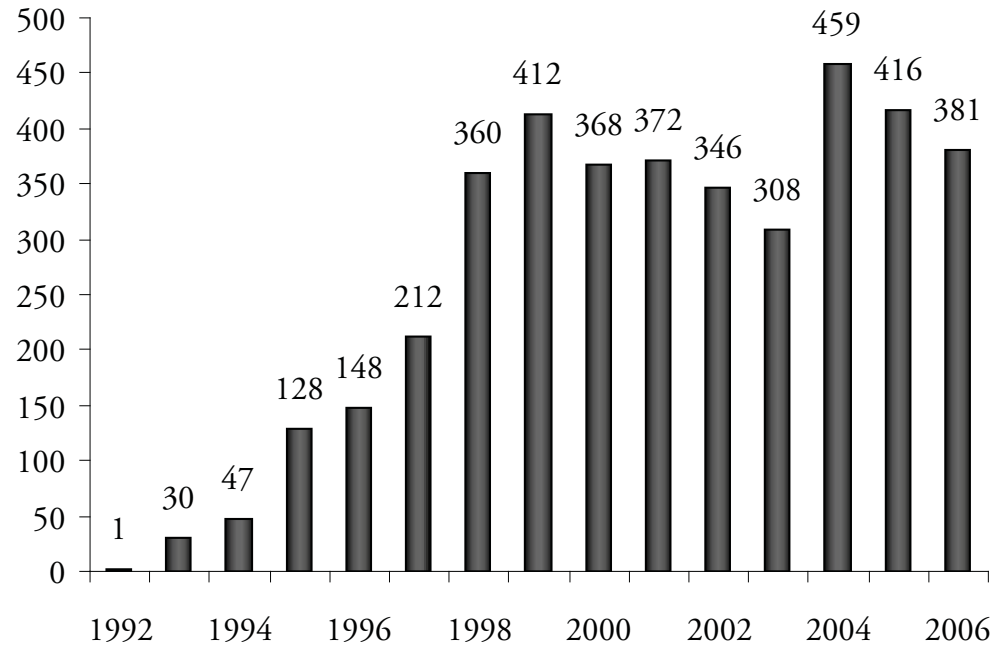
Source: Center for Education Reform, “Operational Schools by Year Opened,” October 2005, [http://www.edreform.com/\\_upload/operation-year-oct05.pdf](http://www.edreform.com/_upload/operation-year-oct05.pdf). Authors’ calculations.

**Figure 8: Existing Charter Schools by Year Opened, Arizona**



Source: Center for Education Reform, "Operational Schools by Year Opened," October 2005, [http://www.edreform.com/\\_upload/operation-year-oct05.pdf](http://www.edreform.com/_upload/operation-year-oct05.pdf).

**Figure 9: Existing Charter Schools by Year Opened, U.S.**



Source: Center for Education Reform, "Operational Schools by Year Opened," October 2005, [http://www.edreform.com/\\_upload/operation-year-oct05.pdf](http://www.edreform.com/_upload/operation-year-oct05.pdf).

annually between 1995 and 2002, however, the 2003 figures seem troubling—as do the figures for 2004, 2005, and 2006.

In 2006, the Arizona legislature considered Senate Bill 1455, which would have expanded the number of charters authorized by permitting “a public or private nonprofit university, college, or community college to sponsor charter schools.”<sup>40</sup> This strategy has already been implemented in seven states.<sup>41</sup> In Michigan, 10 universities and community colleges have been responsible for 182 of the 241—three out of four—charter schools opened in the state. According to the Center for Education Reform, “Michigan stands out as a pioneer in taking advantage of the resources that institutions of higher education bring to K-12 education, which many have jumped at the chance to create.” Colleges and universities have access to administrative and educational resources that cannot only limit the burden of high start-up costs but also provide exceptional educational opportunities to students. Moreover, colleges and universities with reputations to maintain have an enormous incentive to provide quality oversight and ensure that the schools they operate receive high marks and offer an exceptional education.

The Arizona Senate approved Senate Bill 1455, as did the House of Representatives, but only after eliminating private colleges and universities as potential sponsors. The bill gathered much support in each chamber, passing by a margin of 19-6 in the Senate and 37-20 in the House. Despite overwhelming support, Gov. Napolitano vetoed the bill, reasoning it “is not necessary to expand the number of charter sponsors, as existing law does not place caps on the State Board for Charter Schools’ authorizing ability.”<sup>42</sup> The veto meant that

*Colleges and universities have access to administrative and educational resources that cannot only limit the burden of high start-up costs but also provide exceptional educational opportunities to students.*

**Table 4: Arizona Charter School Authorizers**

Charter Authorizer	Number of Charters	Percent
Benson Unified School District	1	0.2
Casa Grande Union High School District	1	0.2
State Board for Charter Schools (SBCS)	463	87.0
Coolidge Unified District	1	0.2
Payson Unified District	1	0.2
Peach Springs Unified District	1	0.2
State Board of Education (SBE)	62	11.7
Vail Unified District	2	0.4
Total	532	100.0

Source: Center for Education Reform, “Operational Schools by Year Opened,” October 2005, [http://www.edreform.com/\\_upload/operation-year-oct05.pdf](http://www.edreform.com/_upload/operation-year-oct05.pdf). Authors’ calculations.

the 14 political appointees serving on the SBCS would continue to bear almost all authorizing and oversight responsibilities for Arizona's multitude of charter schools and the nearly 100,000 students who attend them.

### *Rules, Regulations, and Reporting Requirements*

There are other likely culprits in the reduction of charter school start-ups over recent years. Since 2000, state and federal accountability and funding procedures have crowded out much of the independence charter schools once enjoyed. These rules and requirements did not go unnoticed in the CER's 2005 analysis of Arizona's charter law: "Even with the built-in flexibility from doing business as usual, Arizona charter schools still have to comply with more than 85 regulations from state government..."<sup>43</sup>

*Since 2000, state and federal accountability and funding procedures have crowded out much of the independence charter schools once enjoyed.*

In 2000, the passage of Proposition 301 instituted a 0.6 percent sales tax increase to be deposited into the "classroom site fund" that would go toward various educational programs.<sup>44</sup> The Arizona Department of Education describes how the schools must distribute the funding: "Each school district or charter school shall allocate forty percent of the monies for teacher compensation increases based on performance and employment related expenses, twenty percent of the monies for teacher base salary increases and employment related expenses and forty percent of the monies for maintenance and operation purposes..."<sup>45</sup> Proposition 301 also required the schools to submit annual reports to the superintendent of public instruction that provide "an accounting of the expenditures of monies distributed from the fund during the previous fiscal year and a summary of the results of district and school programs funded with money distributed to the fund."<sup>46</sup>

In addition to accounting for the various "proposition 301 expenditures, charter schools are also required to submit detailed student information to the Department of Education." The "Student Accountability Information System: Fiscal Year 2007 SAIS-Student Details Requirements Overview" provides insight into the complexity and comprehensiveness of the reporting requirements.<sup>47</sup> The *overview* totals 44 pages and offers specific coding instructions for everything from the nighttime residence of homeless students, to home language and English Language Learner status, to special education, to kindergarten and preschool students, to attendance counts for all students at various points throughout the school year.<sup>48</sup> Requiring charter schools to abide by the same complex reporting requirements traditional public schools face flies in the face of their intended purpose: increased autonomy.

State and federal accountability and funding systems result in complicated reporting processes. That obligates charter schools to allocate staff and resources toward complying with laws. The complexity and volatility of those laws place

additional burdens on charter schools and their operators. Rather than spend their time setting up new charter schools based on successful models, operators must keep up on changes and sometimes unresolved reporting requirements to keep their existing school in accordance with the law. Moreover, the state micromanages the designation of Proposition 301 funding. Many of Arizona's charter schools have thrived on the autonomy they were permitted, but much of that independence has been legislated away.

Autonomy is especially important for charter schools because they receive less funding than traditional public schools.<sup>49</sup> The Superintendent's *2004-05 Annual Financial Report* lists total current per-pupil expenditures for unified districts at \$6,557 and charter school expenditures at \$5,003.<sup>50</sup> Charter schools have succeeded in delivering higher educational achievement for less money, but key to that success has been the freedom from a number of state regulations. By avoiding unnecessary administrative and compliance costs, charter schools can focus their resources on educating children. As laws and regulations become more complex, charter schools will have to allocate a larger portion of their operating budgets toward administrative costs and away from the classroom. That could hinder future academic success among charter school students.

#### *Recommendations on Arizona Charter Schools*

If Arizona is to remain a leader in the charter school movement, several problems must be resolved. First, the state needs to allow for more charter school authorizers so as to reduce the authorization and oversight burdens on the State Board for Charter Schools and to depoliticize the authorization process.

The legislature should continue to push forward legislation allowing public and private colleges to sponsor charter schools. Like Michigan's policy, which allows charter school authorizers to withhold 3 percent of state funding for the schools they sponsor, Arizona's policy should designate a small percentage of the per-pupil funding associated with each charter school student to go to the authorizing authority. This would increase the number of authorizers while providing the resources they need to cover oversight services. Indiana has had a successful experience in allowing Mayors to authorize charter schools, which should be emulated as well.

It is also necessary to reduce the number of regulations governing charter schools so that they continue to be an alternative to traditional public schools—rather than a replication of them. Charter schools were created as an experiment in freedom, and they provide greater achievement growth for less cost while providing healthy competition. The experiment has proven to raise student achievement. The primary accountability mechanism for charter schools should remain the ability of parents to

*Charter schools have succeeded in delivering higher educational achievement for less money, but key to that success has been the freedom from a number of state regulations. By avoiding unnecessary administrative and compliance costs, charter schools can focus their resources on educating children.*

enroll or remove their child and avoid individual charter schools. Miring charter schools with the regulatory apparatus applying to public schools is a disservice to students and a betrayal of the philosophy that directed the creation of the charter school law.

Charter schools as a whole have lived up to their end of the “do more for less in exchange for greater freedom” bargain the state offered. Rather than backsliding toward regulating the charters, state policymakers should actively explore removing burdensome regulations from charter schools. In the absence of deregulation, the charter school community will likely call for the equalization of funding between traditional public and charter schools. Less money and more freedom is an acceptable bargain, after all, but less money and no additional freedom is not. Simply giving charter schools more money to carry out bureaucratic regulatory compliance is not a good value to taxpayers and will do nothing to improve student achievement. The original bargain made with charter school operators was a good one and ought to be restored. Charter schools are subject to federal antidiscrimination laws and other requirements, and they need to be transparent in reporting academic results and required to submit to a reasonable level of financial oversight in order to prevent fraud. Otherwise, they should be free to succeed or fail on their own merits.

*Charter schools were created as an experiment in freedom, and they provide greater achievement growth for less cost while providing healthy competition. Miring charter schools with the regulatory apparatus applying to public schools is a disservice to students and a betrayal of the philosophy that directed the creation of the charter school law.*

## **The Road Ahead: Improving Arizona Education**

Education reform in Arizona has not kept pace with the need to improve the state’s schools. Reforms from standards-based testing to higher funding have not improved student achievement. There is evidence, however, that school choice has raised achievement, at least among those schools that have faced enough competition to actually experience declining enrollment.<sup>51</sup> Arizona lawmakers should expand parental options in education in order to fully realize the benefits of a competitive education marketplace.

An education market will embrace and replicate reforms that work and discard those that fail to produce. A top-down political system has failed to perform this task. Where bureaucrats and politicians have failed miserably, however, a market of parents pursuing the interests of their children will succeed in driving progress.

Policymakers could give all Arizona parents educational choice in one of two ways. First, they could pass a universal school voucher law to give every student the opportunity to attend the public or private school of their parent or guardian’s choice. Second, the state could pass a combination of a scholarship for low-income families and a personal use tax credit for all families.

Whether through a universal voucher or a combination of low-income scholarships and tax credits, some important principles should be respected in the policy design process. First, choice programs must have schools willing to participate. Policymakers should therefore avoid regulations on schools beyond the minimum necessary to protect against fraud and to provide academic transparency. National norm-referenced test results, publicly reported, provide the necessary amount of academic transparency and allow parents to meaningfully choose between schools. Unlike imposition of a state test such as AIMS, such testing would not impose curricula on private schools but would provide parents with vital information to use in choosing between schools.

Second, school choice policy should not replicate the inequalities of the public system. The existing public school finance system routinely provides greater resources for children in, for example, north Scottsdale than for those in south Phoenix. This of course is not to say that the children in south Phoenix do not receive enough money to provide for their education. In fact, today's funding amounts (even adjusted for inflation) far exceed past funding levels. However, families that would not be able to use a personal tuition tax credit should have a means-tested scholarship available.

Arizona's rapidly growing student population, coupled with the severe educational deficits among our student population should compel lawmakers to do everything possible to expand parental choice. The data presented demonstrate that parents make transfer decisions based on academics. Barriers to public school choice should be removed and public school transparency increased. Charter schools have been shown to increase student achievement both for both their own students and for students remaining in traditional public schools. The charter school authorization infrastructure requires reform if Arizona students are to enjoy the full benefits of charter schools. Arizona has thousands of seats available in private schools. We should make them accessible through expanded vouchers and tax credits.

Arizona lawmakers have taken small steps toward parental choice, and the results have been positive. Those results offer hope to an education system in dire need of the real reform an accessible and universal system of choice would bring. A larger personal use credit, which provides a meaningful amount of tax relief per child, combined with a program designed to augment the purchasing power of low-income families, are ideal means to achieve this end.

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APPENDIX: SCHOOL CHOICE PROGRAMS

<h2>Open Enrollment</h2> <p>(1994)</p>
<p><b>Description</b></p> <p>Allows parents to apply for their child to attend a different school within their district (intra-district choice) or a school in another district (inter-district choice).</p>
<p><b>Scholarship Funding Cap</b></p> <p>N/A</p>
<p><b>What to Like</b></p> <p>1) Parents make transfer decisions based on academic results, not factors such as racial or economic makeup of a school, according to the results of a regression analysis of Pima County enrollment data (included in this report). This indicates that parents seek high performing schools for their children, making school choice a viable accountability mechanism.</p> <p>2) The National Center for Education Statistics found that parents who chose their child's school under open enrollment were "more likely to say they were 'very satisfied' with their children's schools, teachers, academic standards, and order and discipline" than were parents of students attending an assigned public school.<sup>1</sup></p>
<p><b>What to Change</b></p> <p>1) An Office of Civil Rights (OCR) provision allows schools to veto the transfer of students attending schools the OCR has put under desegregation orders. As of September 2006, 19 Arizona school districts operated under these OCR orders, making it difficult for their students to transfer to better schools. This provision should be repealed.<sup>2</sup></p> <p>2) Improve public school transparency, making data easily accessible and comprehensible to the public so that parents can make informed decisions about their child's education.</p>
<p><b>What to Read</b></p> <p>1) "Trends in the Use of School Choice 1993–1999," Stacey Bielick and Christopher Chapman, National Center for Education Statistics, National Household Education Surveys Program, May 2003, <a href="http://nces.ed.gov">http://nces.ed.gov</a>.</p>

<h2>Charter Schools (1994)</h2>
<p><b>Description</b></p> <p>Charter schools are public, state-funded schools that are more autonomous than traditional public schools; School administrators have control over many school-level curriculum and management decisions. They may be operated by any public body, private person, or private organization who receives authorization.</p>
<p><b>Scholarship Funding Cap</b></p> <p>N/A</p>
<p><b>What to Like</b></p> <p>1) In the 2006-2007 school year, 98,032 students attended charter schools.<sup>3</sup></p> <p>2) The Center for Education Reform, which rates Arizona's charter law an "A," has found a significant correlation between strong charter school laws and successful charter schools.</p> <p>3) Charter schools consistently score at the top of state rankings. According to the Center for Education Reform, "Both state and national data, including 2003 NAEP results, find charter students outperforming their conventional public school peers."<sup>4</sup></p> <p>4) Students attending Arizona's Charter Schools "began with lower test scores than their traditional public school counterparts, and showed overall achievement growth roughly three points higher than their non-charter peers," according to a 2004 report by Lewis C. Solomon and Pete Goldschmidt.<sup>5</sup></p>
<p><b>What to Change</b></p> <p>1) Permit public or private universities, colleges, or community colleges to sponsor charter schools.</p> <p>2) Reduce the number of unnecessary rules and regulations governing charter schools that obligate charter schools to allocate staff and resources away from students and toward complying with laws.</p>
<p><b>What to Read</b></p> <p>1) "Comparison of Traditional Public Schools and Charter Schools on Retention, School Switching, and Achievement Growth," Lewis C. Solomon and Pete Goldschmidt, Goldwater Institute Policy Report no. 192, March 15, 2005, <a href="http://www.goldwaterinstitute.org">http://www.goldwaterinstitute.org</a>.</p> <p>2) "Alternative Charter School Authorizers: Playing a Vital Role in the Charter Movement," Louann Bierlein Palmer, Progressive Policy Institute Policy Report, December 2006, <a href="http://www.ppionline.org">http://www.ppionline.org</a>.</p> <p>3) "Does Charter School Attendance Improve Test Scores? The Arizona Results," Lewis C. Solmon, Kern Paark and David Garcia, Arizona Education Analysis, March 16, 2001, <a href="http://www.goldwaterinstitute.org">www.goldwaterinstitute.org</a>.</p> <p>4) "The Simple Guide to Charter School Law: A Progress Report of the Center for Education Reform," Jeanne Allen and Anna Varghese Marcucio ed., 2005, <a href="http://www.edreform.com">http://www.edreform.com</a></p>

<h2>Individual Tuition Tax Credit (1997)</h2>
<p><b>Description</b></p> <p>Individuals can receive tax credits up to \$500 (\$1,000 for couples) for contributions to school tuition organizations (STOs), which give scholarships to help students attend private schools.<sup>6</sup></p>
<p><b>Scholarship Funding Cap</b></p> <p>N/A</p>
<p><b>What to Like</b></p> <p>1) To date, the individual tuition tax credit has raised a total of \$238,904,413 and awarded 144,622 scholarships.</p> <p>2) In Fiscal Year 2007 alone, the program raised \$51 million and awarded 24,678 scholarships.<sup>7</sup></p> <p>3) While Arizona's Individual Tuition Tax Credit law does not require STOs to means-test scholarship recipients, a number of STOs restrict their aid to low-income students.</p>
<p><b>What to Change</b></p> <p>1) Align the dates from which taxpayers can make and claim credits, and/or allow taxpayers the option to divert a portion of their withheld state income tax to a scholarship tuition organization.</p> <p>2) Create a universal tax credit, so that taxpayers can claim a credit for a donation to a scholarship tuition organization (a scholarship credit) and for private school expenses associated with their own child (a personal use credit).</p>
<p><b>What to Read</b></p> <p>1) "Education Scholarships: Expanding Opportunities for Students, Saving Taxpayers Money" Darcy Olsen, Goldwater Institute Policy Report no. 169, March 2002, <a href="http://www.goldwaterinstitute.org">http://www.goldwaterinstitute.org</a>.</p> <p>2) "Individual Income Tax Credit for Donations to Private School Tuition Organizations: Reporting for 2005 Executive Summary," Arizona Department of Revenue, March 2006, <a href="http://www.revenue.state.az.us">http://www.revenue.state.az.us</a>.</p> <p>3) "Arizona Individual and Corporate Tax Credits," Dick M. Carpenter II, Ph.D., Institute for Justice, October 2006, <a href="http://www.ij.org">http://www.ij.org</a>.</p> <p>4) "Arizona Public and Private Schools: A Statistical Analysis," Andrew Coulson, Goldwater Institute Policy Report no. 213, October 2006, <a href="http://www.goldwaterinstitute.org">www.goldwaterinstitute.org</a>.</p> <p>5) "Opening the Books: 2006 Annual Report on Arizona Public School Finance," Vicki Murray and Susan Aud, Goldwater Institute Policy Brief no. 06-02, April 2006, <a href="http://www.goldwaterinstitute.org">www.goldwaterinstitute.org</a>.</p> <p>6) "Survey of Arizona Private Schools: Tuition, Testing and Curricula," Ross Groen and Vicki Murray, Goldwater Institute Policy Report no. 199, January 2005, <a href="http://www.goldwaterinstitute.org">www.goldwaterinstitute.org</a>.</p> <p>7) "The Arizona Scholarship Tax Credit: Providing Choice for Arizona Taxpayers and Students," Carrie Lukas, Goldwater Institute Policy Report no. 186, December 2003, <a href="http://www.goldwaterinstitute.org">www.goldwaterinstitute.org</a>.</p>

APPENDIX: SCHOOL CHOICE PROGRAMS

### Corporate Tuition Tax Credit (2006)

Description
Allows businesses to receive tax credits against their state taxes for donations to approved STOs and non-profits that distribute scholarships. Scholarships are limited to low-income students currently enrolled in public schools or entering the education system for the first time. Children in families with incomes that do not exceed 185 percent of the income level set for the federal reduced-price lunch program are eligible.
Scholarship Funding Cap
\$10,000,000 for FY 2006. The cap will increase annually by 20 percent until FY 2011.
What to Like
1) In Fiscal Year 2007, the first year of the program's implementation, corporate contributions reached \$7.4 million. 2)The program could save the State of Arizona's General Fund an estimated \$57.2 million in the next 5 years, according to a fiscal analysis by the Institute for Justice. That's an average of \$11.4 million annually. <sup>8</sup> According to the report, "The program achieves a savings because students who transfer to private schools do so with scholarships that are less than the average per-student state base funding for Arizona public schools."
What to Change
1) Align the dates from which corporate taxpayers can make and claim credits, and/or allow them the option to divert a portion of their withheld state income tax to a scholarship tuition organization. 2) Eliminate scholarship funding cap.
What to Read
1)"Fiscal Analysis of Arizona's Corporate Tax Credit Scholarship Program," Vicki Murray, Institute for Justice, October 2006, <a href="http://www.ij.org">http://www.ij.org</a> . 2)"The Arizona Scholarship Tax Credit: Giving Parents Choices, Saving Taxpayers Money," Carrie Lips and Jennifer Jacoby, Cato Institute Policy Analysis no. 414, September 17, 2001, <a href="http://www.cato.org">http://www.cato.org</a> . 3)"Arizona Individual and Corporate Tax Credits," Dick M. Carpenter II, Ph.D., Institute for Justice, October 2006, <a href="http://www.ij.org">http://www.ij.org</a> . 4)"Arizona Public and Private Schools: A Statistical Analysis," Andrew Coulson, Goldwater Institute Policy Report no. 213, October 17, 2006, <a href="http://www.goldwaterinstitute.org">www.goldwaterinstitute.org</a> . 5)"Opening the Books: 2006 Annual Report on Arizona Public School Finance," Vicki Murray and Susan Aud, Goldwater Institute Policy Brief no. 06-02, April 17, 2006, <a href="http://www.goldwaterinstitute.org">www.goldwaterinstitute.org</a> . 6)"Survey of Arizona Private Schools: Tuition, Testing and Curricula," Ross Groen and Vicki Murray, Goldwater Institute Policy Report no. 199, January 05, 2005, <a href="http://www.goldwaterinstitute.org">www.goldwaterinstitute.org</a> . 7)"Education Scholarships: Expanding Opportunities for Students, Saving Taxpayers Money," Darcy Olsen, Arizona Issue Analysis no. 169, March 26, 2002, <a href="http://www.goldwaterinstitute.org">www.goldwaterinstitute.org</a> .

### Arizona Scholarships for Pupils with Disabilities (2006)

Description
Gives scholarships to students with disabilities to attend any public or qualified private school of their choice if their parent is dissatisfied with their progress in their current public school. <sup>9</sup>
Scholarship Funding Cap
\$2,500,000
What to Like
1) A parental satisfaction survey conducted by the Manhattan Institute found that parents who had used Florida's McKay Scholarship program (the inspiration for Arizona's program) had a 92.7 percent satisfaction rate while only 32.7 were similarly satisfied with their public schools. Parents also found a reduction in class size, students being bothered by their classmates, and physical assaults. <sup>10</sup>
What to Change
1) Deduct the appropriate funds from the school district or charter school from which the child is transferring, rather than estimate demand for special needs scholarships each year.
What to Read
1)Jay P. Greene and Greg Forster, "Vouchers for Special Education Students: An Evaluation of Florida's McKay Scholarship Program," Manhattan Institute Civic Report no. 38, November 2003, <a href="http://www.manhattan-institute.org">http://www.manhattan-institute.org</a> . 2)"Rethinking Special Education For A New Century," ed. Chester E. Finn, Jr., Andrew J. Rotherham and Charles R. Hokanson, Jr., Progressive Policy Institute and the Thomas B. Fordham Foundation, May 2001, <a href="http://www.ppionline.org">http://www.ppionline.org</a> . 3)Ross Groen and Vicki Murray, "Survey of Arizona Private Schools: Tuition, Testing and Curricula," Goldwater Institute Policy Report no. 199, January 2005, <a href="http://www.goldwaterinstitute.org">www.goldwaterinstitute.org</a> . 4)Clint Bolick, "School Vouchers: Constitutionally Permissible in Arizona," Goldwater Institute Policy Brief, March 2004, <a href="http://www.goldwaterinstitute.org">www.goldwaterinstitute.org</a> . 5)Matthew Ladner, "Race and Disability: Racial Bias in Arizona Special Education," Goldwater Institute Policy Report no. 178, March 2003, <a href="http://www.goldwaterinstitute.org">www.goldwaterinstitute.org</a> .

### Displaced Pupils Choice Grant Program (2006)

Description
Awards education grants to current and former foster children. Individual grants worth a maximum of \$5,000 can be used at public, charter, and participating private schools statewide.
Scholarship Funding Cap
\$2,500,000
What to Like
1) Arizona's Displaced Pupils Choice Grant Program is the first program in the nation to target foster and former foster children. The program can help foster children avoid frequent school transfers so that they may enjoy educational and social stability.
What to Change
1) Eliminate the 500-student cap and align the funding for the program to match demand (there are currently nearly 10,000 foster children in Arizona).
What to Read
1)Dan Lips, "School Choice for Maryland's Foster Care Children: Fostering Support, Stability, and Achievement," Maryland Public Policy Institute, 2005, <a href="http://www.heartland.org">http://www.heartland.org</a> . 2)Ross Groen and Vicki Murray, "Survey of Arizona Private Schools: Tuition, Testing and Curricula," Goldwater Institute Policy Report no. 199, January 2005, <a href="http://www.goldwaterinstitute.org">www.goldwaterinstitute.org</a> . 3)Clint Bolick, "School Vouchers: Constitutionally Permissible in Arizona," Goldwater Institute Policy Brief, March 2004, <a href="http://www.goldwaterinstitute.org">www.goldwaterinstitute.org</a> .

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