

# SPECIAL *investigation*

*Goldwater Institute*

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## Gaming the System: Districts Make a Dash for Cash in Charter Schools

by Emily Gersema, Investigative Journalist, Goldwater Institute

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This year, 20 Arizona school districts gained access to millions of dollars more in state taxpayer funds than their usual education appropriation—most in a matter of a couple of months—by opening 59 charter schools.

When the 2014-15 academic year begins, these schools will start receiving a combined \$33 million in additional state funding annually. Those figures do not account for the other 12 district-run charter schools that had opened prior to this year.

Legislators and charter school advocates worry the sudden rise in district-run charters is a money grab by the traditional public districts. Several of the districts are increasing their budgets with “additional assistance” funds for charter schools without fulfilling the state’s primary purpose for charter schools – to increase educational options for students.

Public districts receive on average \$8,992 per student from the state, which is \$1,532 more per student than typical charter schools, according to a comparison the Arizona Joint Legislative Budget Committee released in September. This is largely because public districts receive state funding for transportation and capital funds, while charter schools do not.

A state budget analysis and finance documents show that the district-run charter schools receive an estimated \$1,000 more per student than traditional public schools.

Public school districts in Arizona have several funding advantages over charter schools – primarily, local property tax collected from district bond issues, and budget and capital overrides. Arizona allows public districts that have opened charter schools to continue collecting those taxes, which widens the funding gap.

Districts that open a charter school sacrifice a few funding opportunities, though the additional assistance they collect for the charter more than offsets those losses.

“They are giving up what was ‘capital outlay revenue limit,’ and they’re giving up ‘soft capital’ and their kids no longer qualify for transportation assistance,” said Lyle Friesen, the Arizona Department of Education’s finance director.

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The districts also can't apply for state funds from the School Facilities Board to pay for repairs or construction at any of their charter schools. The Arizona Attorney General's Office in the summer also determined that districts that have received "growth" dollars to help them pay for rapid influxes of students moving into their schools can no longer receive the growth funds once they switch the traditional campuses to charter schools.

In all, Friesen estimates a district school sacrifices \$700 to \$800 per student primarily in transportation and capital funds to switch to a charter. In spite of these losses, the new district-run charter school ultimately will see an annual budget increase of an estimated \$1,000 to \$1,100 per student in additional assistance. In an elementary school of 400 students, that represents an annual budget increase of up to \$440,000, on top of their base level of funding, which the state calculates through a complex per-pupil formula.

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DISTRICT	NEW CHARTER SCHOOL	2013 ADM*	Potential ADM* Increase 2014	2014 Additional Assistance	2015 Additional Assistance
Higley Unified School District	Cooley Middle School	600.00	50.00	\$ 52,200	\$ 626,400
Higley Unified School District	Sossaman Middle School	600.00	50.00	\$ 52,200	\$ 626,400
Toltec Elementary School District	Cambridge Preparatory Academy	50.00	15.00	\$ 15,660	\$ 52,200
Toltec Elementary School District	Cambridge Preparatory Academy	50.00	15.00	\$ 15,660	\$ 52,200
Crane Elementary School District	Gowan Science Academy	200.00	5.00	\$ 5,220	\$ 208,800
Gadsden Elementary School District	Gadsden University Prep High School	60.000	50.00	\$ 52,200	\$ 167,040
Tucson Unified School District	Richey Elementary School	100.000	100.00	\$ 100,000	\$ 100,000
TOTAL STATE AID			285.00	\$ 293,140	\$ 1,833,040

*State projections have been more conservative than estimates that some districts have reported to media.*

Charter schools also receive a base level of funding, and then rely on the additional assistance to cover capital costs – whether that entails building rental, purchase or even payments for new construction.

“The school finance system is broken, and this shows that it’s broken,” said Eileen Sigmund, president and CEO of the Arizona Charter Schools Association.

Administrators for districts that turned traditional public schools into new charters acknowledge the transition’s obvious effect on their school budgets. However, several of them also have told their communities in online publications and videos that the transition has “no impact” on their school operations. Such statements contradict the purpose of Arizona’s charter school law, A.R.S. 15-181, to increase school options for students that could help them excel academically.

“We need greater oversight and more eyes on the management of a district when it decides to convert a dozen of their schools at a time to charter schools,” said Sen. Kimberly Yee, R-Phoenix. “The public needs to ask: Is this a real charter school change or just the same old school that now receives \$1,000 more per student because it renamed itself a charter?”

State Board of Education executive director Vince Yanez said the law, A.R.S. 15-183, does not require any review for a district-proposed charter school except by the district’s local governing board.

Joint Legislative Budget Committee analysts regard the surge in district-owned charter schools as an unforeseen tsunami sweeping into the taxpayer-supported state general fund. They warn that costs will continue to swell far into the tens of millions of dollars as more districts switch existing campuses to charter schools or open new charters.

District superintendents defend the trend to open charter schools as permissible by state law. Several cite budget cuts and a sharp decline in state funding for the agency in charge of public school construction, the Arizona School Facilities Board.

“School districts have seen a very significant reduction in state funding,” said Vail Unified School District superintendent Calvin Baker.

The district, roughly 25 miles southeast of Tucson, now has seven charter schools and a maintenance and operations budget of more than \$60 million.


A statewide school audit released in March 2013 showed a dip in school operational spending from fiscal 2009 to fiscal 2012. Even so, overall operational spending actually increased 39 percent from a statewide average of \$5,374 per student in fiscal 2001 to \$7,475 per student in fiscal 2012, auditors wrote.

The Auditor General’s office also noted that despite the overall increase, districts spent 54.7 percent of their funds on classroom expenses, the lowest level recorded since 2000, when the office started tracking school spending.

State funding for new school construction is at a standstill. Arizona Joint Legislative Budget Committee records show 2008 was the last fiscal year on record when the state provided the Arizona School Facilities Board with money for new buildings.

#### *Additional assistance*

Most districts that converted or opened new charter schools for the 2013-14 school year are in the Phoenix metropolitan area, from Buckeye Union High



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School District in the west Valley to Higley Unified School District in the East Valley, state education records show. A few of the other remaining districts are in rural or border cities such as Cottonwood, Sierra Vista, and Yuma.

The bulk of the budget increase for the district-run charters comes to them in the form of additional assistance. The state bases the amount of additional assistance a school district can receive on the number of students attending their charter schools.

For the first year of a district-run charter school, the state gives additional assistance to the schools for new students who are attending class at the school for the first time, which in the case of an elementary school would include kindergarten students and any other students who weren't previously enrolled. In the second year of operation and for every year afterward, the state provides additional assistance – about \$1,000 to \$1,100 per student – for every child in the school, which for some schools adds up to millions of dollars in additional funding per year.

*If a district governing board chooses to revert a charter into a traditional public school, the district must return every penny of the additional assistance it received back to the state.*



*Crane Elementary School District in Yuma was among five districts in Arizona to open a new charter –school this year. State Board of Education president Tom Tyree said Crane district's new Gowan Science Academy is an example of a genuine charter because it is a science-focused school where students, including these first graders, must build and design projects that test their science, math, reading and writing skills.*

There is one catch. If a district governing board chooses to revert a charter into a traditional public school, the district must return every penny of the additional



assistance it received back to the state. State officials, however, cannot think of a single school that has reverted.

Toltec Elementary School District in Arizona City will receive the smallest amount of additional assistance among district-run charter operators: at least \$31,320 for its new charter, Cambridge Preparatory Academy, which is comprised of two schools. The academy's additional assistance will grow to an estimated \$104,400 annually in the 2014-15 academic year, state education finance records show.


Paradise Valley Unified School District will receive the largest amount of any district to date for converting 11 of its schools, with \$1.5 million in additional assistance for the current school year, increasing to \$7.2 million annually in 2014-15, according to district officials.

Conversions have represented 8 percent to 10 percent of all charter schools in the nation in the past four academic years, the National Alliance for Public Charter Schools found. In the 2011-12 academic year, 591 schools – about 9.8 percent of the 5,996 charter schools in the country – were conversions.

Georgia's trend closely resembles Arizona's: Traditional public schools in Georgia can obtain \$100 per student in additional funding with a charter conversion, said Andrew Lewis, executive vice president of the Georgia Charter Schools Association.

Thirty of Georgia's 108 charter schools in the 2012-13 academic year were conversions, according to the National Alliance for Public Charter Schools.

Lewis said he has noticed a political shift that will likely drive an increase in conversions. School districts that used to oppose charter schools “are now saying, ‘We love charter schools so long as they look like this and operate like this and are under the management and control of the local board,’” Lewis said. “It’s a little bit more of a clever way to oppose yet benefit from [chartering].”



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### ***Pattern of conversion***

Seven of the district-run charters that opened in Arizona this year were entirely new schools or academies, Arizona Department of Education records show. The other 52 were former public schools turned into charters. Arizona law, A.R.S. 15-181 defines charter schools as “public schools that serve as alternatives to traditional public schools” and that can improve student achievement.

***Improving academic achievement should be a key objective for any new charter school, especially given Arizona students' below-average performance on national benchmark assessments.***

The 52 converted campuses varied in performance on the state's annual A-F Letter Grades for the 2012-13 academic year, when they were traditional public schools. Twenty-two of them received As (the top rating), 20 received Bs, nine were given Cs, and one - Arroyo Middle School in the Phoenix-area Washington Elementary School District – received a D.

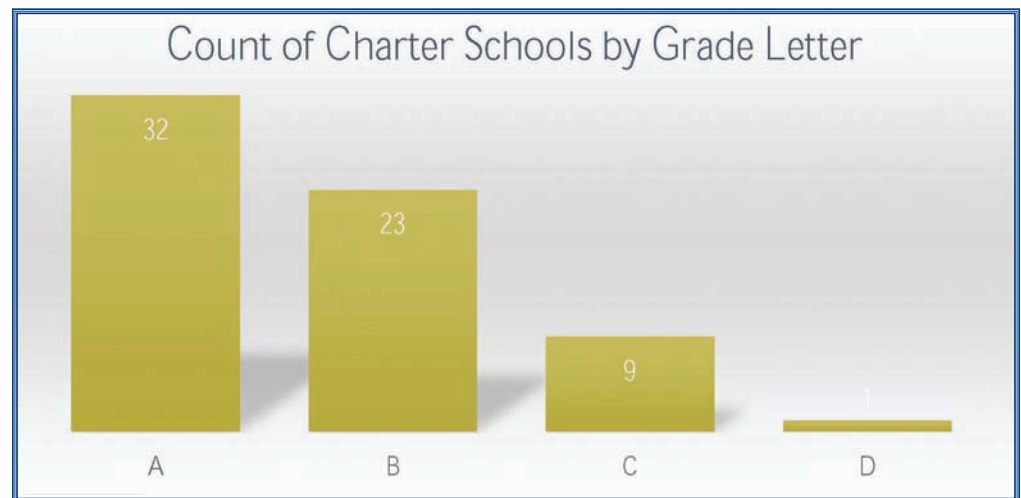
Improving academic achievement should be a key objective for any new charter school, especially given Arizona students' below-average performance on national benchmark assessments, said Jonathan Butcher, Goldwater Institute education director.

Gadsden Preparatory Academy fits the mold for creating school choice, State Board of Education president Thomas Tyree said.

Starting next school year, Gadsden students who attend the new academy could “complete their high school diploma and their community college associate degree simultaneously,” according to the elementary district’s plan for high school expansion. Arizona Western College is coordinating with the district to develop college-credit courses.

Tyree said this academy ensures Gadsden students can access college-level and high school opportunities in their hometown of San Luis. Currently, the town’s closest high school and community college are 22 miles northeast in Yuma.

For the majority of the 20 districts that converted schools to charters, the motivations for conversion are less apparent.



Humboldt Unified School District in Prescott Valley, for example, stated in an online frequently-asked-questions sheet that the conversions are “an opportunity to give parents choices, a way to offer signature programs at each of our schools and a way to expand our programs for our current students.” The dis-

trict did not provide details of any new programs it planned to begin at its newly chartered schools in the FAQ sheet, nor in charter or application documents submitted to the State Board of Education. Officials made clear they planned to hash that out later, after the charters had been approved.

“Principals will work with their community, current parents, site councils, and PTOs (parent-teacher organizations) to determine what they want their students to experience in the Humboldt Unified School District,” Humboldt officials wrote in the FAQ sheet.

Humboldt’s five converted charter schools will net the district at least \$157,220 in additional assistance in their first school year, and at least \$2.2 million annually after that.



*Families, business owners and local hospital officials had asked Crane district in Yuma to establish an academy to encourage students to learn science and math skills that could eventually lead them to fill local jobs in health and science fields. Fourth-grade students at Gowan Science Academy (above) were asked in one lesson to solve an engineering problem with a string, paper clip and wire hanger.*

Noting that the state provides the additional assistance through its general fund, Humboldt offered taxpayers reassurances: “The additional capacity HUSD would receive for its charters will not increase the taxes of our local area residents.”

In documents sent to the State Board of Education to convert five elementary schools and one middle school, Maricopa Unified School District wrote that its

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converted schools were taking part this year in a program launched at Vail Unified School District, “Beyond Textbooks,” which enables teachers in different districts around Arizona to share materials and resources for lesson planning and classroom instruction.

Several traditional public schools also use the program. The Maricopa district proposed no other significant programming changes in the records it submitted to the state board.

With six schools operating as charters, the district will boost its budget by at least \$310,585 this school year, and then \$2.8 million in additional assistance annually starting in the 2014-15 academic year.

### *Paradise converted*

Paradise Valley Unified School District’s five-member governing board in May voted unanimously to convert 11 of its schools to charter schools, making it the largest district in Arizona to have opened charters. The \$7.2 million in additional assistance that the district anticipates in the 2014-15 school year will boost a district maintenance and operations budget that currently tops \$192 million.

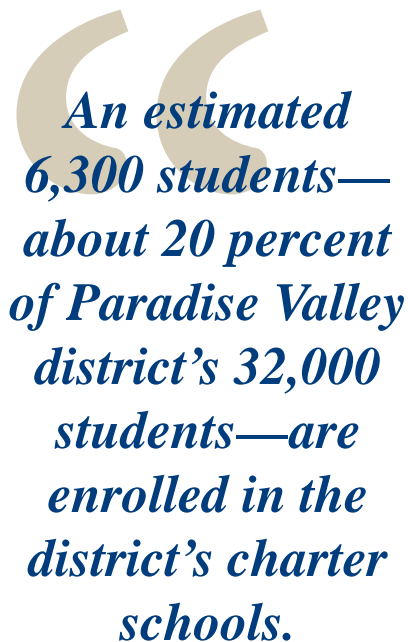
When asked if Paradise Valley district had converted the 11 schools primarily to take advantage of the state’s additional assistance, superintendent Jim Lee wrote in an e-mail response: “The district has invested a great deal of effort to respond to the Legislature’s call for more parent choice in education. . . . The Arizona Department of Education created a chartering process to support educational choice, and the district has opted into this process to better support the variety of academic and school leadership choices we offer.”

An estimated 6,300 students—about 20 percent of Paradise Valley district’s 32,000 students—are enrolled in the district’s charter schools.

Days after the Paradise Valley governing board in May unanimously approved the charter school conversions, district officials posted a fact sheet on the pvschools.net website that told parents, “Converting these schools to district charters will allow the district to access higher levels of funding in support of these programs and student achievement.”

“The change will not affect operations at these schools,” district officials also wrote.

Dysart Unified, Litchfield Elementary, and Washington Elementary School District officials had made similar assurances to their communities about their charter school conversions in fact sheets and videos on their respective web-



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sites, promising that operations would remain unaffected while they could “access higher levels of funding.”

None of the schools selected for conversion were among Paradise Valley’s poorest-performing schools. Eight of the Paradise Valley schools now operating as charters had received A’s for the school year and the remaining three had received B’s.

Other Paradise Valley schools have much more room for student improvement: Eight of its other schools received C’s (including three middle schools) and one received a D.

### *Self-made contract*

Public districts have exploited the state’s additional assistance because of ambiguities in state law. One of those issues now under discussion is who can and should be involved in the authorization of new charters.

Any of these entities in Arizona can authorize a charter school: a school district governing board, the State Board of Education, the State Board for Charter Schools, a university under the Arizona Board of Regents, a community college with more than 15,000 full-time students, or a community college district with more than 15,000 students.

When a public district in Arizona wants to open a charter school, it must submit an application to its local governing board for approval and then apply to the State Board of Education. The application includes an education plan describing the charter school’s academic offerings and curricula, a business plan, an operational plan, and a criminal background and fingerprint check for the applicant.

Staff at the State Board of Education check the paperwork to ensure the district has complied with the application requirements. In the end, the public district’s process, from planning and writing an application and charter to submission and approval, may take only a few months to complete.

Charter school applicants who go through the Arizona State Board for Charter Schools, however, face an intensive two- to three-year review and approval process. In addition to submitting an education plan, a business plan, operational plan, and criminal background and fingerprint check, the organization applying to the Arizona State Board for Charter Schools must provide a governing plan and evidence of a contract with an independent governing board to oversee the school. The board exists to ensure the school is accountable for complying with education standards. The applicants pay a \$6,500 processing fee. They cannot open their school without a contract approved by the state charter board.



***“We should expect that it would take longer for a new school to start up because they are effectively a new small business. District conversions are simply changing their official status.”***

“We should expect that it would take longer for a new school to start up because they are effectively a new small business. District conversions are simply changing their official status,” said Butcher of the Goldwater Institute. “Still, it is critical that when a local governing board approves a conversion, that there is some element of independent oversight, and that the status change be in the spirit of charter school independence.”

State law, A.R.S. 15-183, does not specify that a public district must have an agreement with an independent board, other than its local governing board, to oversee the school, effectively allowing the district to agree to a contract with itself. All 59 public school applications this year relied on their local governing boards both as the charter school authorizer and as the school’s overseer, Arizona education records show.

Eileen Klein, a former chief of staff for Gov. Jan Brewer who is a member of the state board, said self-authorization is a conflict, especially when an incentive is at stake.

“You don’t just allow people to just notify you that they intend to become a dentist, and you can’t just let anyone become a dentist,” Klein said. “With the amount of taxpayer money involved, there’s probably a greater expectation (for accountability) than just filing a notice that ‘We’re opening a charter school.’”


Although the applications are the responsibility of the State Board of Education, board members note the law does not give the board itself any super-authorization over the public district applications approved by local governing boards.

State education officials have asked the Arizona Attorney General’s Office to issue an opinion on whether public districts must work with independent boards, separate from their local governing boards, for the authorization to open new charter schools.

State board members interviewed for this story said they believe legislators need to clarify the law because the board has limited powers. “We cannot supersede the law,” said state board member Jaime Molera.

Molera said the surge in district-run charters is worrisome, and he questions whether some of the districts are contributing to the enhancement of school choice in Arizona or exploiting the additional assistance. “Being able to double-dip is not a good policy,” he said. “It’s disingenuous.”

Butcher said state legislators should strive to maintain multiple authorizers that include local school districts, as well as colleges and the Arizona State Board for Charter Schools. The problem legislators should target, he said, is the finan-



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cial incentive for converting a school.

“If a district’s going to convert a charter school, let’s make sure they have an independent governing board,” Butcher said. “Obviously, there are some perverse incentives to having them get a financial boost for doing nothing but changing words on paper.”

### *Performance standards*

The trend of conversions also exposes disparities in the checks and balances of Arizona’s standards for district-run charters and typical charter schools.

Arizona laws require every charter school including those run by traditional public districts, to provide an education plan with a performance framework to set academic goals and gauge school performance. The schools’ authorizing boards review their performance every five years, but the stringency of those plans varies greatly from district-run charter schools overseen by their local governing boards, to charters overseen by the Arizona State Board for Charter Schools.

Authorizers for district-run and private-run charters are required to review school performance every five years.

The state charter schools board bases its framework for measuring successful or struggling charter schools on the best practices of national charter school authorizers, said DeAnna Rowe, executive director of the Arizona State Board for Charter Schools.

The framework relies on indicators such as student progress over time, student proficiency in tested subjects such as math and reading, the state’s A-F letter grades for school performance, as well as graduation rates and college readiness, which can be measured by college entrance exams such as the ACT. The board also considers metrics such as a school’s student proficiency rates compared with state averages.

The board uses the full scope of data to determine whether a school is successful or requires intervention, which could include closure.

From 2006 to 2011, 130 charter schools shut down for reasons ranging from low enrollment to problems with finances, facilities, management, and contractual violations, the Arizona State Board for Charter Schools’ records show. Authorizers of district-run charters—local governing boards—develop their own framework to monitor a school’s performance.



***“The problem legislators should target is the financial incentive for converting a school.”***

“They do get to create [their own standards], so it’s not something prescribed,” Rowe said.

In the education plans submitted to the State Board of Education this year, none of the 20 districts outlined plans for closing poor-performing schools if their charters fell short of academic standards. Most of the districts listed the following indicators for monitoring their schools’ performance: completion and distribution of the state’s school report card; surveys of parents, students, and staff; evaluations of student academic performance and results of the Arizona Instrument for Measuring Standards test or the new national test (PARCC) that the state adopted to replace AIMS; district-level assessments; staff evaluations; student presentations of projects and products; and the Arizona Learns Achievement Profile, which rates overall student performance.

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*Science and math problems are intertwined with writing and reading lessons at Gowan Science Academy for students at the school, currently serving first through fourth grades. Eventually, the school will expand from a first through fourth grade to a full K-12 science academy. The fourth graders (above) could attend high school here.*

The State Board of Education can intervene and implement a school improvement plan if half the schools in the district, or at least six schools in the district, received a D or an F for overall performance on the annual state letter grades. Closure, however, is not specified in the state law, A.R.S. 15-241.01, as an option for intervention.

If a charter school receives an F, the Arizona Department of Education must notify the charter’s sponsor and then recommend steps to improve the charter’s



performance or consider revoking the charter.

“There’s no funding lost by this board (for charter schools) if we close a poor-performing school,” Rowe said. “But if a district is faced with that choice, what decision do they make?”

### *Curbing incentive*

Steve Schimpp, deputy director of the Joint Legislative Budget Committee, projected in a June 2013 memo that the charter-school conversions would drive a \$22 million increase in the overall funding for Arizona education in fiscal 2015, a \$39 million increase in fiscal 2016, and a \$52 million increase in fiscal 2017.

The projections account for losses in growth, capital and transportation funds that school districts cede when opening charter schools.

“These estimates are very speculative and could be higher or lower than forecast,” Schimpp wrote to the committee’s director, Richard Stavneak. “There is a greater possibility, however, of these projections being understated given the financial incentives.”


To stem the flood of conversions, Senate president Andy Biggs, R-Gilbert, this year proposed a moratorium on district-run charter schools, but legislators rejected the idea.

“I think a moratorium has value if the intent is to pause this movement so that the Arizona State Board of Education and the Arizona Department of Education can get their arms around the implications for transparency and school accountability,” said Butcher, the Goldwater Institute’s education director. “If these schools are in fact going to meet the mission that charter schools have to have, then I think there is some wisdom in that.”

The school districts also are braced for a legislative battle over district-run charters in 2014.

Although Paradise Valley district officials were confident their schools represent genuine efforts to offer school choice, assistant superintendent Thomas Elliott said the district has decided to put the estimated \$1.5 million in additional assistance for the charter schools this year into a contingency fund amid anticipation that state legislators will restrict district-run charters.

Until a resolution is reached, state budget analysts anticipate other districts will pile on to the bandwagon for additional assistance.



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***Policy Recommendations:  
Keep Arizona Charter Schools Independent from  
Traditional School Districts***

*by Jonathan Butcher, Education Analyst, Goldwater Institute*

Jen enrolled her son, Maxwell, in a charter school because she knew a traditional public school classroom was not a good fit for his learning style or his personality. Maxwell excelled in certain subjects but struggled in other areas, and she found a charter school that grouped students in the same class by their ability level.

“None of [the students] feel excluded, and they can learn at their own pace,” Jen says of her son’s school, Benchmark Preschool and Elementary School. “A superior product comes out of it for all of the groups,” she says.

Until recently, the Arizona State Charter School Board authorized nearly all of Arizona’s charter schools, independent public schools that can be closed if they do not meet the terms of their contract, or charter. Now, however, traditional public school districts are converting their local schools to charter schools. Investigative reporter Emily Gersema’s special report finds scant evidence that school district conversions will give parents like Jen more choices for their child’s education.

The conversions will force taxpayers to dig deeper to pay for Arizona public schools. This increased pressure on taxpayers comes at a time when the state auditor general finds that schools are using less of their funding in the classroom than ever before in Arizona history. Paradise Valley Unified School District even declares on their Web site that converting 11 of their schools to charter schools will “allow the district to access higher levels of funding” and the conversions “will not affect operations at these schools.”

Those promises are a far cry from “cultivating world-class thinkers,” the district’s motto.

Arizona’s most successful charter schools are those that, like Benchmark, abandoned traditional classroom practices in order to meet student needs. In other instances, charter schools are challenging students to compete with the highest performing schools in the world. The BASIS schools, two of which are ranked in the top 5 highest-achieving high schools in the U.S. according to U.S. News & World Report, offer such ambitious course material that the closest comparison can only be found overseas in


countries like Korea and China, where students have long outperformed U.S. students on international assessments.

Charter schools' flexibility to provide unique course offerings and develop unique mission statements has met parent and student demand for options outside of traditional classrooms. What charter schools recognized nearly two decades ago, that every child is different and learns differently, traditional schools ignored at their peril. Parents knew this all along, and now 1 out of every 8 public school students in Arizona attends a charter school.

Lawmakers should take steps to make sure that traditional schools converting to charter schools are focused on student success and creating more options in education, not dollar signs:

- Require that converted district schools elect independent governing boards separate from district leadership. Converted schools should determine their own day-to-day operations and short- and long-term goals;
- Converted schools should be exempt from any district contracts with teachers unions;
- District authorizers should review converted schools' success at complying with their charter after the first 5 years, just like charter schools authorized by the Arizona State Board for Charter Schools, and these schools should be closed if they have not met the terms of the contract, including student achievement objectives. The Arizona State Board for Charter Schools should provide an independent review (or designate a reviewer) of a converted schools' results to make sure school districts are holding converted schools to the terms of their charter;
- And converted district schools should be funded at the same level as local charter schools authorized by the state charter board. School districts should not receive additional funding simply for converting one of their schools.

Charter schools give students more educational options and are the first public schools to operate under the condition that the schools will be closed if performance goals are not met. To give all students great opportunities, districts that convert traditional schools to charter schools should concentrate on educational innovation and student success, not more taxpayer money.



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