

Issue: AZ Education

Strengthening Oversight of Arizona's Charter Schools

Good News, Bad News

Ever since charter schools took the Arizona public education landscape by storm in 1994, they have generated a range of reactions, from pride in the best of them to rage over fraud and profiteering. The education alternative intended to spawn school competition has brought with it all the pros and cons anticipated when State Senator Tom Patterson (R-Phoenix) introduced the hard-won, overly flexible legislation. Competition has produced big winners—like the BASIS schools that rank among the top public high schools in the country—to utter failure among online charter schools.¹

Today, charter schools comprise approximately 31% of Arizona's 2,267 public schools—the largest proportion of any state in the country—serving some 200,000 students in 720 charter schools (within 555 charter districts).^{2, 3, 4} Their academic performance varies far more widely than that of public district schools. In 2020, six BASIS charter high schools occupy spots in the top 50 in national rankings of U.S. public high schools.⁵ Conversely, in a report issued in November of 2019, 30% of Arizona's charter schools received a letter-grade ranking of “C,” “D,” or “F” from the state Department of Education.⁶

Worse yet, lax state oversight and regulation of charter school operations have produced more than a handful of charter school millionaires—owner/operators who award themselves hefty consulting fees, property rents, and management contracts funded with taxpayer dollars.⁷ Neither the Arizona State Charter School Board nor the Arizona Board of Education has taken action to address poor academic performance or financial irregularities, including false reporting, self-dealing, and profiteering.⁸

The Republican majority in the state legislature has consistently stymied Democratic efforts to introduce legislation to strengthen oversight of Arizona's charter schools. But a serious overhaul of charter school governance would go a long way toward enriching choice, optimizing the use of taxpayer dollars, and enhancing student outcomes in Arizona's public education sector.

Background

On average, charter schools perform on par with district schools, but charter students' performances on standardized tests vary widely.⁹ The best of Arizona's charter schools are among the highest-rated in the nation;¹⁰ the worst—disproportionately serving rural students—have been permitted to keep their doors open despite failing grades as assessed by the Arizona Department of Education.¹¹

The 1994 legislation (A.R.S. §15-181) that initiated charter schools in Arizona defined them as public schools operating outside the purview of traditional school districts, with more flexibility and fewer requirements than district schools. The law empowered several bodies to authorize new schools: a newly created Arizona State Board for Charter Schools (ASBCS); the State Board of Education; a university under the jurisdiction of the Arizona Board of Regents; and community college districts. The ASBCS oversees all charter schools, serving some 18% of the state's K-12, public school students.¹²

Uneven Academic Performance and Regulation

The Department of Education bases its letter-grade rating of public schools on the aggregated outcome of a given school's students on the AzMERIT assessment. Attendance, graduation rates, and bringing English language learners to proficiency also figure in the grading scale.¹³ Of Arizona's online charter schools, serving 20% of charter school students overall, not a single one met the state charter board's academic standards.

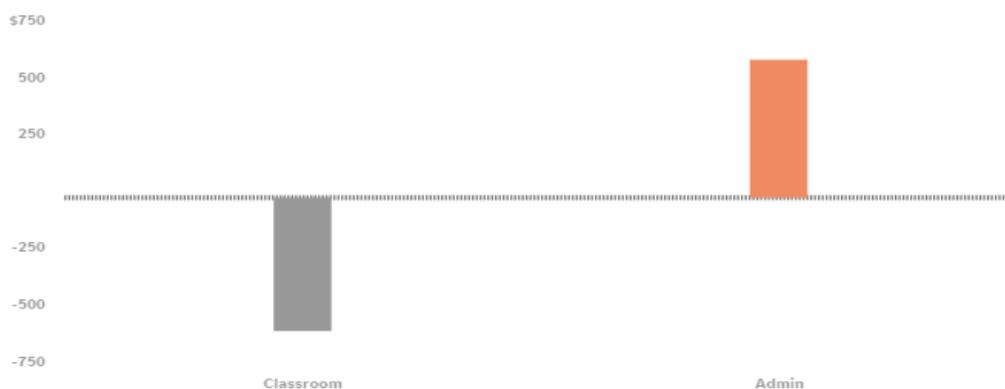
Yet the ASBCS has not closed a failing charter school since 2014.¹⁴ Only 15% of Arizona's charter schools receive a site inspection to ensure accuracy in financial and enrollment figures reported.¹⁵ In the past four years, the Charter School Board investigated only 12% of the 89 public complaints filed. The rest were dismissed or ignored.¹⁶

Financial Accountability

Public schools receive state funds based on enrollment figures, following a dollars-per-student formula. In addition, district school boards can raise funds through local tax assessments and school bond measures. Because neither parcel taxes nor bonds are available to charter schools, the Arizona Legislature allots charter operators an extra \$2,000 per student in "equalization dollars."¹⁷

In the 2016-2017 academic year, charter schools enrolled 16% of Arizona's K-12 students, yet they received 27% of state education dollars.¹⁸ Despite those charter schools receiving significantly more funding per pupil, a smaller share of that money reaches their classrooms compared with district schools. That is because charter schools spent 75% more on administrative expenses per student than district schools. District schools spend 75% of funding on instruction and only 10% on administrative expenses, according to an analysis by *The Arizona Republic*. Not too surprisingly, that same analysis found, "students' scores on standardized tests tend to decline as schools spend more on administration and other expenses outside the classroom. Meanwhile, scores tend to rise as more money goes into Arizona classrooms."¹⁹

Compared to districts, charters spend fewer dollars per student in the classroom, but more on administration



Source: <https://www.azcentral.com/story/news/local/arizona-education/2018/12/17/arizona-charter-schools-spend-more-district-school-administration/2015982002/>

As a result of lax oversight regulations, unenforced penalties for infractions, and a lack of transparency, charter schools have been unusually prone to financial irregularities. Several Arizona charter school operators have become multimillionaires through self-dealing—contracting for management, educational, and other services with the for-profit companies they own.²⁰ One of those is retiring State Senator Eddie Farnsworth (R-Gilbert), who netted \$14 million in 2019 alone, through the sale of his Benjamin Franklin charter school chain. He continues to collect rent and consulting fees from the school’s new owners even as he uses his seat in the state senate to advocate for advantages to enrich charter school operators such as himself.²¹ Other notable charter school millionaires who have profited at the expense of the state are Primavera Online founder and CEO Damian Creamer (details below)²² and American Leadership Academy founder Glen Way.²³

The law makes it illegal for public school district administrators to direct contracted services to businesses owned by family and friends, let alone to benefit themselves.²⁴ But no such provision exists for those who oversee charter school contracts and financial operations.

Governance and the Opportunity for Profiteering

Charter schools are generally managed by private operators free of many of the requirements placed on public schools.

- **While each charter school is required to install a board of directors, there are no rules about board composition.** Charter boards are small, averaging four to five members, and many include the charter owner/operator’s inner circle. In some cases, the owner/operator acts as the sole board member.^{25,26} Republican House Speaker Rusty Bowers (R-Mesa) stalled a 2019 bill (SB 1394) that aimed to limit the number of family members who can serve on a charter board.²⁷
- **There are no requirements regarding frequency or duration of board meetings.** While elected district school board members hold monthly, open meetings, some Arizona charter schools have as few as one or two board meetings a year, some as short as 10 minutes. Charter school boards consistently ignore the state’s open meeting laws, which pertain to public notice and posting of agendas. Thus, decision-making takes place behind closed doors, without input from parents, students, and teachers.²⁸
- **There are no conflict-of-interest rules in place to restrict charter schools from their common practice of outsourcing management and services—at hefty fees—to private, for-profit companies owned by the charter school operators themselves.** A yearlong investigation by *The Arizona Republic* documented “widespread financial abuses, profiteering, and insider deals at charter schools.”²⁹ The stalled 2019 bill (SB 1394) also required disclosure of contracts with companies owned by charter school board members.³⁰ With the close of the legislative session, the bill is now dead.
- **There are few guidelines for reporting expenses, nor are there any limits on how much charter schools can spend on non-instructional, administrative goods and services.**³¹ Charter schools are the only publicly-funded state agencies that are not monitored by the Auditor General.³²
- **Arizona is the only state in the nation that allows charter schools to operate unchecked for 15 years before they receive external review.**³³
- **In 2019, Democratic legislators introduced 24 different bills to “crack down on charter schools that misuse public funds” through greater transparency and more oversight of Arizona’s charter schools.** The Republican-controlled legislature killed each and every one in committee.³⁴

Errors in Reporting are Common

Arizona has the least number of regulations on charter schools in the country. Yet operators have fallen short on reporting even on the minimal data required, commonly submitting incomplete and inaccurate financial data, making it impossible to know how exactly they are spending \$1.5 billion in taxpayer money.³⁵

The Annual Financial Report is the only document that charter schools are required to submit each year. The report includes the number of teachers employed, administrative expenses, and other revenues and payments. Yet charter school operators have failed to comply even with this minimal requirement. In 2017, 38 charter schools failed to report teacher data, including headcount and certification. Of 418 charter owners, 180 underreported administrative expenses on summaries submitted to the state. As a result, the Superintendent of Public Instruction's Annual Report has falsely reported charter school data to the legislature for years.³⁶

A case in point is the American Leadership Academy (ALA), one of the largest charter chains in Arizona, with 6,000 students in 2017. ALA has failed to report any data on its teachers or facility operations. Revenues from the school lunch program, bus transportation, and student activity fees have not been reported. Perhaps most egregious, payments of \$4 million in 2015 lease payments to companies owned by ALA founder Glenn Way were not disclosed. Federal law prohibits nonprofit officers and board members from profiting personally from their involvement with the nonprofit organization.³⁷

The state Department of Education has permitted these errors and omissions to continue, uncorrected, for years.

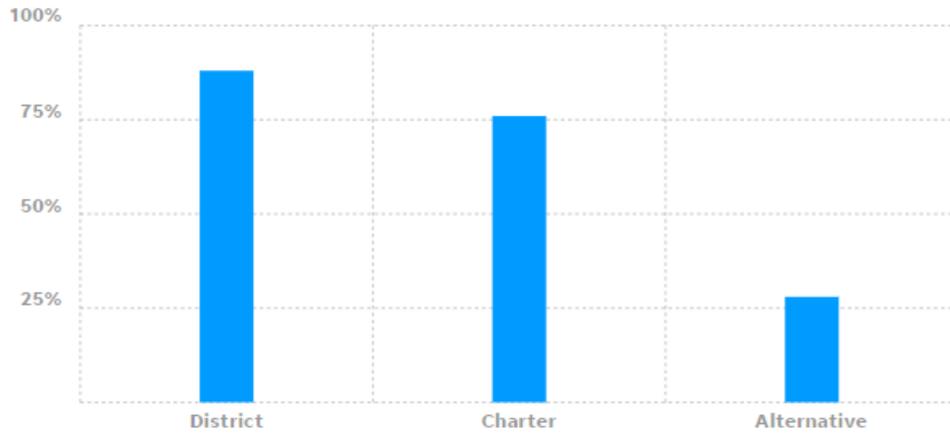
Special Cases: “Alternative” and Online Charter Schools

“Alternative” Schools

An exception to the State Board of Education's letter-grade ratings has been made for “alternative” charter schools, which draw non-traditional learners, often with learning differences. Thus, there is no external quality measure or accountability required for these schools that serve some 30,000 of Arizona's most at-risk students.³⁸

Graduation rates offer a tangible measure of the education offered at these schools. Analysis by the investigative reporting team at *The Arizona Republic* uncovered that in 2017, just 26% of alternative charter high school students graduated within four years —compared with 77% at traditional charters and 88% at district schools. More than 12 alternative high schools recorded graduation rates below 10%.³⁹

Graduation rates at alternative schools are drastically lower

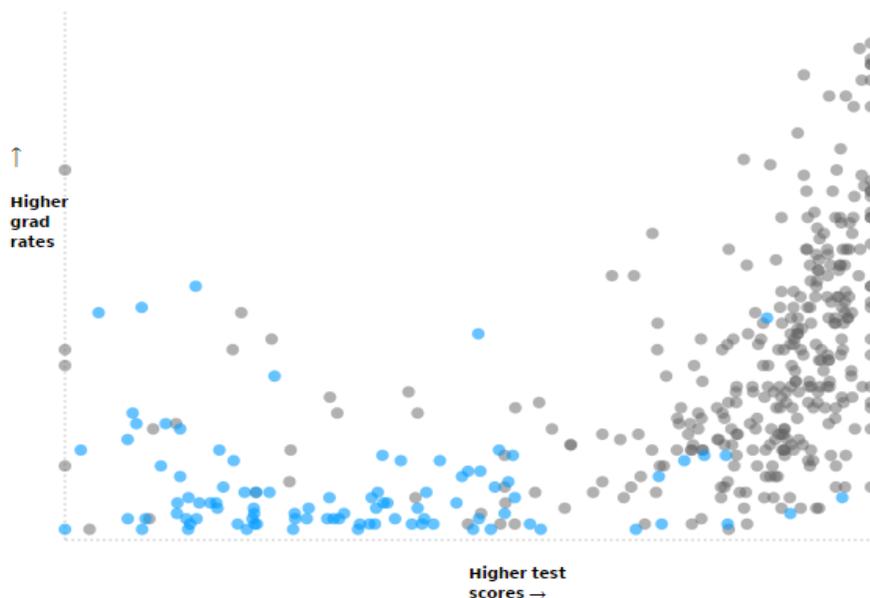


Source: <https://www.azcentral.com/in-depth/news/local/arizona-education/2019/02/21/arizona-alternative-schools-starshine-failing-at-risk-students-charter-district/2818547002/>

Online Charter Schools

Online charter schools, serving 40,000 students, also present quality concerns. As of December 2019, not a single one of them met the ASCSB’s academic standards, yet they have been permitted to continue enrolling students and delivering substandard education. It has been six years since the ASCSB last closed an academically failing charter school.⁴⁰

Alternative schools have poor test scores and graduation rates compared to traditional charter and district schools



Source: <https://www.azcentral.com/in-depth/news/local/arizona-education/2019/02/21/arizona-alternative-schools-starshine-failing-at-risk-students-charter-district/2818547002/>

The state's largest online charter school ranked lowest among Arizona's charters. For his spot on the bottom rung of the achievement ladder, Primavera Online founder and CEO, Damian Creamer, was paid \$10.1 million over the years 2017 and 2018.⁴¹

Another online charter school, Discovery Creemos Academy (also called the Bradley Academy), falsified attendance records to collect \$2.5 million from the state for students who did not exist. Three of the school's administrators were finally convicted for this fraud in 2020. Yet as recently as 2017, despite concerns about Creemos' academic and financial performance, the ASCSB extended the school's charter for another 20 years.⁴²

Although Attorney General Mark Brnovich has asked the GOP-controlled legislature to improve oversight of charter schools, no action has been taken. When, in 2020, he asked the legislature and Governor Doug Ducey to grant him more authority to investigate cases of fraud, self-dealing, and other charges leveled against charter schools, they declined.⁴³ Sadly, this appears to follow the national trend that whenever states have moved to increase oversight and regulation of charter schools, charter operators have increased their campaign contributions to legislators and governors. Thus, any legislation proposed to create better transparency and accountability generally goes nowhere.⁴⁴

Conclusion

Arizona's charter schools have enhanced the educational choices available to K-12 students and their families, yet the lack of oversight and prevalent cases of fraud plague the very system that has spawned some of the nation's most exceptional schools.

Additional transparency and accountability are necessary to ensure that a few bad actors don't poison the well. Strengthening academic and financial reporting requirements, and imposing consequences up to and including closure of failing schools, will result in a more effective deployment of taxpayer dollars that support these schools. State legislators have the power to create an even more robust educational landscape, free of corruption, with public options for every learner.

¹ 20 Years of Charters: A look at how the charter school movement has shaped the education landscape in Arizona, Arizona Charter Schools Association, p. 3, https://azcharters.org/wp-content/uploads/2015/11/20th-Anniversary-Report_final.pdf

² Ballotpedia, Public Education in Arizona, https://ballotpedia.org/Public_education_in_Arizona

³ Ryman, Anne; Price, Justin; Harris, Craig; Woods, Alden, "Arizona charter schools spend more on administration, less in classrooms," Dec. 17, 2018, *Arizona Republic*, <https://www.azcentral.com/story/news/local/arizona-education/2018/12/17/arizona-charter-schools-spend-more-district-school-administration/2015982002/>

⁴ Gonzales, Angela, "The dirty dozen: These Arizona schools scored an 'F' on their report cards," *Phoenix Business Journal*, Jan 8, 2020, <https://www.bizjournals.com/phoenix/news/2020/01/08/the-dirty-dozen-these-arizona-schools-scored-anf.html>

⁵ *U.S. News and World Report*, <https://www.usnews.com/education/best-high-schools/search?name=BASIS>

⁶ Arizona Charter Schools Association, "Approximately 70 percent of Arizona public charter schools earn an "A" or "B" grade," Nov. 4, 2019, <https://azcharters.org/approximately-70-percent-of-arizona-public-charter-schools-earn-an-a-or-b-grade-from-the-state-department-of-education/>

⁷ Harris, Craig, "Charter school 101: Common questions about Arizona's charters answered," *The Arizona Republic*, Nov. 18, 2019, <https://www.azcentral.com/story/news/local/arizona-education/2019/11/18/charter-school-101-what-know-arizonas-campuses/2035039001/>

⁸ Harris, Craig, "Online charter schools are growing, but have a record of poor outcomes — and fraud," Dec. 9, 2019, *The Arizona Republic*, <https://www.azcentral.com/story/news/local/arizona-investigations/2019/12/09/school-choice-advocates-say-online-charters-need-tighter-regulation/3780761002/>

⁹ Chingos, Matthew M. and West, Martin R., "Mixed Results for Arizona's Charter Schools," Nov. 6, 2014, Brookings Institution, <https://www.brookings.edu/research/mixed-results-for-arizonas-charter-schools/>

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¹¹ Harris, Craig, "Online charter schools are growing, but have a record of poor outcomes — and fraud," Dec. 9, 2019, *The Arizona Republic*, <https://www.azcentral.com/story/news/local/arizona-investigations/2019/12/09/school-choice-advocates-say-online-charters-need-tighter-regulation/3780761002/>

¹² Legiscan: Bringing People to the Process, Bill Text: AZ SB1407, 2019, Fifty-fourth Legislature, <https://legiscan.com/AZ/text/SB1407/id/1887068>

¹³ Arizona Charter Schools Association, "Approximately 70 percent of Arizona public charter schools earn an "A" or "B" grade," Nov. 4, 2019, <https://azcharters.org/approximately-70-percent-of-arizona-public-charter-schools-earn-an-a-or-b-grade-from-the-state-department-of-education/>

¹⁴ Harris, Craig, "Online charter schools are growing, but have a record of poor outcomes — and fraud," Dec. 9, 2019, *The Arizona Republic*, <https://www.azcentral.com/story/news/local/arizona-investigations/2019/12/09/school-choice-advocates-say-online-charters-need-tighter-regulation/3780761002/>

¹⁵ Harris, Craig, "At Arizona charter schools, parents with complaints or objections find nowhere to turn," *The Arizona Republic*, March 7, 2019 <https://www.azcentral.com/in-depth/news/local/arizona-investigations/2019/03/05/arizona-charter-schools-parents-complaints-objections-find-nowhere-turn-american-leadership-academy/2871812002/>

¹⁶ Ibid.

¹⁷ Harris, Craig, "The charter vs. district school funding debate: Who gets more money?" Sept. 26, 2019, *The Arizona Republic*, <https://www.azcentral.com/story/news/local/arizona-education/2018/07/12/arizona-charter-schools-get-more-state-funding-pay-their-teachers-less/686900002/>

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¹⁹ Ryman, Anne; Price, Justin; Harris, Craig; Woods, Alden, "Arizona charter schools spend more on administration, less in classrooms," Dec. 17, 2018, *Arizona Republic*, <https://www.azcentral.com/story/news/local/arizona-education/2018/12/17/arizona-charter-schools-spend-more-district-school-administration/2015982002/>

²⁰ Harris, Craig, "Charter school 101: Common questions about Arizona's charters answered," *The Arizona Republic*, Nov. 18, 2019, <https://www.azcentral.com/story/news/local/arizona-education/2019/11/18/charter-school-101-what-know-arizonas-campuses/2035039001/>

²¹ Harris, Craig, "Sen. Eddie Farnsworth, charter-school millionaire, to retire from Arizona Legislature," *The Arizona Republic*, Aug. 9, 2019, <https://www.azcentral.com/story/news/politics/legislature/2019/08/09/eddie-farnsworth-charter-school-champion-retire-legislature/1971950001/>

²² Harris, Craig, "Online charter schools are growing, but have a record of poor outcomes — and fraud," Dec. 9, 2019, *The Arizona Republic*, <https://www.azcentral.com/story/news/local/arizona-investigations/2019/12/09/school-choice-advocates-say-online-charters-need-tighter-regulation/3780761002/>

²³ Altavena, Lily and Price, Justin, "Arizona's at-risk students go to 'alternative' schools. Then the system fails them," *The Arizona Republic*, Feb. 22, 2019, <https://www.azcentral.com/in-depth/news/local/arizona-education/2019/02/21/arizona-alternative-schools-starshine-failing-at-risk-students-charter-district/2818547002/>

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²⁵ Arizona Charter Schools Association, <https://azcharters.org/governance/>

²⁶ Harris, Craig, “At Arizona charter schools, parents with complaints or objections find nowhere to turn,” March 7, 2019, *The Arizona Republic*, <https://www.azcentral.com/in-depth/news/local/arizona-investigations/2019/03/05/arizona-charter-schools-parents-complaints-objections-find-nowhere-turn-american-leadership-academy/2871812002/>

²⁷ Associated Press, “Arizona Charter School Legislation Appears Dead,” March 26, 2019, <https://www.azpm.org/p/home-articles-news/2019/3/26/148518-arizona-charter-school-legislation-appears-dead/>

²⁸ Harris, Craig, “At Arizona charter schools, parents with complaints or objections find nowhere to turn,” March 7, 2019, *The Arizona Republic*, <https://www.azcentral.com/in-depth/news/local/arizona-investigations/2019/03/05/arizona-charter-schools-parents-complaints-objections-find-nowhere-turn-american-leadership-academy/2871812002/>

²⁹ Ibid.

³⁰ Associated Press, “Arizona Charter School Legislation Appears Dead,” March 26, 2019, <https://www.azpm.org/p/home-articles-news/2019/3/26/148518-arizona-charter-school-legislation-appears-dead/>

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³² Hall, Jim, “The Problem of Accountability in Arizona Charter Schools,” Arizonans for Charter School Accountability, <http://www.azcsa.org/>

³³ Chingos, Matthew M. and West, Martin R., “Mixed Results for Arizona’s Charter Schools,” Nov. 6, 2014, Brookings Institution, <https://www.brookings.edu/research/mixed-results-for-arizonas-charter-schools/>

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³⁵ Strauss, Valerie, “The mess in Arizona’s charter school sector,” *Washington Post*, Jan. 16, 2018, from post by Jim Hall, Arizonans for Charter School Accountability, <https://www.washingtonpost.com/news/answer-sheet/wp/2018/01/16/the-mess-in-arizonas-charter-school-sector/>

³⁶ Ibid.

³⁷ Ibid.

³⁸ Altavena, Lily and Price, Justin, “Arizona’s at-risk students go to ‘alternative’ schools. Then the system fails them,” *The Arizona Republic*, Feb. 22, 2019, <https://www.azcentral.com/in-depth/news/local/arizona-education/2019/02/21/arizona-alternative-schools-starshine-failing-at-risk-students-charter-district/2818547002/>

³⁹ Ibid.

⁴⁰ Harris, Craig, “Online charter schools are growing, but have a record of poor outcomes — and fraud,” Dec. 9, 2019, *The Arizona Republic*, <https://www.azcentral.com/story/news/local/arizona-investigations/2019/12/09/school-choice-advocates-say-online-charters-need-tighter-regulation/3780761002/>

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