

School Choice and Educational Equity for All Arizona Youth

Although the stated purpose of school choice is entirely appropriate -- "to provide parents with decision making options for the education of their children", there are many who are alarmed at the impact it is having toward the privatization of K-12 schooling at the expense of the time-honored national commitment to public education for ALL students.

This document is designed not as an opposition to school choice, charter or private schools in general, but rather the lack of fiscal accountability in the use of public monies and the lack of transparency as enacted in AZ which has led to serious inequities in services, funding, enrollment, plus allowing much higher administration costs and exploitation by for-profit entities. The intention is to facilitate needed discussion of and understanding of the critical nature of funding and the complexity of early education and K-12 schooling in AZ.

Background Information:

1. The structuring of private and charter schools precludes or weeds out enrollment by many minority, lower income youth and those with disabilities resulting in resegregation of schools.

Charter schools are deemed public schools because they receive public monies, however, they might be more appropriately called quasi-public schools. As Gene Glass has noted there are many instances showing the exploitation by charter schools of the public purse and contributing greatly to the resegregation of public education (Blog by Gene Glass, ASU emeritus professor and National Education Policy Center). Many charter schools in Arizona are closely integrated financially with for-profit entities.

"Arizona's charter legislation was designed to free charter schools from most regulations and reporting requirements and enable them to more efficiently utilize resources in the classroom not for added expenses. Charter schools can opt out of all procurement procedures and avoid having to get competitive bids on major purchases. They can also opt out of following the Unified System of Financial Records, the accounting guideline required by the Auditor General for districts, so charters can keep accounting costs to a minimum." (Wells and Hall)

Private schools are defined as a "nonpublic institution, other than the child's home, where academic instruction is provided for at least the same number of days and hours each year as a public school." AZ. Rev Stat. Ann. 15-802F.2. There are no requirements for accreditation, registration, licensing, approval or teacher certification.

FY 2015 data shows that 85 percent of the state's public school students attend district schools and 15 percent attend charter schools.

"Children living in poverty and children whose parents have limited educational attainment require more resources than the average child. Similarly, children whose first language is not English are more costly to education. Arizona compares unfavorably on each of these demographics." (Hoffman and Rex, ASU W.P. Carey School of Business)

"The '20 best' charters in Phoenix (identified by The Phoenix Business Journal) serve 13,452 students: The enrollment breaks out to be 66 percent White, 17 % Asian, 11% Hispanic and 2% Black. There is not a single public district with demographics like these and almost no districts outside of Reservation schools that have 11% or less Hispanic students. Eleven of those 20 schools are run by corporations, BASIS and Great Hearts." (Wells and Hall)

2. Lack of regulation of the use of public monies by charter and private schools permits vastly differential spending for administration costs versus classroom instruction and is impacting funding monies available for the education of all students in AZ.

Nearly \$1 billion in K-12 education cuts since FY2007 were not impacted by Prop. 123. These shortcomings are undermining the state's economic performance. Tax credits for individuals and corporations for private school Empowerment Scholarships as well as the system of more than 24 general tax credits available to individual taxpayers in AZ have resulted in the diversion of hundreds of million dollars from the general fund leaving it inadequate to meet the state's most pressing needs.

"The financial woes go beyond sheer dollars. The entire school funding formula has become a hall of mirrors needing massive reform. The initial intentions of the school equalization formula are being partly subverted, with schools needing the most ending up with the least. School systems are being forced to spend too many dollars recruiting and training teachers, recruiting students, and complying with wasteful regulation, rather than putting every possible dollar into helping students to learn. Attempts to correct even minor aspects of any of the above aren't allowed to get out of legislative committee." (Gilman, BringingUpArizona.com)

The AZ legislation for charter schools is based on the model legislation shared by the ALEC (American Legislative Exchange Council), however, in AZ the section on accountability was excluded from the legislation.

"Public districts spent an average of \$628 per pupil for all administrative services. Charter schools averaged \$1,403 per pupil more than twice as much. If charter schools had the same administrative efficiency as traditional public schools, the state would save \$128 million a year in administrative costs. There are 45 charters that actually spend more on administration than classroom instruction." (Wells and Hall)

"One of the largest charter companies, BASIS, Inc. (8,730 students) spends more on general administration than any charter or public district in the entire state, nearly \$12 million. BASIS spent 30 times more per pupil on general administration than the six largest public districts combined (225,000 students)." (ibid.)

"The Leona Group and Imagine Inc. manage 17 schools that spend more on administration than on instruction. The American Charter Schools Foundation and the Kaizen Educational Foundation, both managed by the Leona Group, have 13 schools that combined spent \$1,215,717 more on administration than on instruction. Imagine Inc. manages four schools that spent a total of \$447,692 more on administrative costs than on classroom instruction." (ibid)

3. Tax credits in support of K-12 schooling:

A) Tax credits for public schools. There is a "feel good" aspect for individuals and corporations contributing to schools; however, the legislature's enactment of the tax credit program for public and private education has circumvented and undercut the fair and equitable distribution of state funding to educate all of AZ youth and made it difficult for the state to provide for or to return money to the schools as directed previously by the courts. Furthermore, the system of tax credits is helping to deplete the general fund.

State annual reports show a very uneven distribution of individual school tax credit monies for public schools (a total of \$48,084,305 donated by individuals for FY 2015 - the last year stats are available.). The donations represented a decrease of \$2,907,694 or down 5.7 percent from 2014.

In general, schools with higher Title 1 enrollments (students who qualify for free and reduced lunch) receive substantially less than those in wealthier areas. According to the AZDOR report for 2015, eleven (11) school districts reported receiving fees or cash contributions in excess of \$1 million for a total of \$22,912,318 or 47.2% of all contributions received. Six school districts received contributions above \$2 million. In contrast, 61 public schools reported receiving no tax credit donations and 64

public schools reported receiving between \$1 and \$1000 in donations. Schools in Maricopa County received 64.7% of the FY public school tax credit monies.

B. Public Aid for Private Education: Constitutional Provisions: No public money or property may be appropriated or applied to any religious instruction or in support of any religious establishment. *Arizona Constitution*, Art. 2, Sec. 12. The state school fund may be apportioned only for public education. *Arizona Constitution*, Art. 11, Sec. 8.

Legislation authorizing programs for financial assistance for attendees at private schools have been enacted during the past 20 years. In order to address the Constitutional restrictions, money is donated through intermediary Student Tax Organizations (STOs) established for the purpose of distribution of the funds as scholarships to recipients. By using tax credits, taxpayers get a dollar-for-dollar reduction off their taxable income for state tax purposes. The program has two parts -- one for individual tax payers and the second for corporate tax payers.

The tax credit program for individual tax payers began in 1998 and includes

- 1) a tuition tax credit (for private schooling) of \$514/\$1028 per single/couple in 2013.
- 2) a tax credit (for public schools) of \$200/\$400 (single/couple) for donations made in support of extra-curricular activities or character education in 2013. The amount has now been raised to \$400 per individual.
- 3) a "Switcher" (or overflow) individual tuition tax credit program (for private schooling) was passed in the AZ 2012 Legislative session and permitted an individual to make an additional donation of \$500 or \$1000 (per individual/couple) for private education starting in 2012.

The individual tax credit donations for private school support since the beginning of the individual credit in 1998 through the end of FY2015 totals \$952.4 million. For FY 2015, donations to the "original" individual tax credit program were \$61,740,333 and the donations to the "switcher" individual tax credit program were \$30,750,957 for a grand total of individual donations of \$92,491,290. (Source DOR FY2015 report on tax credits for private education. The report for FY2016 is not available at this time.)

The corporate tax credit program authorizes corporations to receive a dollar-for-dollar tax credit for donations to "Empowerment Scholarships" in support of private schooling and specifically designated for

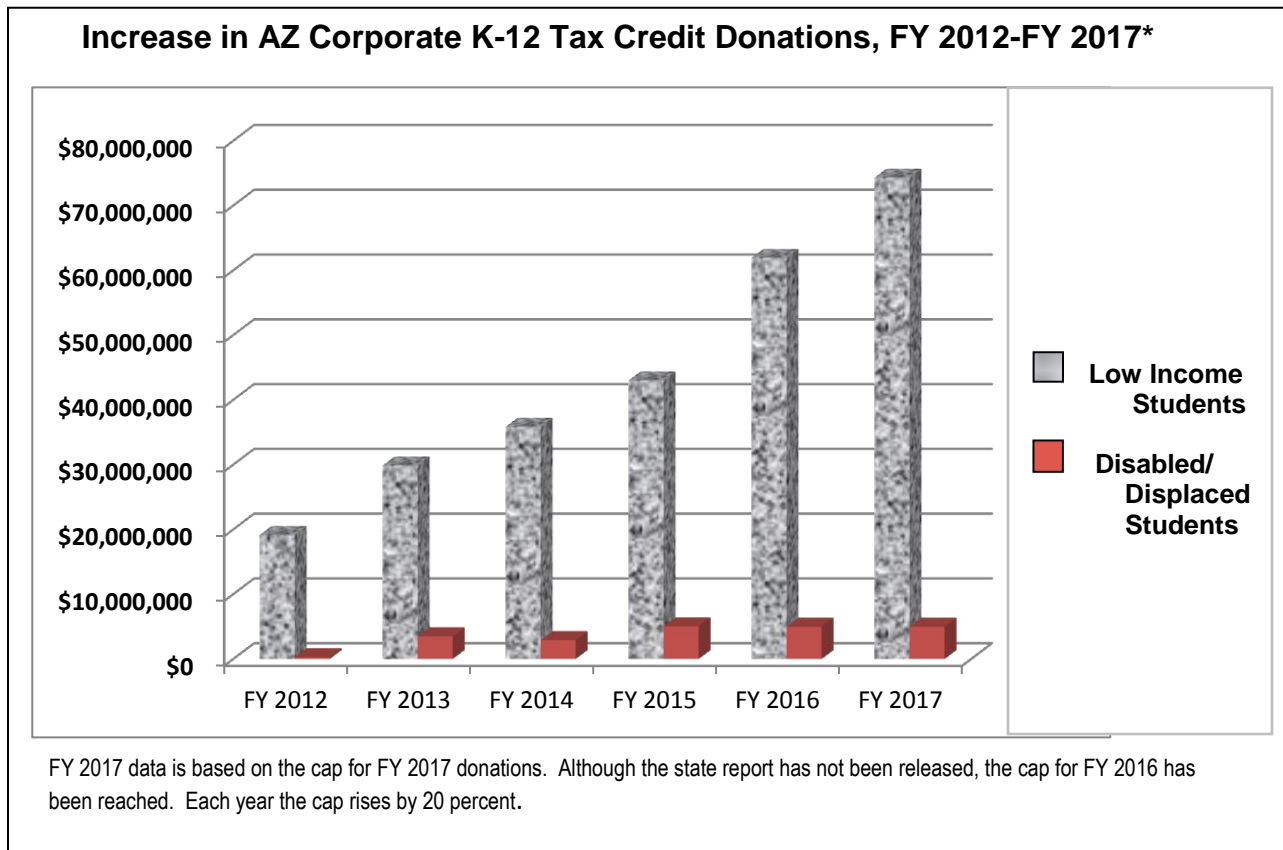
- 4) low income (or more accurately students from "lower income" families and started in 2006)
- 5) students with disabilities (started in 2009)

No limit is placed on individual corporation tax credit donations to private/parochial schools for low income empowerment scholarships up to total credit limit per year and which increases 20 percent each year. Up to a total of \$5 million may be donated for students with disabilities. Corporations are now maxing out their contributions every year.

For the 2015 tax year, total corporation donations for students in "lower income" families was \$42,998,170 and for the disabled/displaced students the total was \$5,031,920. Although a report from the State Superintendent's Office clearly showed a rise in the number of students with disabilities in the state, the cap on contributions for students with disabilities remains at \$5 million. At the same time, as shown in the Figure 1, contributions for "lower income" students has been rising rapidly and the aggregate gap increases by 20 percent each year.

The reference to "lower income students" rather than merely low income as spelled out in the legislation is because of the family income categories for recipient of low income empowerment scholarships. Figure 2 shows the family income threshold for students receiving lower income empowerment scholarships.

Figure 1



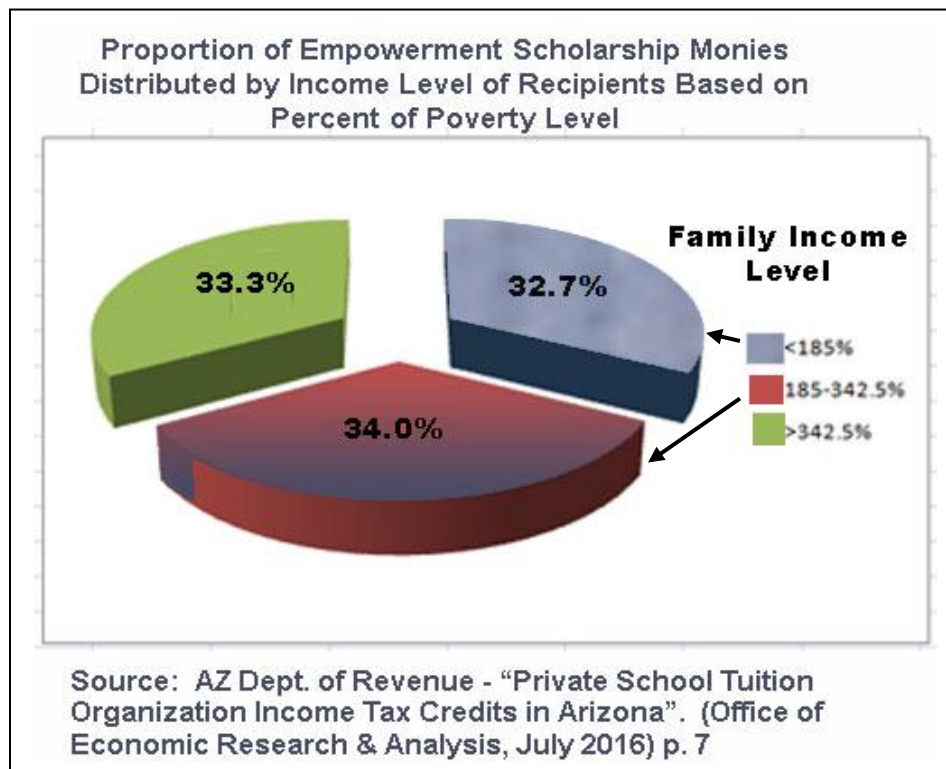
This second figure shows the proportion of recipients by three categories of income level: below 185 percent of poverty, between 185 percent and 342.25 percent of poverty level and those above 342.25 percent of poverty level. According to the Census ACS 1-year survey, the median household income for Arizona was \$51,492 in 2015. The 2016 federal poverty guideline for a family of four at 200 percent of poverty was \$48,600.

Figure 2.

Household Size	185% of Poverty Level	342.25% of Poverty Level
2	\$29,101	\$53,837
3	\$36,612	\$67,732
4	\$44,123	\$81,628
5	\$51,634	\$95,523
6	\$59,145	\$109,418
7	\$66,656	\$123,314
8	\$74,167	\$137,209
Additional persons	\$7,511	\$13,895

As shown in the following pie chart, 77.3 percent of the empowerment scholarships in 2015 went to students in families with incomes 185 percent above the poverty threshold.

Figure 3.



An Empowerment Scholarship Account (ESA) is an account similar to a checking account with 90% of the state funding that would have been received by the school the child previously attended. Students may apply for multiple scholarships.

What can the funds be used for?

- Tuition and fees at a private school
- An online learning program
- Educational therapies or services
- Tutoring services
- Curriculum
- Testing fees
- Contributions to a Coverdell Education Savings Account
- Tuition and fees at an eligible postsecondary institution
- Bank fees charged for the management of an ESA

4. Looking at Educational Outcomes:

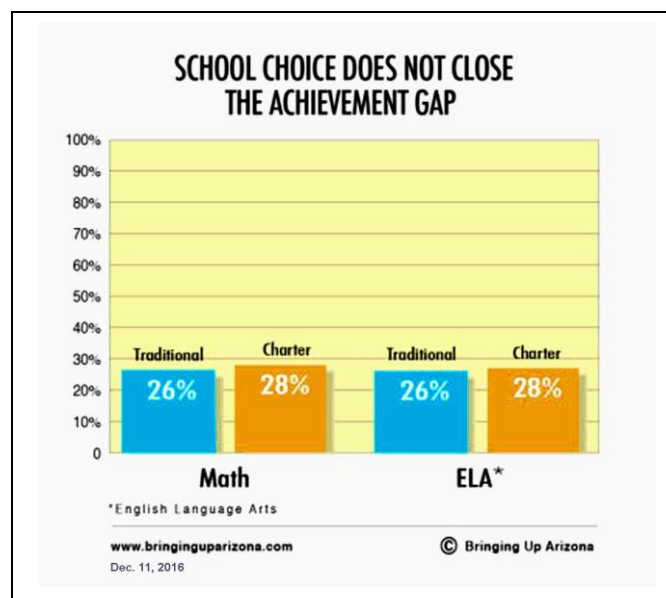
"Some wise individuals will one day realize the only way to fix education is to stop thinking of it as a school problem and begin recognizing it as a student problem," says Richard Gilman of BringingUpArizona.com. "Every state policymaker who ever lived has seen the issue as school-based. In their minds, there are 'good' schools and there are 'bad' schools. They seek to exalt and reward the 'good' schools, and punish the 'bad' schools."

He notes that "Student performance is not a result of the schools they attend. Rather, school performance is a result of the students who attend them. Policymakers simply gloss over that most all the 'good' schools, the ones they want to reward, are concentrated in the rich suburbs. Most all the 'bad' schools, the ones they want to punish, are located in the inner cities. That's because schools with large pockets of disadvantaged students mostly perform poorly. Schools with large pockets of advantaged kids almost always perform well."

As Gilman points out in the Dec. 2016 BringingUpArizona.com report, [Solving Achievement Gap Requires a New Paradigm](#), "The percentage of disadvantaged students passing the AzMerit tests is only minutely higher in charter schools than in traditional schools.". For an indepth examination of school achievement/needs as related to the needs of students from advantaged or disadvantaged environments, see the full report at <http://www.bringinguparizona.com>.

"Just over one-quarter of economically disadvantaged students pass the tests compared to nearly one-half of advantaged kids. Just over one-quarter of Hispanic students pass the tests and Native Americans are even lower."

Figure 4.



References and on-line source:

AZ Department of Revenue reports for private and public school tax credits. www.azdor.gov

State Superintendent's Reports. www.azed.gov

Wells and Hall report: <http://grandcanyoninstitute.org/higher-administration-charges-of-arizona-charter-schools-cost-taxpayers-128-million-a-year/>

Gene V. Glass: "They Recruit, They Skim, They Flunk Out The Weak ... They are Arizona's Top Charter Schools <http://ed2worlds.blogspot.com/search?updated-min=2016-01-01T00:00:00-08:00&updated-max=2017-01-01T00:00:00-08:00&max-results=9>

Richard Gilman, BringingUpArizona.com www.bringinguparizona.com

NOTE: A full reference sheet is available for anyone who would like the complete citation for quotations.

20 Years of School Choice: The Timeline How Arizona has Evolved

from a report by Anne Ryman , The Republic | azcentral.com Published 2:35 p.m. MT Oct. 30, 2015 | Updated 1:59 p.m. MT Nov. 1, 2015

<http://www.azcentral.com/story/news/local/phoenix/education/2015/10/30/arizona-education-school-choice-history/73409664/>

1994 School-reform package passes in Arizona that allows charter schools and also open enrollment among district schools.

1995 The first charter schools begin opening with 70 school sites opened in the first year.

1997 Legislature passes income-tax credits that allow individuals to receive tax credits for contributions to private-scholarship funds.

1998 Arizona Legislature passed a law allowing four schools to pilot online programs.

2000 Cap removed on the number of charter schools that can be allowed in a single year.

2004 Charters serve about 82,000 students

2005 The number of charter schools levels off at about 500 schools after a decade of expansion during which a dozen new charter schools typically opened each year.

2006 Arizona lawmakers create two voucher programs, one for special-needs students and another for foster children. These are declared unconstitutional by the Arizona Supreme Court in 2009 because the court said they violated a constitutional ban on appropriating public money for private or religious schools. Also this year, the Legislature begins allowing businesses to get tax credit for donations to school-tuition organizations.

2009 Legislation removes cap on the number of online schools, allowing districts and charters to start online programs that can serve any student in the state. Students can enroll with more than one online course provider at the same time.

2010 A report finds the vast majority of Arizona elementary students, 85 percent, stayed enrolled in the same school they attended the previous year regardless of how well the school performed. The report, *School Reenrollment: Choosing to Stay*, concludes educators should not overemphasize school choice as a way to reform public education.

2011 Gov. Jan Brewer unveils a new website, arizonaschoolchoice.com, outlining school-choice options as part of National School Choice Week. Also this year, Arizona begins allowing a school-voucher-type program where parents of special-needs students get debit cards with 90 percent of the state per-student money that district or charter schools would receive to educate their children. Parents can spend the money, Arizona Empowerment Scholarship Accounts, on schooling options, including private-school tuition. The scholarships survive a court challenge.

2012 Empowerment accounts are expanded to include foster children who are being adopted, children of active-duty military families and students in schools receiving a grade of D or F.

2015 Arizona has 526 charter school sites. Empowerment scholarships are expanded to include students who live on Indian reservations.

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January 24, 2017