

## Wild Wild West: Arizona's Charter School Experiment

**Jennifer Berkshire:** Welcome to have you heard, I'm Jennifer Berkshire.

**Jack Schneider:** And I'm Jack Schneider.

**Berkshire:** And Jack, I'm going to kick off this episode by reading a very special quote to you. Are you ready?

**Schneider:** Yeah, I guess so.

**Berkshire:** Okay. Here we go. "We wanted the infusions of capital and entrepreneurialism that accompany the profit motive, but we didn't take seriously enough the risk of profiteering."

**Schneider:** I think we're probably dealing with somebody fairly naive here, but I know where that we're not. So I'm anxious for you to tell me who said this.

**Berkshire:** That quote actually came from a 2015 piece by Chester Finn, who's very well known in education reform circles and Bruno Manno. Both of them served as education officials in Republican administrations and they made that statement in an assessment about the state of the charter school movement.

**Schneider:** It's so funny, you know, thinking about Chester Finn particularly, you know, he was a Moynahan accolade and he, along with many other neoconservatives, you know, had come up as idealistic liberals who had sort of soured on the failures of liberalism as they saw it and became realists and conservatives. And so I think there's some irony here to the kind of idealistic way in which Checker, as his friends call him, was viewing markets and, you know, the potential dangers of profiteering that come with opening things like education to markets.

**Berkshire:** Well, I picked that quote because in this episode we are headed to Arizona and there is perhaps no state that serves as a cautionary tale to the extent that Arizona does about what happens when you marketize your schools. And that it's not always the way that we typically think about markets, right? That, that when people talk about competition and you know, healthy market competition in schooling, we think about, you know, schools, oh, they're competing against each other. The cream will rise to the top. But what has happened in Arizona is actually a little bit different.

**Schneider:** Not only is Arizona a cautionary tale because of what doesn't happen there, right? So we don't see the promises of market supporters coming to fruition. We don't see lots of experimentation. We don't see particular models rising to the top. We don't see successful replication. But we also see lots of things happening that weren't promised by market reformers. So we see, for instance, in Arizona, the limited access to opening charter schools benefiting

people with connections to the political administration. We see profiteering off of those schools in a number of complex ways, including, you know, the basic operation of shell companies as well as some complicated land deals. So I think this is a really interesting case for us to look at.

**Berkshire:** Well, Jack, I'm sure our listeners are wondering, how did Jack become such an expert on Arizona? Has He ever even been there? Well, he became an expert because...

**Schneider:** How did you become an expert, Jennifer?

**Berkshire:** Well, actually we both read the award-winning series written by our guest who we've got standing by. We are thrilled to be able to talk to Craig Harris. He's a reporter at the Arizona Republic. Craig is the author of an investigative series into Arizona style charter school shenanigans. And the series was so eye-opening, so corruption-exposing that it was awarded a major prize in journalism. He wrote that series—it's called the charter gamble—with his colleagues Ann Ryman, Alden Woods and Justin Price.

Craig, first of all, a huge congrats to all of you for winning the Polk award. I want you to start by telling us a little about what prompted you to start poking around into the business of charter schools in Arizona in the first place.

**Craig Harris:** It started about a year ago on two fronts. One, there was a relatively prominent charter school, a notorious charter school that abruptly closed on the west side of Phoenix in a town called Goodyear. And the reason that school had gained some notoriety is because a few years earlier, one of the students had gone missing and died. And what happened, now we're finding out later, is that the school was being fraudulent on its attendance in order to keep it running because people had left the school because of the tragedy. And so the school got shut down. And that piqued our interest.

And then I live on the east side of Phoenix in town called Gilbert, which is kind of like ground zero of where charter schools are. They're very, very popular out in my neck of the woods. And part of the reason is that a lot of the operators that run the charter schools belong to the Church of Jesus Christ of Latter Day Saints. They're Mormons. And so a lot of them have developed charter schools and they've been able to grow because they have pretty good academics, but they also focus on morality and wholesomeness and things like, so that, that gets a lot of parents to enroll their kids at those schools.

**Berkshire:** Well, we are obviously here to talk about some of the less wholesome aspects of Arizona's charter school industry over the last year. You've written one unbelievable exposé after another about the edupreneurs, as I like to call them, who are getting rich off of running charter schools. I know it's hard to choose, but I want you to pick your favorite scandal for us and just sort of break down for us the nature of the scam.

**Craig Harris:** Well, Arizona, depending on how you look at it—if you're a charter organizer Arizona is considered one of the best states in the country for charter schools because it has some of the fewest and weakest oversight and regulations of any of the 44 states that have charter schools. And so one of the stories I wrote about was a guy named Eddie Farnsworth. And coincidentally Eddie is my state senator. We actually live within two miles of each other. And he ran a series of charter schools called Benjamin Franklin Charter Schools. They built them from the ground up. So what happened is that Mr. Farnsworth, who's also a legislator who's been in the office for like two decades, created a nonprofit company with three friends of his, two of whom were lobbyists who got votes from him to favor their clients to buy his schools, and they paid top dollar for those schools.

And he made about \$14 million in profit on the sale of his schools, which were privately owned, to a nonprofit company that he set up. And then that nonprofit hired him as a consultant and then also agreed to lease buildings from him and agreed to hire his brother as the chief executive. And so he has gotten extremely rich from this. And then during his time when he was in the legislature, we went back and look and he repeatedly voted on bills that increased funding for charter schools. And at the same time he blocked bills that would have brought more restrictions and oversight on charter schools.

**Berkshire:** The reporting that you and your colleagues have been doing isn't just award winning. You've also forced Arizona's political leaders to take some action to finally rein in the kinds of abuses that you've been documenting in your work and talking about today. But I get the sense from reading your latest reports from the Arizona State House that the legislative fix isn't all that. What's wrong with the bill?

**Harris:** Here's the problem. The Charter Association, which is a nonprofit business that represents the 500 plus charter schools, their lobbyists wrote most of the bill. And so what happened when the lobbyist for the Charter Association or basically the charter industry wrote most of the bill is the legislation is what critics call window dressing. It doesn't stop any of the self dealing. It doesn't stop organizations like another one wrote about, which is an online school called Primavera. Their CEO, he paid himself \$10 million over the last year and a half, while having incredibly high dropout rates and very low test scores.

The bill also doesn't stop self dealing from giving no-bid management contracts that are worth tens of millions of dollars. And so even though you have what's called a reform bill, because this is the first time in a quarter century that charter schools have actually been moderately changed, the bill doesn't really do a whole lot because you have a lobbying group that essentially wrote most of the bill.

**Berkshire:** One thing that really surprised me is that we tend to think of Arizona as a wild west when it comes to charter schools that the absence of regulation means that anything goes. But the image I got from reading your exposés is something more akin to say Putin's Russia, that a handful of really well connected school operators dominate the scene as one of the sources in

your story. Put it. The big charters who have effectively eliminated the competition that policy makers sought when they passed Arizona's charter school law in the first place. And there are two operators whose names surfaced again and again: Basis and Great Hearts. Tell us more

**Harris:** Basis is very well known for having very, very high performing schools, and those kids do very, very well on AP test which allow them to get into college and get college credit. Great hearts is also a very strong charter school and they have a classical education and they have extremely high SAT and ACT scores. So parents who want their kids to have a very almost private school like education which is paid for by taxpayers and the public put their kids in those schools.

Those two schools there, their chief executives, their boards are very, very well connected to governor Doug Ducey. And so what happened several years ago is when the state had funding cuts, they cut out part of a formula that took a little bit of money from charter schools. And so what the governor did is he pushed through legislation that schools that had high AP test scores like Basis and schools that had high SAT, ACT or standardized test scores like Great Hearts, they got millions of dollars of extra state funding. And so they kind of got backfilled and were held harmless and even came out ahead because of these pet programs that the governor did.

Now there's a lot of connections between the governor and those two schools. For example, the chairman of Basis worked with the governor to help defeat a sales tax program when the governor was state treasurer. One of the governor's top campaign person's, his dad is on the board of directors of Basis. The governor's top campaign person's brother runs Great Hearts. So there's a lot of connections with the top officials at Great Hearts and Basis directly with the governor's office. And coincidentally or not so coincidentally, those two schools were among the biggest winners when it came to getting extra funding, and the two biggest recipients of another pet program from the governor to fund the building of their schools.

**Berkshire:** Jack, I want to bring you back in. One thing that really stands out to me listening to Craig Harris talk is how differently the charter school landscape and Arizona looks today from what its early proponents said that they wanted. Arizona was one of the first states to enact a charter school law and you heard a lot during that initial debate about letting a thousand flowers bloom. And that's really not what we see today at all.

**Schneider:** We did an episode sometime back the DNA of charter schools where we looked at the origin of the charter school idea and we talked a lot about Ted Kolderie, a self-styled policy entrepreneur who helped to push the charter idea in Minnesota. And I think that this really speaks to the importance of looking at the origins of ideas, that the charter idea was really first put forward as a means of cutting out regulation of promoting markets and of nudging education towards performance management, which at the time was beginning to become more popular in the private sector.

It then was co-opted or you know, there was an attempt at co-opting the idea by first Al Shanker and then others as an idea that really would free up schools to experiment, right? That charter schools could serve as laboratories. And in my mind, the most interesting presentation was the idea that charter schools would serve as laboratories, where in particular practices would be identified as worth bringing back to the whole system.

**Berkshire:** Something tells me that you're about to puncture that balloon of idealism...

**Schneider:** But of course that's not what the idea originally was all about. And we see that there's a kind of regression to the original idea across states and particularly in states like Arizona, where people do get really excited about this idea. *I'm* really excited about the idea of allowing schools to innovate, of coming up with ways to create particular forms of autonomy for them so that they can do what in a particular context so they can develop schools really in the model of ecosystems.

And I'm particularly excited and I think others are as well about the idea of trying to learn lessons from that experimentation. But as we see in Arizona, the idea of experimentation ends up being trumped by market-style competition. As you've said before, Jennifer, that in a game of rock, paper, scissors where you introduce markets into the equation, markets always win. And so you know, for me the lesson of Arizona is just really another disheartening one about the limits of using this model as a way of promoting innovation and experimentation, which I think lots of people, even people who are charter skeptics are on board with.

**Berkshire:** Our special guest for this episode is Craig Harris. He's a reporter for the Arizona Republic and he and his colleagues are the authors of an award winning series called "The Charter Gamble." Craig, I want to go back to 1994 when charter schools arrived in the Grand Canyon state via a special legislative session. Talk a little bit about how the justification for charter schools has changed over the years.

**Harris:** Well, the reason charter schools were started 25 years ago was because, and my colleagues Ann Ryman and Alden Woods did a fantastic story going back and looking at the very, very beginning and talking to the people who actually got the charter schools started. And the reason they were started was because our test scores were terrible. Ours students in traditional public schools were not doing very well. And you had a Republican governor, Fife Symington, who needed a quote unquote education reform to help him get reelected. So charter schools were started in that way.

Now, operators today will argue, 'well, they were created and intended for business persons to take a risk and to make as much money as possible.' That's absolutely not true. They were started to give parents a choice of where they want to go. And what has happened over the years is that the Republican-controlled legislature in Arizona has given charter schools more money on average than school districts because charter schools can't get property taxes.

So charter schools have done pretty well financially. And some would argue, I don't know if it's right or not, that there is a push to get rid of traditional district schools and push more more kids into charter schools. And coincidentally, there are a lot of folks who have friends who run charter schools or even people in the legislature who run charter schools who have gotten rich off charter schools. So I'm not so sure I believe in a conspiracy theory per se, but charter school kids compose about 16-17% of the 1.1 million public school children in Arizona, and charter schools get about 27% of all state funds for public schools in Arizona. So there's a huge, disproportionate amount of state tax dollars going to fund charter schools as there is to fund traditional school districts.

**Berkshire:** And I should just mention that your reporting also found that Arizona's charter schools do not consistently outperform their district counterparts. And that in fact high school graduation rates are actually lower. But I want you to go back to those early days you were just talking about because there were clearly folks in Arizona who way back in 1994 were already worried about what that lack of regulation was going to mean. And I'm thinking about a legislator named Mary Hartley who was alarmed by what she saw as "an atmosphere for inviting fraud. A future where under the table land deals and networks of for profit companies funnel taxpayer dollars into private pockets." I think there's a word for that and it is "prescient."

**Harris:** And that's part of the way our legislature has run. I mean it has been run by the Republican Party for more than two decades and there's been kind of a laissez faire, pro-government, less regulation philosophy throughout Arizona. And we've gotten burned on other things that have happened because of that. Most notably, almost two decades ago, was called the Alt Fuels scandal where they went for all this money into promoting alternatives, alternative fuel vehicles. And it came back to hugely to bite the budget. And they had to stop it. And what you found out was that the speaker of the house at the time was behind it and had financial involvement in those programs.

So there's been a problem like that with our legislature, that a lot of people who are in power have a lot of financial interest in charter schools or businesses that they don't want to regulate. And so that has caused a lot of the problems here and that's why it's pretty much a Wild West kind of atmosphere. And charter proponents will say, 'well, if charter schools fail, that's just kind of capitalism.' But you know, if charter schools fail you're affecting children's lives and parent's lives, and then you have empty buildings that are just sitting there. So to have kind of an attitude of, you know, 'they'll correct themselves' is not always necessarily true.

**Berkshire:** An Arizona think tank called the Grand Canyon Institute recently came out with a report that as many as a hundred Arizona charter schools are in such precarious financial shape that they could go under and perhaps go under quickly. What do you think about that?

**Harris:** Yeah, we have not seen that per se. Now to their, to credit, they also did project a few years ago that some of these schools that have closed, were going to shut down because

they've looked at their finances pretty seriously. There are some schools that are really, if you look at their books are in huge financial trouble and had the charter board had more power, it could have stepped in on some of the schools that have closed. But they didn't have that authority until now. Now they've been given that authority because so many schools have closed that the legislature said, 'Well shoot! We'll just give you authority to shut down financially poor performing school.' So there's now a basis to do that. But here's the other kicker on that. If you look at Basis, which is a really, really good school as far as academics, if you look at their finances, they're continually in the red. They are very, very much in the red. They're over \$40 million in the red if you look just at their balance sheet.

They will argue that those are only paper losses and you have to report them. Well sooner or later those losses come due, and coincidentally Basis had a pretty big role in helping write the new financial standards that are going to go into a place next year. So they would still be okay even when these new financial standards go in that would cripple a school and shut them down or not allow them to expand.

So you still have a lot of what some people would call cronyism going on. The people who are supposed to be regulated are having a huge role in writing the rules to regulate themselves. And so what the Grand Canyon Institute found is that, you know, there could be some really serious problems with some charter schools shutting down because their books are really bad.

**Berkshire:** Well, Craig, on behalf of the vast, have you heard listening audience, I want to congratulate you and your colleagues for winning the prestigious Polk Award for your investigative reporting into Arizona's charter school shenanigans. Can you give us a little taste of what you've got coming up next?

**Harris:** Well, there's a story that's going to run in the next day or so about Basis, and what's curious with them is that they are very fortunate in that they tap their parents to donate. They ask them for \$1,500 per kid and that generates about \$5 million a year. And they use that money to give bonuses to their teachers because Basis has extremely high overhead and management costs. And so they rely on these bonuses to subsidize their low teacher pay. Well Basis' finances are so bad right now that they have offered that teacher pay as collateral to lenders in order to get their loans to be lower on the bond market.

So that raises a huge red flag because they aren't telling their parents, 'hey, by the way, you know, we told you that we would give this money to help pay your favorite teachers, but we're also gonna offer it to lenders in case, you know, Armageddon happens and we run out of money.' Now I called them on that and they're like, 'oh, that's just, you know, something that you have to put in a loan offering.' Well, that's not entirely true because Great Hearts and other schools that we've talked about, they also ask their parents to give money to a teacher fund. They don't offer that at all to their lenders when they're going out and to try to get money to build buildings. So that's one thing I'm working on now and that story should be published in the next day or so.

**Berkshire:** That was Craig Harris of the Arizona Republic and the author of the charter gamble with an Ryman, Alden Woods and Justin Price and Jack and I will be right back to wrap things up.

**Berkshire:** So Jack, I got very excited on your behalf as I was reading about the history of charter schools in Arizona and the complicated and downright sneaky way that vouchers played into that. And I've been eagerly awaiting allowing you to hold forth on this topic.

**Schneider:** Way back when I was working on my dissertation, which eventually became my first book, I made the claim that charter schools benefited tremendously from the fact that vouchers had been a kind of *de jure* policy among conservatives in the 1980s, and that by comparison charters looked really reasonable, as a kind of balanced alternative. I think there's an important object lesson here with regard to the politics of education because in the case of Arizona, we see that policy framing matters tremendously. Governor Fife Symington, when he pushed through...

**Berkshire:** And that was really his name.

**Schneider:** When he pushed through the charter bill in the Arizona. So after having lost on vouchers and, you know, having huddled with his allies, his, you know, pro-market allies in the state legislature, they determined a strategy wherein they would push one more time for vouchers knowing that they would lose and that they would then remove vouchers from the bill, keeping charters in there, and that nobody would essentially have any problems with it because all of the heat had been directed at vouchers.

So this is an object lesson, not just in terms of policy framing, where you see that the center ends up being shifted to the right because of the introduction of a voucher proposal. And so charters end up looking as a very centrist a policy approach as a result. But it's also an object lesson in terms of the way that ideology and politics are always embedded in policy.

And so policy can look neutral. It can look cool and rational, but at the end of the day, politics are the motivator for policy change. At the end of the day, politics cannot be stripped out of policy. That policy making is an inherently political process and that those who are driving policy forward do not simply check their ideological baggage at the door. Then I think there's a third interesting lesson here and that's about who is making policy. And in this case, state legislators appear not to have read the bill very carefully. Having removed vouchers successfully from it, many believed they were voting for something that did not contain school choice provisions.

**Berkshire:** Another thing that really stood out to me reading through that excellent Arizona Republic series and talking to Craig Harris is just how meaningless the distinction between for profit and nonprofit is when it comes to the world of charter schools. I don't know if you happened to catch this, but the National Alliance for Public Charter schools just came out with a new report that found that for profits are really limited to just a handful of states. And they were

sort of like 'see? no profiteering problem here.' But they glossed right over the fact that a lot of the scams we just heard about where the work of nonprofit charter operators, it really doesn't seem to matter what the tax designation is if the people who are running the school are intent on making a buck.

**Schneider:** Yeah. There were charter school operators paying themselves millions of dollars a year. You know, legislators when asked to comment on that, you know, would often say that it was immaterial to them how much school leaders were being paid. There were land deals that involved charter schools, nonprofit charter schools, paying very heavily in terms of their leases to for-profit companies owned in many cases by friends or political supporters of conservatives in the state government. And there were a couple of cases of schools being sold to new companies under essentially the same ownership regime for significant profits. So in one case, a school netted the owner I think it was upwards of \$10 million in this transfer that essentially was a single party transfer.

So you know, as Preston Green, who is at the University of Connecticut has commented, the distinction between for profit and nonprofit charter schools is often pretty meaningless. And as we learn through this reporting that even the financial reporting done by these schools is often at least in the Arizona case, fraudulent or incomplete. And so our ability to distinguish between a for profit and nonprofit operations is significantly limited.

**Berkshire:** So Jack, you know what I think?

**Schneider:** I see dollar signs in your eyes, Jennifer.

**Berkshire:** Exactly. I think you and I are in the wrong business.

**Schneider:** Yeah. We're going to get out of this nonprofit podcasting business and start, well, maybe it could be a nonprofit podcasting business with a for profit real estate arm.

**Berkshire:** That's such a great idea! In the meantime, our way of keeping the...

**Schneider:** Oh, I see what you're doing. You're you're dragging people to the payroll!

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**Schneider:** We're going to be talking a little bit more about charters and the ways in which enrollment patterns can end up exacerbating segregation, but then we're going to spend the

bulk of our time talking about the way that enrollment algorithms can be devised to promote school integration and how that's really not at all a part of the reform agenda right now.

**Berkshire:** Wow, that sounds fascinating! I can't wait to hear it.

**Schneider:** Listen, the area is called in the weeds, Jennifer.

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**Schneider:** Jennifer, you took my line so I have no nothing to say.

**Berkshire:** Cut his mic.