
CHARTER SCHOOLS

Class Acts

How Charter Schools Are Revamping Public Education in Arizona—and Beyond

James K. Glassman

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Three years ago, Arizona passed a law that allows almost any reasonably serious person to start a school and receive a little more than \$4,000 in state funds for every student enrolled. Such “charter schools,” as they’re called, are public schools that operate with more autonomy than conventional ones—a vague definition, perhaps, but the best one available. Twenty-nine states and the District of Columbia have laws permitting them. In the short time they’ve been around in Arizona, charters have attracted more than 25,000 students, or roughly 3 percent of the state’s public school population, and the number is still rising by 10,000 annually. Arizona, with one-fiftieth of the nation’s population, has about one-third of its 780 charter schools. Arizona has twice as many charters as California, which has eight times as many children under age 18.

Over the past year, I’ve visited Arizona three times to see how well its charter schools are working. I especially wanted to find out whether charters were providing competition to traditional public schools and whether, in response, those public schools were trying to improve. I am not an expert on education—far from it—but I write about business

and economics, and I've long suspected that one reason public schools fail is that, as government-protected near-monopolies, they lack the feedback mechanisms built into market systems. As a result, they can't get the sort of information that would help them do a better job. Ultimately, they're operated more for the benefit of administrators and teachers than for parents and students—for producers rather than consumers. When charter schools started pulling some of those consumers away from traditional public schools, my hypothesis went, the latter would have no choice but to get better in order to lure the kids back.

Although it's early in the process and the evidence is not yet conclusive, that's precisely what I found when I traveled to the Grand Canyon State. What's more, if a major goal of educational reform is to open the public school system to the salutary effects of competition, charters have more immediate political appeal than vouchers (which would allow families to use state money to send their kids to private schools) and are probably just as effective.

One dramatic illustration of how charters have forced traditional schools to respond was the full-page advertisement—yes, an advertisement—that the Mesa Unified School District ran in local newspapers last summer. The headline blared: “There’s no better place to learn than in the 68 Mesa public schools! . . . Don’t miss out!” Mesa, a fast-growing, prosperous city of 350,000 east of Phoenix, is a hotbed of charter schools, with 23 of them currently operating in the area. (The 68 schools to which the ad refers are traditional public schools—although technically all 91 schools are public.)

“We’re not afraid of a little competition,” says Judi Willis, a school district spokesperson. In fact, Mesa has no choice but to make its conventional public schools better. It’s already losing about \$10 million a year in funds that are going to charters. From 1996 to 1997, the total public school enrollment in Mesa rose by 1,870, with conventional schools losing 69 students and charters gaining close to 2,000. In fact, Mesa’s charter schools have even been hiring school bus drivers away from traditional public schools, offering them 10 percent more pay plus a bonus.

In the Roosevelt Elementary School District in Phoenix, one of the poorest neighborhoods in the state, another superintendent, John Baracy, is feeling the heat as well. In his office at an administrative headquarters that is itself as big as a typical school, Baracy tells me that 300 students have left so far for charters—a drain of more than \$1 million, or 2 percent to 3 percent, from his budget. He calls these departures “a

wake-up call” and says he was moved to phone “our customers that left us” to find out why. “The main theme that’s coming across is that we have not been sensitive to the needs of the parents,” he explains.

The departure of students is the sort of unambiguous market signal that was heavily muffled before charters came on the educational scene. Baracy won’t be specific about how he’ll respond to student needs, but he’s gotten the message. “It’s an incentive for schools to reflect on themselves and reassess where they’re at,” he says, adding, “I’m a supporter of charter schools. If parents feel the opportunity is better with them, then they should have that option.”

The precise effects of competition on educational quality are difficult to measure, but in a study released last year, Harvard economist Caroline Hoxby found that when families are given a “large increase” in the number of schools to which they can send their children conveniently—defined roughly as a jump from two schools to ten—interesting things happen. First, per-pupil spending drops by about \$400, or 7 percent. Second, increased competition improves measures of student performance—including test results, the probability of finishing high school, and future income—by about 5 percent. “The striking thing is the opposite directions of the spending and achievement results,” says Hoxby. “This has powerful implications for productivity.” None of this should be surprising: Lower costs and higher quality are the results that competition produces in the private sector. Why should public education be very different?

The first of the country’s charter schools opened its doors in St. Paul, Minnesota, in 1992. Some 290 new charter schools were launched last fall alone, but the average state has only about two dozen, and in most cases established interests, led by the teachers’ unions, have placed restrictions on the freedom of educators to run the schools the way they want. These rules often go beyond the onerous; some even prescribe exact qualifications for teachers and micro-manage how instruction is given.

In Arkansas, for example, the union “essentially wrote the charter law,” says Joe Nathan, director of the Center for Social Change at the University of Minnesota. “And the Arkansas law is a joke.” A joke, that is, on students and parents: Students can’t move to a charter school; they have to be matriculating at a conventional one that converts. Also, all teachers have to participate in the statewide collective bargaining agreement. As a result, Arkansas has zero charter schools.

Arizona is at the other end of the spectrum. Students have to meet detailed statewide academic standards in math, language, science, arts, foreign language, and health. And schools have to be run on a sound financial basis and be audited annually. But as far as oversight goes, that's about it. Schools use their own forms of teaching, ranging from back-to-basics curricula to the Montessori method. They can concentrate on the arts or agriculture, on science or school-to-work programs. They have to be nonsectarian and can't display religious objects, but one school, Gan Yeladeem in Scottsdale, teaches Hebrew as a second language (though only about one-third of its 96 students are Jewish), and several Mormon schools have converted to charters (though no Catholic schools have done so). Arizona charters don't have to give preference to "at-risk" students (though there are special charter schools for the hearing-impaired and for pregnant teens and mothers), and they don't have to strive for racial balance. They do, however, have to admit all comers (the arts schools can't even hold auditions) and, if too many students want to enroll, admit them at random.

The key to Arizona's success is that charters for new schools can be bestowed not just by local school boards—which aren't eager to engender competition—but by a state board for charter schools or by the state board of education, headed by Lisa Graham Keegan, the elected superintendent of public instruction. By contrast, in most states, only local school boards—or county boards, on appeal—can charter a school.

The city of Mesa illustrates the importance of a multi-sited charter certification process: None of its 23 charter schools was approved by its local board (given entrenched interests, that's hardly surprising). Two, in fact, were chartered by boards from other parts of the state. One of the neat wrinkles in the law is that any board can charter schools anywhere in Arizona and receive a licensing commission in the process. Because of this open-door policy, four for-profit national chains have secured charters in Arizona: The Tesseract Group (formerly Education Alternatives Inc.), based in Minneapolis; Sabis Educational Systems Inc., of Eden Prairie, Minnesota; Leona Academies of East Lansing, Michigan; and Advantage Schools Inc., of Boston. Chris Whittle's Edison Project, which operates public schools enrolling 13,000 student in eight states (some in charters, others through management contracts with conventional public school boards), is another likely entrant in Arizona.

Superintendent Keegan, who is rumored to have aspirations for higher office, was the driving force behind the charter law as a state legislator. It

passed almost by a fluke. Originally, Keegan and her colleagues tried to pass a voucher law that would have given parents money they could have used to enroll their kids in private schools. When it became clear that the unions stood in the way, she switched to charters, which the opposition assumed—mistakenly, it turns out—would be less threatening to the public school monopoly.

Indeed, one thing I learned in Arizona is that, from an educational standpoint, charters make the question of whether the alternatives to conventional public schools are public or private less pressing. In terms of creating better schools, the key is that parents have wide choices and that the schools are as close to independent as possible. When I asked Susan Heller, principal of Gan Yeladeem, if parents were happy with her school, which she founded in 1996 and which already has a waiting list, she said simply, “Well, if they aren’t happy, they have the choice to leave, and nearly every child has stayed.” So far, Arizona’s minimal academic requirements haven’t played mischief with the charters’ diverse personalities and approaches to learning.

The financial oversight has been pretty hands-off, too. In fact, only two schools—less than 1 percent of the total—have lost their charters because they failed to meet the state’s fiscal standards. In one case, there was out-and-out fraud; in the other, the state didn’t trust the school’s enrollment numbers. Those failures actually point out a major strength of the charter system. As Keegan wrote in January in a letter to the editor in *The New York Times*: “Our public system has at times been rife with mismanagement, yet before the advent of charter schools Arizona had never been able to take such strong actions on behalf of students. Closing a failing school is not a travesty, it is progress.” Like any other business, a school should fail if it messes up financially or if it can’t deliver what its customers want. When you have trial and error, you have error—and it has to be punished. Bad schools should go bankrupt. The idea, after all, is to create a resilient system, not a fault-free one.

The only deficiency of Arizona’s law—and it’s a big one—is that the state stipend is not supplemented to account for buildings and other capital costs. Arizona charters receive the same amount, per student, as conventional public schools do for operations. But the charters, unlike regular public schools, have to use some of that money to pay rent on their buildings.

“At \$4,200 [a student], your margins are so thin that if you hiccup, you’re going to lose money,” explains John Golle, chairman of The

Tesseract Group. When it opens its charters over the next few years, Tesseract will be Arizona's largest charter school operator, with 16 sites and a total of 6,650 students in grades K–12 (it already runs a private school in Scottsdale, with annual tuition averaging about \$6,700). This is the same company that, before changing its name from Education Alternatives Inc. last December, ran schools under management contracts with boards in Baltimore and Hartford. Those deals came apart at the seams, in large part because of opposition from the unions.

In Arizona, Tesseract's challenge is more economic than political, though hardly less daunting: How do you stay in business given the state's relatively stingy stipend? Golle's idea is to run his charters like a movie house, profiting from the popcorn, not the film. In this case, the popcorn includes preschools that feed into the charter, post-secondary classes for adults, summer programs, and special classes in computer skills.

If Superintendent Keegan gets her way, though, charter school operators will see their margins fatten up a bit. She is now pushing for an extra \$640 per student as a capital stipend. The ultimate goal, she told me, is to "strap dollars on the back of students." That's a concept that could, of course, lead to a voucher-style system, where the money accompanies students to private schools (which enroll about one in eight kids nationwide). Whether that ultimately happens, the odds look fairly good that Keegan will succeed in getting a capital stipend for charters. If and when she does, says Jaime Molera, the 29-year-old top assistant on education to Gov. Jane Dee Hull, "Charter schools could grow exponentially."

John Graham, a Phoenix real estate developer, concurs. He says that firms like Tesseract and Edison have asked him to build schools in his suburban subdivisions and lease them back to the charter operators for free, or at a token rental, to encourage families to buy houses there. It's a nice deal for the educational firms, he says, but one that doesn't do much for the builder. "As a businessman, it doesn't make sense," says Graham. But, he points out, if a developer could pull in \$600 per student, or \$180,000 in annual rent from an enrollment of 300, it does.

I visited with Graham (who is, incidentally, Keegan's ex-husband; Phoenix is that sort of small town) last November. A little later that same day, I toured a school in a central-city neighborhood that is worlds apart from Graham's commodious developments. The school has 359 elementary students, nearly all of them Hispanic, and is located in a former shopping center. It's run by Advantage, a typical start-up company with enthusiastic founders, high expectations, and little else.

Currently, Advantage has only one other charter school, in Rocky Mount, North Carolina, and another set to go in New Jersey this fall. Advantage has received a total of \$5 million in venture-capital funding from Bessemer Venture Partners and Fidelity Capital, a division of Fidelity Investments, the huge mutual fund house.

Critics accuse charters of “skimming” the best students from public systems, which is often a coded way of claiming they have predominantly wealthy, white students. But the Advantage school’s large minority student body is actually pretty typical for charters. A study released last May by the U.S. Department of Education found that 48 percent of charter school students are minorities, compared with 34 percent for all public schools nationwide. In Arizona, the study found that 45 percent of charter students come from families with incomes low enough to qualify for the free or reduced-price lunch program, compared with 40 percent for all public schools in the state. Nationally, 13 percent of charter school students are in special education programs, vs. 10 percent at regular public schools.

Far from skimming the best students, then, charter schools often wind up with those who are having problems. The reasons for this are not hard to fathom. As researchers Chester Finn, Gregg Vanourek, Bruno Manno, and Louann Bierlein suggest in their extensive 1997 study of charter schools for the free-market-oriented Hudson Institute, the most comprehensive review yet of the existing charter school literature: “Well-to-do parents of successful youngsters are not likely to enroll their progeny in new, unproven schools that have not yet established firm reputations. . . . The families streaming into charter schools are plenty needy, and many of their children have been poorly served elsewhere.”

That’s certainly the case at Advantage, where 90 percent of the children are on free or reduced lunch (the generally used poverty standard for schools). While most of the parents are Hispanic, the teaching language is English. Both the school day and the school year are longer than in normal Phoenix public schools. But that doesn’t seem to bother the kids. The principal, Pepe Quintero, a 27-year veteran of teaching, is a bundle of energy, and the students, all in neat uniforms, are almost frighteningly attentive to teachers using a highly scripted curriculum called Direct Instruction that stresses reading skills.

Each classroom has rules posted on the wall: “Be responsible. Be kind. Tell the truth. Persevere.” Encouragement is everywhere. In a fifth-grade room, a sign says, “We are the world’s best class.” And there’s a remark-

able amount of respect shown to the kids by the teachers and administrators. For example, when Quintero brings me into a classroom, he says to the second-graders, "Excuse me, ladies and gentlemen, for interrupting."

Anyone who has visited an inner-city public school would find the sense of order at Advantage astonishing. But not surprising: The parents of these kids want discipline and structure in their children's schools; that's one of the main draws of Advantage. Clearly, the power of self-selection is intense and effective. It helps everything run more smoothly.

"Everybody is here by choice, not by assignment," says Stephen Wilson, the president of Advantage and formerly director of strategic planning for the commonwealth of Massachusetts. And he's referring not just to the students and their parents but to the teachers and the principal as well.

Wilson's partner is Theodor Rebarber, who was an aide to former Minnesota Rep. Steve Gunderson and who authored a 1997 Reason Public Policy Institute study on charters. Like any other businessmen, they're out to make a profit by giving customers what they want. But staying in the black is no easy task given Arizona's level of per-student funding. "Phoenix, for us, is a great business challenge," says Wilson. "If we can make it here, we can make it anywhere." Next on his list are Washington, D.C.; Worcester, Massachusetts; Kalamazoo, Michigan; and Chicago. If Advantage goes public, Wilson says, teachers will get stock options.

To my admittedly untutored eye, the Advantage school appears to be an enormous educational success. But it just opened its doors in September, so no student test results are available yet. Similarly, there are not yet any substantive data from other Arizona charter schools.

The Hudson Institute study, however, suggests cautious optimism regarding charter schools, noting that the "early signs are promising. . . . [A]t six of eight Massachusetts charter schools where students have been tested, academic gains were greater than is typically found in regular public schools. (The other two cases were inconclusive.) In Lawrence, second-, third-, and fourth-grade students at Community Day Charter School advanced an average of 1.5 years in eight months. In Springfield, where Sabis (a for-profit firm) took over the town's worst elementary school, students in grades second through seven gained 1.5 years in seven months."

Reports of similar gains are trickling in from other parts of the country. The Fenton Avenue Charter School in Los Angeles, with an enrollment that is nearly all poor, boosted test scores more than 20 percent in

two years. The Academy of Charter Schools in Colorado reports that students have advanced an average of 13 percentile points in “basic battery” categories for the past two school years.

As important, parents are convinced that charter schools are working for their kids. As part of their study, the Hudson Institute group surveyed the parents of 2,978 students at 30 charter schools in nine states. They found that of parents who said that their children’s performance was “below average” at their previous school, 32 percent responded that performance at the charter was now “excellent” or “above average.” Fifty-five percent said it was “average.” Only 13 percent of the kids remain below average in the view of their parents. Not quite Lake Wobegon (where all the children are famously above average), but it’s very impressive when 87 percent of parents see a significant improvement.

But to return to the question that prompted my travels: Are conventional public schools reacting to charter competition in a positive way? Yes. In Arizona’s Queen Creek school district, the local elementary school changed its curriculum to a back-to-basics approach in direct response to the opening of a charter school in the district. Flagstaff last year opened a “school within a school” for 100 students, who can focus on either arts or on math and science. As *Investor’s Business Daily* reported, Flagstaff schools spokesman Gary Leatherman minced no words as to why, saying simply, “We did that to stem the flow of students.”

The same *IBD* story notes that after Lansing, Michigan, lost 900 students (about 5 percent of its base, at a cost of more than \$5 million) to charters last year, the public school district “announced tough new goals—like higher test scores and reduced dropout rates—with specific targets in place for the next five years.” While the announcement of a five-year plan sounds like the typical reaction of a large bureaucracy, in this case it’s clear that Lansing’s public school administrators are getting the right message.

The massive Hudson Institute report, surveying charter schools around the country, helps flesh out how competition with charters will enrich conventional public education. While Finn and his colleagues stress that at this point they “only have clues” and that they’re “not quite certain what a ‘critical mass’ of charter schools will be,” the signs of charters’ positive effects on traditional public schools are not hard to find. They write, “We’ve . . . been to places where the appearance of a charter school (or two or three) in the community leads to beneficial effects from competition, heightened entrepreneurship on the part of the ‘regular’ schools, a scramble to find efficiencies, even ‘copycat’ schools

that borrow a popular curriculum, disciplinary strategy, or special service from the charter school.”

For example, the researchers found that one charter school in Massachusetts offered full-day kindergarten, prompting the local public school to offer the same. In Detroit, where charter schools just began operating this year, the superintendent of public schools has said, “We’re finding the charter idea is helping encourage other schools in our district to examine what they are doing. I don’t agree with those who are defensive. We are proud of many things about the Detroit schools. But we can, and must, do better. Charter schools are helping us move in the right direction.”

Traditional public schools in San Carlos, California, have been using the charter school there as a research and development laboratory, to see what works. According to the Hudson Institute study, it has “instituted the use of personalized learning plans, thematic instructional units, multi-age classrooms, and technology-based instruction. Other schools in the district are now adopting these approaches.”

This evidence, I’ll admit, is anecdotal—and sparse—but all signs suggest that charter schools are having an important dual effect: Not only do charters provide their own students with a quality education, they are having a significant impact on non-charter public schools, too. The dynamics unleashed by charter competition may not be the perfect solution to bad schools, but it’s hard to see what’s better—or more immediately available.

Much of the success of charters depends on the excitement, energy, and drive they generate in all involved. That was evident at the very first charter I visited, the Arizona School for the Arts, in downtown Phoenix. The director, Mark Francis, has for 15 years had a vision of the school he wanted to start—“a school where the arts go hand-in-hand with personal and intellectual development.” Says Francis, a Ph.D. in musical arts, “We’re a college prep school that allows students to work with performing artists.” Education experts will tell you that a school that has such a clear-cut idea guiding it is more likely to succeed than one with the vague mission of simply “teaching” students. When parents, students, teachers, and administrators all know where they are headed, it becomes much easier to arrive at a particular educational destination.

Like most charter entrepreneurs, Francis got the school off the ground himself—recruiting a board, hiring teachers, finding a building (in a church) and, in his special case, making arrangements with a ballet

company, a theater company, and the local symphony to give his students instruction. He found the head of the school's academic program, Diane Jarrell (who has a Ph.D. in education) by putting a "little bitty ad in the newspaper. I had something in there that said that certification is not necessary, excellence is."

In its second year, the school has 275 students in grades 6 through 12—and a waiting list for the middle grades. The state provides an average of \$4,500 per student (annual stipends vary by grade), for a total of about \$1.2 million. Francis would like more money, but so far he's in the black. Teachers are paid \$24,500 to start, with more experienced ones earning \$32,000—similar to traditional public school pay in Phoenix. "We prefer to get younger teachers," Francis says, "and bring them up our own way."

Students don't receive grades, but they're subjected to tough oral exams three times a year, and teachers send home a one-page assessment. It's a system that seems to please everyone. And the kids are smart and alert. I visited a social studies class that discussed the economics of art: how, for instance, painters make a living. Some of the students had parents who were artists who also gave lessons or held down other part-time jobs, and they talked about their own experiences. The discussion turned to artists in Renaissance Italy, and the teacher, frankly and accurately, pointed out how the rise of a rich merchant class helped the arts flourish.

Interestingly, Francis says that running a charter has moved him closer to the libertarian camp. "I just want people to have more choices," he says. "And this is a liberal Democrat talking." I ask him what he thought of federal grants to state education agencies for charter schools, which President Clinton is pushing. Not much, he replies: "It costs more to hire someone to do the paperwork." And he fears the strings that are always attached to Washington's money.

Francis reminds me of the owner of any start-up business (I used to be one myself). The school is the fruit of his own imagination, and he's desperate to make it succeed. It's precisely this spirit that's missing from public schools, where bloated power structures make it difficult for students, parents, teachers, and administrators to have much of a personal stake or to believe their involvement can really make a difference. Educators like Francis lead by example—and the schools they're creating in Arizona and elsewhere are likely to lead by example, too—even helping kids sitting in conventional public school classrooms.

Such a powerful ripple effect is one reason why Jaime Molera, the assistant to Arizona Governor Hull, likes to quote his boss as saying that her goal is for all of Arizona's schools to be charter schools—that is, schools of such spectacular variety and independence that parents choose them for their kids.

Healthy Competition

David Osborne

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A decade ago, a group of parents in Forest Lake, Minnesota, decided they wanted to create a Montessori elementary school. They had kids in a Montessori preschool, and some had older children in the local public school. The parents were afraid the love of learning they saw emerging in their preschoolers, who were encouraged to follow their interests and initiate their own projects, would be squelched in the public school. They looked into starting a private school but quickly realized they couldn't afford the tuition. So they approached their school district and proposed a public Montessori school. And they got nowhere.

"Every meeting resulted in, 'No, we can't do this,'" said Mark Gilchrist, a public school teacher in another district. "And the reasons weren't that it was an educationally poor concept. In fact, every school administrator and teacher we talked to agreed that this was very sound educationally. But it was, 'We don't know how we would arrange the busing,' or 'We don't have magnet schools, we have neighborhood schools,' or 'How would we train teachers?' It was, 'Yes, this is a good program, but we can't do it, we can't do it, we can't do it.'"

Then, in 1991, the Minnesota legislature passed the nation's first charter school law, which allowed parents and others to create new public