Report: How A Non-Profit Charter School Can Be Run For Profit

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It has become cliché for politicians and policy makers to oppose "for profit" charter schools. It's also a safe stance, because most people agree they're a bad idea; for-profit charter schools are not legal in almost all states.

But charter school profiteers have found many loopholes, so that while they may not be able to set up for-profit charters, they can absolutely run charter schools for a profit. That may seem like a distinction without a difference, but the difference is that one is illegal in almost all states, and the other, as outlined in a new report, can be found from coast to coast. The new report, "Chartered for Profit," from the Network for Public Education examines the size and reach of "the hidden world of charter schools operated for financial gain." (Full disclosure: I am a member of NPE.)

The most common workaround for operating a charter school for profit is a management corporation. In this arrangement, I set up East Egg Charter School as a non-profit; I then hire East Egg Charter Management Organization to run the school, and that is a for-profit operation (known as an EMO).

As the report finds, the possibilities here are many.

In some cases, the school and EMO are enmeshed with each other, sometimes with family ties. In Arizona, Reginald Barr runs a non-profit EMO that manages four charter schools; he also, with his wife Sandra, runs for-profit Edventure, which collects $125 per student for managing the schools. The schools lease property from a company owned by the Barrs and hire another Barr company to handle payroll. The four charter schools are controlled by a single board; Sandra Barr and her mother hold two of the three seats.

Some of these management operations are large scale; the report finds that just seven corporations manage 555 charter schools across the country. But chartering for profit can work on a small scale as well; of the 138 for-profit management companies NPE studied, 73 ran only one or two schools. In other words, the EMO is created specifically to run one particular school, not as a stand-alone business venture.

No matter the scale, "sweeps" contracts are a common tool. The management company provides virtually all of the school's services (building, maintenance, curriculum, payroll, etc) and may even contract not for a set fee, but, as one EMO contract states, it receives "as renumeration for its services an amount equal to the total revenue received" by the school "from all revenue sources."
There are other ways to pull profits from these operations. Many charter schools are part of lucrative real estate deals. One audit in New York found that the Diocese of New York was renting a facility to NHA for $264,000 per year; National Heritage Academy (NHA) sublet that space to its charter school $2.76 million. Jon Hage, CEO of Charter Schools USA, also owns Red Apple Development, whose website displays 66 CSUSA schools that Red Apple developed and, in most cases, owns and leases. Cyber-charters are particularly profitable, with one recent report suggesting that Californians are overpaying cyber charters by $600 million.

The report also digs into how charters can maximize profit by enrolling fewer high needs students than their public counterparts. The disparities are greater in some states and cities than in others. One of the most striking is the BASIS charter chain of Arizona, where the student body is only 1% free and reduced lunch (a common metric for calculating how many poor students attend), only 1% limited

English proficiency, and only 3% students with special needs—far lower than the percentages for public schools. BASIS is an unusually obvious case, but that disparate pattern of enrollment is present across the charter sector sector.

It's not surprising. While many may argue that there's nothing wrong with mixing profit motives with education, one of the obvious issues is that the only real way to maximize profit from a school is to reduce the amount of money spent on operating it. Every dollar spent on educating students is one less dollar to bank. Students who have more expensive needs are a liability standing in the way of profit.

It's also important to remember that these schools are paid for with taxpayer dollars. When Ron Packard collected $19 million as K12's CEO, that was paid primarily taxpayer dollars.

And while taxpayers might well want to complain, it's also important to remember that most charters and EMOs are not run by elected boards. The standard argument is that the market will take care of these issues because parents will "vote with their feet," which is another way of saying that taxpayers without school age children have no vote at all. Nor do these charters need to keep all customers happy; just enough to keep the school profitable.

Not all charter schools are out to make a buck, and charters run for profit are not everywhere in the nation. Ohio, Arizona, Michigan, Nevada, and, of course, Florida have charter laws that allow for little oversight and lots of profiteering in the charter school business. How much private profit can be made by collecting public tax dollars depends primarily on the rules set up on the state level.
You can read the entire report here. It's loaded with details and is well-sourced, so you can check their work yourself while considering the big question— if for-profit charters are a bad idea, how are charters run for profit any better?