Executive Summary

For the Barrs, chartering for profit is a family affair. Reginald Barr is the Founder and CEO of The Charter Foundation Inc., a non-profit organization that currently man ages four networked charter schools in Arizona. His for-profit corporation, Edventure, which he jointly owns with his wife Sandra, takes a fee of $125 per student from each school. However, that is not where the business relationship between the Barrs and the charter schools ends.

Two other for-profit companies owned by the Barrs, Sixty Five Plus and One Employment Plus, LLC also do business with the schools. The first leases buildings to the schools and the second pays the salaries of school employees. Deborah LeBlanc, the Barrs' daughter, is also listed as an owner of Sixty Five Plus.

The four charter schools share a single governing board. Sandra Barr and Deborah LeBlanc, mother and daughter, hold two of the three board seats, and the responsibility for directing and approving contracts with their own companies.

Welcome to the world of chartering for profit.

Between September 2020 and February, 2021, The Network for Public Education identified more than 1,100 charter schools that have contracts with one of 141 for-profit organizations to control the schools' critical or complete operations, including management, personnel, and/or curriculum. While in many cases, the self-dealing is not as extreme as in the case above, similar patterns of for-profit management companies directing schools to their related real estate and service corporations are more the rule than the exception among these schools.

Why we use the term "charters run for profit."

The term "for-profit charter school,'' while commonly used, does not accurately describe the vast majority of charters designed to create private profit. By law, only the state of Arizona allows for-profit entities to be licensed to run charter schools.

However, those who wish to profit from charter schools have developed creative work-arounds. The for-profit management organization, commonly referred to as an EMO[1], typically finds individuals interested in operating a charter school, and helps them create a nonprofit organization and apply for a charter license. The board of the nonprofit then enters into a contract with the for-profit EMO to run the school.

One of the largest EMOs, National Heritage Academies (NHA), locks schools in with

1 Education Management Organization

a “sweeps contract” where virtually all revenue is passed to the for-profit management corporation, NHA, that runs the school. In other cases, the EMO recommends their own related companies for services that include leasing, personnel services, and curriculum.

For example, we found fifty-six active related corporations listed at the Florida EMO Academica’s Miami headquarters’ at 6340 Sunset Drive. An additional 70 related entities are registered as based at 6457 Sunset Drive. Corporations included at these addresses include related real estate corporations, holding companies, foundations, and finance corporations—often bearing the Academica name or an Academica’s school’s name. One wonders if these small related corporations exist to support charter schools, or if the schools exist to support the corporations.

Although public school contracts are subject to competitive bidding and open for public scrutiny, the absence of responsible fiscal regulations in the name of charter school “innovation” has created a wild west of profiteering. In this report, we provide example after example of management companies contracting with self-owned businesses to extract additional profit. Behind the curtain, like the Wizard of Oz, the management company pulls all the strings. The real money is made by controlling the decisions regarding which corporations provide facilities and other services to the schools.

In order to help readers understand how private individuals can legally run charter schools for private gain, we do in-depth analyses of the operations of four of the largest brick and mortar charter chains. We then highlight how the very same business practices are used in even the smallest of charter management companies—those that run only one or two schools.

We sample large chains to see whether or not part of the “business plan” is to attract students who are less expensive to teach. Finally, we show how for-profits cluster in states with loose laws coupled with a political climate that makes for-profit expansion possible.

What We Found

Despite the commonly held belief that families and teachers initiated the charter school movement, large for-profit management companies appeared and expanded from its earliest days. Within five years of the opening of the first charter school in Minnesota (1992), the four dominant brick and mortar for-profit chains—National Heritage Academy, The Leona Group, Charter Schools USA, and Academica began building their operations. These four corporations, plus the three largest for-profit online charter corporations (K12 Inc., Pansophic Learning/ACCEL, and Pearson/Connections Academy) manage 555 schools across the country; nearly half of our identified schools.

Other large chains operate clusters of schools in only one state.

Of the 141 for-profit management corporations, a majority (75) run only one or two schools, a practice designed to get around state laws that prohibit for-profit charter schools, while ensuring that profit can go into the school manager's pocket and that transactions and salaries can be hidden from public view.

Contractual agreements known as "sweeps" between the charter school and the for-profit manager are used by many large and small chains. Sweeps contracts give for-profits the authority to run all school services in exchange for all or nearly all of the school's revenue. By illustration, we present wording from the 2019 audit of The Bennet Venture Academy, an NHA school in Ohio:

> "Under the terms of the Agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources."

Despite strict regulations against the disbursement of funds from the federal Charter Schools Program (CSP) to charter schools operated by for-profit entities, we identified over 440 charter schools operated for profit that received grants totaling approximately $158 million between 2006 and 2017, including CSP grants to schools managed with for-profit sweeps contracts.

Fewer disadvantaged students (proportionally) attend charters run for profit. Comparing the five cities with the most for-profit charter schools (by the proportion of students attending these schools) revealed that in all but one city—Detroit—for-profit run charters served far fewer students who are eligible for free or reduced-price lunch. In all cities, for-profit-run schools serve fewer students who receive services under IDEA. Even more dramatic disparities were found by comparing Academica, Charter Schools USA with public school students in cities where the charters are located. In the case of BASIS, we compare their schools to public schools in the state of Arizona.

Twenty-six states and the District of Columbia have charter schools run by for-profit corporations. In some states, the footprint is limited to the two largest online chains, K12 and Pearson's Connection Academy. In two states, Michigan and Florida, charters run for profit are the majority of charter schools in the state. Other states with over 30 percent of charters run for profit are Arizona, Nevada, and Ohio. For-profit charters are a growing sector in North Carolina as well.

President Biden's Promise

During the campaign, then-candidate Joe Biden was clear and firm. He is opposed to for-profit charter schools and he vowed to ensure that they would no longer be eligible to receive public funds. Under federal law, only public, not private entities can receive federal funding. As this report explains, regulations have been evaded by the use of the nonprofit façade. That must be fixed.

To keep that promise, we recommend that:

* The U.S. Department of Education enforce its own regulations. Federal regulations require that CSP grant administration be independent of a for-profit board. Its guidance defines what an "arm's length" relationship is. The U.S. Department of Education should conduct an extensive audit of present and former grantees to ascertain compliance with all regulations that define the for-profit relationship.
* The Federal government requires all charter schools that receive federal funds to provide the name and profit status of any entity that provides management services, as well as the names and services provided by all vendors that are related corporations of the EMO.
* The Department update its non-regulatory guidance that determines whether a Charter School Program (CSP) applicant is in fact, "independent from the for-profit CMO or EMO hired to manage the day-to-day operations of the charter school" so that for-profit organizations that use nonprofits as a façade are ineligible to receive federal, taxpayer-funded grants. In order to avoid future workarounds, we suggest that the federal government define a for-profit charter school as a school in which more than 30 percent of all revenue flows directly or indirectly to for-profit vendors. Lease or mortgage payments would be exempt, except in those cases where payments or fees go to a for-profit entity that provides an additional service directly to the school or to its nonprofit.

Other Recommendations

In order to remediate the workarounds to state laws that prohibit for-profit charters, we recommend that:

* All states follow the lead of Ohio by listing the management providers and posting their contracts with charter schools. To that information, the profit status of the EMO should be added.
* Sweeps contracts be outlawed in every state. In addition, we recommend that related corporations of for-profit and nonprofit management companies be prohibited from doing business with their managed charter schools.

* All charters be held by the school or campus itself, and not by a nonprofit subsidiary of the for-profit. When a nonprofit holds the charters of multiple schools or campuses, and governs those schools with a single board, it makes it impossible for an individual school to break free of the for-profit EMO.
* A national database be developed that lists all charter EMOs and their corporate status (for-profit or nonprofit), along with their address and the name(s) of the private corporation's owner(s).
* Finally, we recommend that states update their definition of a for-profit charter school to align with the reality on the ground. In keeping with our federal recommendations, we suggest the following: A for-profit charter school is a school in which more than 30 percent of all revenue flows directly or indirectly to for-profit vendors. Leasing or mortgage payments are exempt, except in those cases when payments or fees go to a for-profit entity who provides an additional service to the school, or its nonprofit.

We are in a time when our public schools are struggling to provide all children with the services they deserve during a national pandemic. Students will bear the costs of that pandemic for years to come. Now more than ever, it is imperative that every tax dollar be directed to delivering those services. It is time to end chartering for profit and to ensure that children, not corporations, profit from our tax dollars.

Let's end the era of chartering for profit. It serves neither students nor taxpayers well.