CHARTERED FOR PROFIT:

The Hidden World of Charter Schools Operated for Financial Gain

NETWORK for PUBLIC EDUCATION

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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 net-worked charter schools in Arizona.[1] 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[2] and One Employment Plus, LLC[3] also do business with the schools. The first leases buildings to the schools and the second pays the salaries of school employees. Sixty Five Plus has two other owners—Deborah and Andre LeBlanc—Sandra Barr's parents.

The four charter schools share a single governing board. Deborah LeBlanc and Sandra Barr, 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 138 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 workarounds. 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 non-profit 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 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.[4] An additional 70 related entities are registered as based at 6457 Sunset Drive.[5] 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

1 Education Management Organization

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 138 for-profit management corporations, a majority (73) 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.[6] 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.[7] 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.

Introduction

Between 2007 and 2016, Marcus May, the CEO of the for-profit corporation Newpoint Education Partners, managed fifteen charter schools in multiple counties in Florida.[8] May would convince parents and community members, mostly naive to school governance, to create charter schools that would become dependent on Newpoint. According to an affidavit submitted to the courts by certified fraud examiner David Bryant, May, or others acting on his behalf would help groups without experience form nonprofit corporations and apply for charters to run schools in their districts. Because he actively sought out those with little or no experience, they were happy to hand over the running of the schools to May, who would charge them eighteen percent of all revenue the school received, in addition to reimbursement for his expenses.

Beyond his own corporation, May engaged the services of a company called School Financial Services (SFS) to take care of the schools' bookkeeping. Although SFS provided the services to Newpoint without charge, May charged the schools an additional three percent for the service. The charter school administrators were authorized signers on the school bank accounts; however, they did not have access to withdraw funds. Instead, SFS withdrew all of the schools' funds from each bank account every week, leaving a balance of $1,000.

May used his various vendor businesses to overcharge the schools for furniture, computers, and other items. Additional schemes involved kickbacks and broker fees for school facility leases, personal expenses incurred by May and his family members charged to the schools' credit card accounts, and inflated enrollment figures to trigger more revenue from the federal Charter Schools Program.

Today Marcus May is an inmate at the Lancaster Correctional Institution in Florida, appealing his twenty-year conviction for racketeering and organized fraud.

What is a for-profit charter school?

What may surprise readers, however, is that all of the questionable practices described in the first two paragraphs above are not why May is in jail. He is at Lancaster because he went the extra mile by profiteering with kickbacks, misuse of the credit card and inflated enrollments. But most of what he did with his for-profit charter management company was well within the law. The self-dealing, high fees, related companies, and real estate practices are not only legal; they are happening in charter schools run by for-profits today. And thanks to years of lobbying by the for-profit operators and the charter school sector in general, finding crooks like Marcus Mays in the charter school world is not easy to do.

The term "for-profit charter school," while commonly used, does not accurately describe the vast majority of charters designed to create private profit. Only the state of Arizona allows for-profit entities to be licensed as a charter school. In addition, for-profit charters cannot receive any federal funds. However, those who wish to profit from charter schools have developed creative workarounds to evade state and federal laws. The for-profit management organization, commonly referred to as an EMO, finds individuals to create a non-profit board. That board, which is appointed, not elected, enters into a contract with the for-profit to run the school.

Some EMOs manage only one or two schools. Others manage over ninety. Whether large or small, their practices are often the same. Many operate using a "sweeps contract" in which virtually *all* revenue, public and private, raised by the charter, is passed to the for-profit management corporation to run the school. In other cases, the EMO contracts various services out to other for-profit providers, sometimes owned by the owners of the EMO. Either way, whatever money is left over after the bills are paid can accumulate as profit.

Therefore, a more precise nomenclature for these charter schools, despite their official nonprofit status, is charters run for profit or charters operated for profit. We will use these terms throughout this report.

Cashing in on Kids

While profiteering off the charter school sector is not new, it is a growing enterprise. In the spring of 2019, Mary Scott Nabers of *Strategic Partnerships, Inc.* wrote, "A new U.S. marketplace is growing so fast many have not noticed it – the charter school network. It is already extremely large, and it touches almost every region of this country. Contractors of all types and sizes should take notice of the abundance of upcoming opportunities."[9]

The opportunities to cash in are limited only by the charter school entrepreneur's imagination. From no-bid and sweeps contracts to self-dealing and real estate speculation, opportunities are plentiful. And because the schools are publicly funded, the risk is low. Every student who walks through the door brings ample public funds.

Although the charter sector was formed to spur innovation and improve the education of disadvantaged children, financial dealings prohibited in the public school sector are perfectly legal for charter schools. How questionable or obscure financial transactions designed for profit-making enhance innovation or student achievement is unclear. Nevertheless, as we will show in this report, they have existed from nearly the inception of the charter sector's beginning and are often hidden from public view.

Presently, twenty-six states and the District of Columbia have charters run for profit. In some cases, there are only one or two. In two instances, Michigan and Florida, they are the majority of charters in the state.

Why are charters operating for profit a problem?

Advocates argue that operating a charter school for profit enhances school performance and competition.[10] They believe that a business model will produce the best schools and that financial risk-takers are highly motivated to improve school performance to retain "customers."

Many Americans are skeptical of charters run for profit, and they should be. The first responsibility of any for-profit company is to maximize profit for its owners and, in the case of a public corporation, its shareholders. The typical way to enhance profit is to cut costs. Therefore, when the private sector is given the authority to operate a public service with public funding, it is inevitable that conflicts of interest arise. Maximizing profit becomes as important, if not more important, than educating children.

Cost-cutting strategies designed to increase profit are a standard business practice. This is often achieved by reducing personnel costs. In education, that means either paying teachers less or paying fewer by increasing class size. In 2010, the Florida Center for Investigative Reporting released a confidential document from K12 Inc. that showed that in some of K12's online high school courses, the student-teacher ratio was 275 to 1.[11]

Savings can also accrue from hiring uncertified teachers or discouraging students who need the most services from enrolling. A 2019 investigation by Andrew Marra of *The Palm Beach Post* revealed that Renaissance Schools run by the for-profit giant Charter Schools USA hired large numbers of uncertified, inexperienced teachers.[12] The chain was evading a state law requiring teachers to be certified by designating them as permanent substitutes.

In 2017, the Arizona ACLU reported that three of the four AmeriSchools, which are managed and operated by the for-profit EdVenture, limited special education students to only ten students in three of its four schools.[13] Any arbitrary limit, regardless of enrollment, violates of state law. Practices like these, however, lower costs by reducing the school's services, thus increasing a surplus of revenue at the end of the year. We discuss AmeriSchools in more detail later in this report.

Where does the money go when charters are run for profit?

When district public schools produce a surplus through unexpected increases in funding or cost-saving measures, those funds are plowed back into the school or used to reduce the tax levy. State laws limit the fund balance a school district can reserve.

However, in the world of charter schools operated for profit, those extra funds can easily flow to the EMO or its related companies, as we show in this report. Nearly all are private family businesses or nonpublic entities answerable to a small group of investors. The incentive is to provide just enough services to keep "the customers," in this case parents, interested in the school.

Also, while public school contracts are subject to competitive bidding and open for the public to observe, contracts with most vendors are hidden in the charter sector. The absence of responsible fiscal regulations in the name of "innovation" has created a wild west of profiteering. We provide example after example of management companies contracting with their own side businesses to extract additional profit.

Let there be no mistake. Non-profit charter management organizations have also found devious ways to eke out a profit from schooling via oversized salaries and nepotism, real estate deals, related for-profit companies, and sometimes outright fraud. Three of the four charter management organizations that have run a Cape Coral, Florida charter school, presently known as Heritage Academy Charter School,[14] were for-profits. However, a fourth, Celerity Education Management, was a nonprofit whose founder and CEO misappropriated and embezzled a total of $3.2 million.[15] And the largest charter school scandal to date, one that funneled tens of millions of dollars into the owners pockets via kickbacks and falsified attendance records, involved an online nonprofit called A3.

In this report, however, we focus on the world of charters run for profit, a world both hidden and misunderstood. We will pull back the veil on tactics and practices designed to reap as many public dollars as possible from charter schools while hiding behind laws designed to keep profit-making hidden from the public's eyes.

The Landscape

Identifying the Schools

In total, we identified 1,137 charter schools that have contracts with for-profit organizations which control critical or complete operations of the schools, including management, personnel, and/or curriculum. In the absence of a United States Department of Education official count of all charter schools, we use the National Alliance of Public Charter Schools' most recent count—7,500.[16] If that estimate is accurate, that means more than one in seven (over 15 percent) of all charter schools is operated by a for-profit corporation.

Determining which charter schools are run for profit is a laborious task. No state is entirely transparent, although some are better than others. Ohio is the only state that posts its charter schools' management contracts on its education department website.[17] This was not only helpful in identifying the management company, but it also helped us identify outrageous contractual terms. After identifying the corporations, however, you must still look up their profit status.

In most states, however, there is limited or scant documentation. We identified the majority of schools from listings on the websites of the for-profit management organizations and checking them against state lists. Because many for-profit management organizations are formed to manage a small group of schools or even a single school, we feel sure that there are many we missed.

Nevertheless, by following the methodology we describe later in this report, we believe that we successfully identified the vast majority of charter schools operating for profit between September 2020 and January of 2021. Our accuracy is dependent on the accuracy of public records during those dates. Education researcher, Ryan Pfleger, was able to geocode the schools' location on a national map, capturing the schools we found. On the map, which you can find here, you can find information about the school and the for-profit by clicking the icon.

While our research suggests that over 15 percent of all charter schools are operated for profit, the percentage of schools, however, belies the impact. Based on our match of school names to federal 2018-2019 school year data, over 600,000 students are educated in charters run for profit that we identified, approximately eighteen percent of all students enrolled in charter schools.

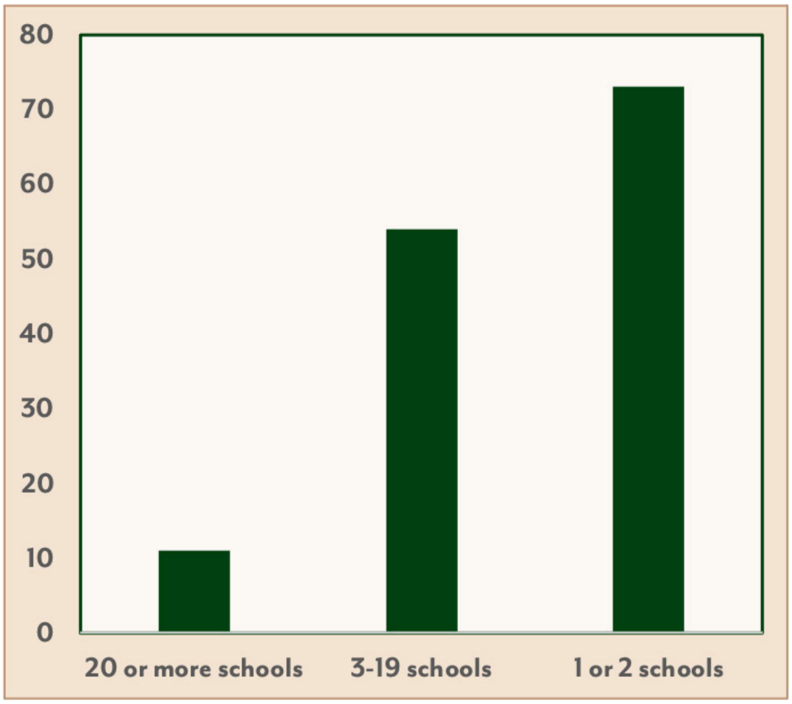
Twenty-six states and the District of Columbia presently have charter schools operated by for-profit corporations. The interactive map provides their name, management company, and address. Most of the schools are located in four states—Michigan, Florida, Ohio, and Arizona. Later in this report, we will provide more detailed information on those states as well as states where for-profits are expanding.

Together, the seven largest national chains (Academica, National Heritage Academies, The Leona Group, K12 Inc., Charter Schools USA, Pansophic Learning/ACCEL, and Pearson/Connections Academy) manage 555 schools. At least one of the big chains operate in twenty-five states and the District of Columbia.

Other for-profit chains operate clusters of schools in only one or a few states. A majority run only one or two schools, a practice designed to get around state laws that prohibit for-profit charter schools. This ensures that profit can go into the school manager's pocket and that transactions and salaries can be hidden from public view.

In total, we identified 138 for-profit EMOs that manage schools under their corporate umbrella. This number does not include the smaller EMOs that they manage.

Figure 1. The number of for-profit management corporations by the number of schools they manage



The nonprofit facade

In the state of Arizona, which allows for-profit organizations to hold a school's charter, charters run for profit nearly always incorporate as nonprofits run by for profits. This relationship enables the charter schools to be eligible for federal funds that include IDEA and the federal Charter Schools Program (CSP).

Within and outside of Arizona, we identified over 440 charter schools operated for profit that received federal CSP grants totaling approximately $158 million between 2006 and 2017. In 2020, Mater Academy, a non-profit entity connected to the largest for-profit chain, Academica, received a grant of over $8.6 million to open new schools.[18] This is significant because there are strict regulations that prohibit for-profit schools from receiving such grants.[19] As you will read in this report, it is likely that many of these recipients were ineligible.

Undoubtedly, grants were also awarded to charters operating for profit both before and after those dates. Some of those recipient schools proposed by the for-profit chains never opened. We identified a few by trade name; others remain unidentified. To learn more about the federal Charter Schools Program (CSP) read our previous reports, which you can find here.[20]

Large-Scale For-Profit Brick and Mortar Charter Chains

The largest national for-profit chains began with the charter movement itself. The first charter school opened in Minnesota in 1992. By 1995, the same year that the federal CSP began, J.C. Huizenga, whose extended family made their fortune in the waste management business, founded National Heritage Academies (NHA). The following year, The Leona Group began in Michigan and expanded into Arizona, where most of its 47 schools are located today. One year later, the third-largest for-profit chain, Charter Schools, USA, was started by Jon Hage, a former researcher with the rightwing Heritage Foundation, shortly after Florida's charter school law was passed. The largest for-profit charter management company, Academica, also began opening schools in 1997 and then founded the for-profit management company to control them two years later.

BASIS School Inc. began in 1998 in Arizona as a nonprofit. In 2009, the two economists who founded BASIS, Michael and Olga Block, began a for-profit organization to manage BASIS schools.[21]

Despite the common belief that charter schools began as small community alternatives to public schools, profiteers jumped into the charter market even in its earliest days. The opportunity to profit from a business that incurred low personal risk and guaranteed revenue provided by taxpayers was too good for profiteers and entrepreneurs to pass up.

Explaining how the big chains maximize profit from their schools through real estate and contracts with related businesses follows.

The owners of the large for-profit charter management organizations use a similar business structure to maximize their control of their schools. Using a complex web of corporations, they control the operations of the school and in doing so, steer business to their related services. In general, there is one parent entity for management, and a second for real estate. Sub-entities are created for each school that sign contracts and leases.

This structure was clearly laid out in the charter contract for an ACCEL managed school, Broadway Academy, in Ohio.

> *Blended School Holdings Inc. is a holding company, which is the sole owner of Accel Schools LLC ("Accel") (which is the "operations" side of the business, which manages schools) and Global School Properties LLC ("GSP") (which is the "real estate" side of the business). Accel and GSP are therefore "sister companies" or affiliates of one another.*
>
> *Beneath Accel are various entities at the state level (i.e. Chippewa Community School, LLC) which are the entities which contract with the schools.*

Beneath GSP are separate entities created for each piece of property (i.e. Lumen Broadway Realty, LLC).

There are likely many reasons for this corporate structure, one of which is most certainly to shield the main corporate entities from loss. With small LLCs for each school and each piece of property, the main corporate entity will not be held liable for any losses or damages. The structure also serves the dual and equally advantageous purpose of obscuring the full extent of the EMOs control over the schools they manage.

National Heritage Academy (NHA)

"When it comes to school choice when it comes to parent power and the right of parents to choose what's best for their child, Betsy DeVos has done more than any other education secretary." So stated J.C. Huizenga, the CEO and president of NHA, during a Center for Education Reform discussion as DeVos's tenure was coming to an end.[22]

Huizenga's praise for former Secretary of Education Betsy DeVos is hardly a surprise. He shares her Dutch Calvinist roots, the same home state, and most importantly, the same passion for using public tax dollars to fund a privately run school marketplace.

A multi-millionaire businessman, he actively lobbied to pass charter school legislation in Michigan, and when it passed, he began building his for-profit charter school empire.[23]

Huizenga says he is not motivated by money but rather by a desire to provide a school system that has a "moral focus curriculum."[24] Because NHA is a private, family-owned corporation, the extent to which he profits is impossible to ascertain.

There are presently 97 NHA charter schools in nine states. Nearly all operate on a "sweeps contract" with the nonprofit board turning over all school control to for-profit NHA. The following is an excerpt from the 2019 Ohio audit of the Bennett Venture Academy contract with NHA:

"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."[25] [italics ours]

The same statement appears in other school audits, including the recent audit of one of NHA's Colorado schools.[26] In short, every tax dollar received by the school is turned over to NHA. As the latest contract between Bennett Venture charter school and National Heritage states, NHA provides all labor, materials, equipment, facilities, supervision, management services, and school curriculum.[27] The charter school leases its building from NHA. It even shares its board of directors with another NHA charter school, the Winterfield Venture Academy. NHA provides board members with a small allowance.

Along with the sweep of funds is a sweep of authority. This clause was found in all of the NHA contracts reviewed by former Ohio State Auditor David Yost in 2019:

“NHA shall lease or otherwise cause a facility to be made available to the Board for school classroom facilities.”[28]

As noted in the state auditor’s report, that clause would “blind the board to any undisclosed transactions or relationships which may exist between the management company and the building owner and/or lessor. This includes related party transactions, sale and leaseback agreements entered into with Real Estate Investment Trusts, and lease-sublease agreements between the management company and property owners with undisclosed rates.”

Charter Development Company (CDC) is a for-profit wholly-owned subsidiary of NHA. CDC acts, according to Yost, as a master landlord that owns properties, a lease broker, a renovator, and a financier for NHA schools. CDC and its affiliate organizations Charter Development 2, 3, 4 and 5 are located in NHA headquarters in Grand Rapids, Michigan.

NHA steers its schools to its properties or it profits from the leasing agreements described in the example above by using no-bid facilities contracts. The three facilities reviewed by State Auditor Yost were all owned by CDC and had lease agreements well above the market rate for similar facilities in their areas. In one case, the rate was two and a half times as much.

Yost is not the only official who has been critical of the relationship between NHA and its schools.

In 2012, an audit by the New York State Comptroller revealed that NHA used a related corporation to charge its Brooklyn Excelsior Charter School $2.6 million in rent even though the school’s board had the site appraised at a value of $1.8 million.[29] The supposedly independent board approved the rental anyway.

The audit also noted that NHA’s Brooklyn Dreams Charter School paid a square-footage rate that far exceeded the local school market rate. The facility, owned by the Diocese of New York, was leased to NHA for only $264,000 per year. However, NHA subleased the building to its charter school for $2.76 million. In 2014, the problem persisted with both the Diocese and NHA refusing to disclose terms.[30]

Despite warnings, nothing appears to change. The 2019 financial management report by the Office of the New York State Comptroller of NHA's Buffalo, New York charter school was, in a word, scolding.[31] The Comptroller criticized the lack of transparency and the board's unwillingness to properly supervise the school's financial dealings, although it was advised to do so in prior reports. While the Comptroller was unable to do a complete analysis based on the unwillingness of NHA to open its books, he estimates that NHA's support and management costs were nearly equal to the cost of instructional personnel at the schools.

The 2019 audit shares numerous examples of NHA charging the Buffalo United Charter School, a school in which 99 percent of the students are students of color and 95 percent receive free or reduced-price lunch, inflated charges that go into the accounts of the for profit. Profits include NHA taking 30 percent of all entitlement grant revenue—grants that the auditor describes as based on enrollment and demographics, which require little administrative support.

And yet, despite the federal funding ban for for-profit charter schools,[32] thirty-five NHA schools received in total over $16 million from federal CSP grants active between 2006 and 2017.

The Leona Group

The Leona Group operates 47 schools in four states. While its origins are in Michigan, most of its schools are in Arizona. There, Leona school charters are held by two non-profit organizations: Kaizen Education Foundation[33] (16 schools) and The American Charter Schools Foundation[34] (11 schools). According to their IRS 990 reports, both foundations share the same president and executive director, Theodore Frederick, and the same two board members.

There is no better expert on how the Leona Group functions in Arizona than Jim Hall, a retired principal who has studied Leona's operations for years.

In 2006, the United States Court of Appeals, 9th Circuit upheld the decision of the U.S. Department of Education to withhold federal funding from charters owned by for-profits.[35] Leona was one of the unsuccessful plaintiffs. This decision meant that the Leona schools could not receive funding from federal sources such as IDEA or the CSP. According to Hall's report, in 2007, the founder and sole owner of the Leona Group LLC., Bill Coats, sold his ten privately owned Leona schools to the American Charter

Schools Foundation (ACSF), a Michigan non-profit organization that he founded in 1998.[36]

By shifting ownership to nonprofit ACSF, Coats could still make money running and servicing the school, as long as the nonprofit was willing to do business with him, which of course, it was. Board members are appointed, not elected, so continued allegiance is assured. Coats also made an excessive profit on the sale of the schools. According to Hall, the ten schools' prices were determined by appraisals that valued them as investment properties. Therefore, Coats was paid up to twice the schools' market value, providing him a windfall in 2007 of $20-30 million. ACSF was left with huge mortgages from overpriced facilities.

ACSF leases the facilities to itself with taxpayers making the mortgage payments. According to Hall, ACSF receives $6 million in rent from the schools.

Kaizen Education Foundation schools are still owned by Coats or other third parties who lease the buildings. Coats never sold the schools to Kaizen but instead transferred the schools' charters to the Foundation, which was started by Theodore Frederick, who now runs both foundations.

It is nearly impossible in most states to figure out how much of the schools' revenue goes to Leona because the contracts between the foundations and Leona are not easily found. However, we know from the 990s of both foundations that Leona operates all personnel services through Leona Arizona Employment Services, LLC and manages the schools via Leona Arizona Management, LLC. Those two corporations alone received 61.5 percent of the Kaizen schools' revenue and 57 percent of the revenue from schools run by ACSF. This does not include Leona's income from rentals.

Because Ohio provides contracts between charter schools and their operators on their website, we get a clearer picture of Leona's services to schools. The contract between Leona and Achieve Career Prep can be found here.[37] The services that the school buys from Leona are curriculum, instruction, instructional tools, extra and co-curricular programs, additional educational services, administrative services, personnel, facility operation and maintenance, technology and professional services, business administration, transportation, and food services and public relations.

Is that technically a sweeps contract? Perhaps not, but one would be hard-pressed to think of any school services the board has not delegated to Leona. And as this Indiana charter school application shows, Leona is present from a school's very founding.[38]

Charter Schools USA

Charter Schools USA (CSUSA) had its beginnings one year after The Leona Group. The chain presently operates 90 schools in five southern states. CSUSA sets up non-profit foundations that manage one or more schools, and then contracts with these foundations. This arrangement has the benefit of making expansion easier and, because the foundation, not the school, holds the charter, it is nearly impossible for an individual school not to do business with CSUSA.

The Lafayette Charter Foundation, Inc., according to its last publicly available 990, is managed by CSUSA.[39] The 2014 management agreement between CSUSA and the Foundation was signed shortly after the Foundation applied to the Louisiana State Board of Elementary and Secondary Education to open the Acadiana Renaissance Charter Academy. Acadiana is one of two charter schools that the Lafayette Charter Foundation holds the charter for today.[40]

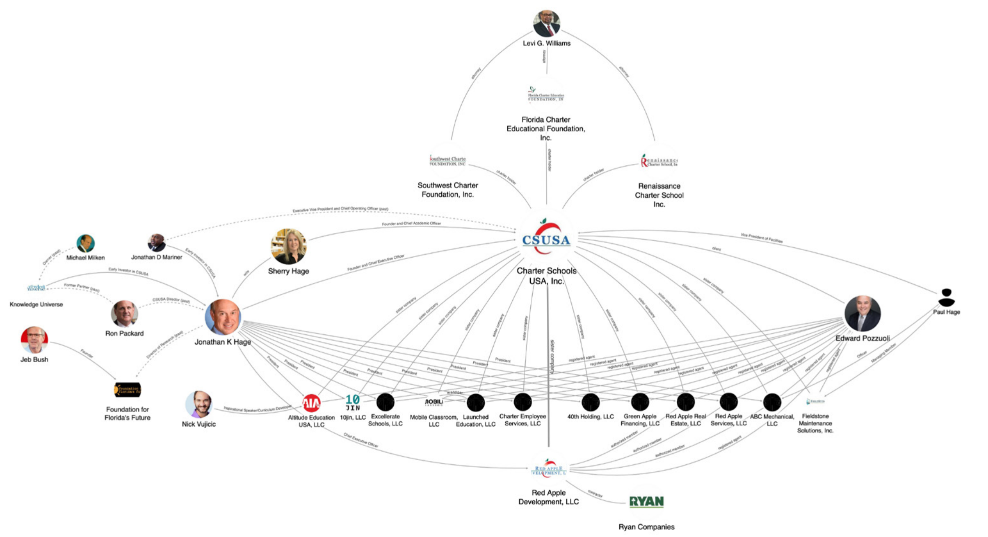
According to the contract, CSUSA performs the day-to-day management of the school; implements and administers the instructional program; selects and manages technology services; manages all personnel, including professional development; provides special education services; manages the recruitment of students to the school, and manages all business and accounting operations. If instructional materials, paid for by the taxpayers, are developed by CSUSA, CSUSA, according to the contract, owns them.

All public funds received by the school are deposited in a financial institution approved by CSUSA, and CSUSA can have a signatory on the school's bank account. CSUSA has access to all student records, no matter how private, and can even conduct student disciplinary hearings.

The fee for management services is 15 percent of all revenue. Additional profit is accrued with the other services provided. However, the real money made by CSUSA is in real estate. Jon Hage is also the owner of Red Apple Development, LLC, which he founded in 2007 to facilitate his charter schools' construction. The Red Apple website's "Our Schools" page displays a map with 66 CSUSA schools Red Apple has developed and, in most cases, owns and leases.[41]

Click on the image on the following page to be taken to a map in LittleSis (a crowd-sourced database of interwoven corporate relationships) that we developed that explores the connections between Charter Schools USA, Red Apple Development, and other affiliates connected to the chain. This map provides an excellent summary of the structure of CSUSA and how it operates to generate profit.

LittleSis Map 1: How Charter Schools USA Creates Multiple Entities to Maximize Profits



Academica

The largest of the for-profit chains with 189 charter schools in six states is Florida-based Academica. In 1997, Fernando Zulueta opened his first charter school, Somerset Academy, in Miramar, Florida. A real estate developer, Zulueta, opened the school as part of a housing development he had constructed so that students would have a school within the development, thus making his real estate venture more attractive to buyers.[42]

Within the next two years, Zulueta and his brother Ignacio created the for-profit management company, Academica, and two more schools, Mater Academy and Doral Academy. All three charter schools would become non-profit sub-chains, with boards that control multiple charter schools, all doing business with Academica.

Somerset, Mater, and Doral were joined by other non-profit sub-chains, including Pinecrest, Ben Gamla, and Sports Leadership and Management (SLAM). Ben Gamla teaches the Hebrew language and culture. The rapper Pit Bull founded SLAM. All of these sub-chains hold the charters to their schools, and all bear the Academica brand.

Fifty-six active corporations are listed as residing at Academica's Miami headquarters at 6340 Sunset Drive.[43] An additional 70 entities are listed at 6457 Sunset Drive.[44] The 6457 address is the home of related Academica operations, including real estate corporations, holding companies, and finance corporations. Some, such as Academica Charter School Facilities, LLC, and Academica Charter School Finance, LLC, bear the corporate name. Others include the names of Academica schools, along with the word “development.”

The 6340 address houses a mix of non-profit and for-profit organizations. It is the registered address of the for-profit Academica Corporation and the non-profit CMO sub-chains like Ben Gamla, Doral, Somerset, and SLAM that hold the charters for individual schools and supposedly operate at arms’ length from the corporation. It is also the registered address for Academica’s operations in states outside of Florida.

The real estate deals between Zulueta properties and the charter schools were the subject of a 2006 report by the Miami Dade School District. The report, Investigation of Allegations of Impropriety Mater Academy Charter School(s) and Academica Corporation, focused on the related party transactions and governance structure of the Mater Charter schools.[45] It also criticized Academica for real estate transactions in which related companies owned by the Zuluetas leased buildings to two Mater schools. Involved in the transaction was a Panamanian corporation, Wolfson Hutton Development Company whose directors were the Zulueta brothers.

A 2011-2013 audit by the Office of the Inspector General of the U.S. Department of Education revealed that there was no evidence that the relationship between the CMO and the real estate company was disclosed to the charter school’s board of directors at the time of the original lease; nor was there any “evidence of a discussion regarding the renewal of the management agreement with Academica or the reasonableness of CMO services or fees.”[46] The original real estate transactions took place while Fernando Zulueta served on the Mater Board.

By 2010, the Zulueta brothers controlled more than $115 million in Florida tax-exempt real estate, with the companies collecting about $19 million in annual lease payments.[47] Many of the charter schools paid rents well above market rates. Academica not only benefited from renting real estate it owned, but it also sold payroll, employer services, construction services, equipment leasing, and other services to the schools.

Despite investigations into related party transactions between its schools and real estate businesses, Academica continues to use charter schools as a means by which to acquire and pay for real estate, thus continuing to build its real estate empire:

* In April of 2019, Academica’s Wellington School Property LLC bought the building that housed a troubled charter school after the school was evicted from the property.[48] Wellington School Property was formed in 2018 when it was apparent that the school was in trouble. Academica then opened Somerset Academy Wellington in January of 2020 in the building. The new school pays Academica management fees

and its related company rent.

* In July of 2019, Academica used its related organization Homestead Arts School Development LLC, to purchase the building that housed an Academica school, the Miami Arts Charter School, which made the for-profit not only its manager but its landlord.[49]
* In August of 2019, Academica obtained a loan to build a charter school in Parkland, Florida using the controversial EB5 fund that gives green cards to foreign investors and their families.[50] The loan was used to build the Parkland Somerset Academy over the objections of many in the community.[51] A new related corporation, Parkland School Property LLC, was formed to receive the foreign investor-backed mortgage.
* In October of 2020, the South Florida Business Journal reported how Academica was able to "cash out" while still collecting management fees by selling four of its buildings in Miami-Dade County to its non-profit Mater Academy Foundation for a total of $42.7 million.[52] The deal was financed with a $127.5 million educational facilities lease revenue bond, allowing the for-profit and its schools to dig into the public pocket again.

These four deals, which took place in a year and a half in only one of the six states where Academica operates, show how real estate investments and charter management organizations are linked in a symbiotic relationship to maximize profit. One wonders whether Academica exists to support the charter schools or the charter schools exist to help Academica's real estate ventures.

The pattern we observed in these four national chains is clear. The for-profit management company helps form the charter school, sometimes constructing the school even as it goes through the approval process. Charter school board members are not elected; therefore, it is easy for the for-profit management company to ensure that board members will gladly turn over the reins of control. Because bids are not needed, services and facility decisions are made by the for-profit, which steers the board to its related businesses.

The for-profit's related businesses can buy or build with low-interest loans and bonds, lease the building to the school to pay off the debt at a rate they determine, and then when it suits them, sell the building to the school and make millions in 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 the facilities and other services to the schools. In addition to their real estate and other service contracts, for-profit operators can increase their financial gain by enrolling students with less need who are less expensive to educate. Our research indicates that many of the schools do exactly that.

Increasing Profit by Serving Students with Fewer Needs

We asked education policy researcher Ryan Pfleger, Ph.D. to compare the proportion of high-needs students in charter schools controlled by for-profits with the proportion of high-needs students in public schools, that is, those governed by school districts and listed in the U.S. Department of Education's Common Core of Data (CCD) as non-charters.

Dr. Pfleger matched the charter schools' list operated by for-profit management corporations with the CCD and the bi-annual Civil Rights Data Collection (CRDC). The CCD and CRDC identify charter status along with the counts of students with a disability (under IDEA), Limited English proficiency (LEP), and those who are recipients of free-or reduced-priced lunch (FRPL). These data allow a systematic comparison of the approximately one hundred thousand schools in the federal databases with the identified charter schools managed by for-profit organizations.

CCD data are from the 2018-19 school year. The CRDC data are from the 2017-18 school year. The data used include the proportion of students with an IDEA special education classification and the proportion of students determined to have "Limited English Proficiency." EMO names and for-profit status come from the NPE database that was collected throughout 2020-2021.

Pfleger was able to match over one thousand of the 1,137 schools we identified as run for profit in both the CCD and CRDC databases.[53] Some schools were too new to be found. In other cases, there were idiosyncratic school-naming conventions used by some management organizations. The tables below report our findings.

Comparing for-profit schools to public schools

Nationally, for-profit charters enroll fewer high-needs students than public schools. However, the national comparisons hide even larger disparities in the states and cities where for-profit charters are located. Our national map shows that for-profits cluster in only some states and metropolitan areas.

Table 1. For-profit charters vs. public schools

Status	LEP	FRPL	IDEA
For-Profits	8%	48%	9%
Public Schools	10%	51%	13%

We asked Dr. Pfleger to identify the cities in which more than 10,000 students are enrolled in schools run for profit. Those cities are Detroit, Michigan; Las Vegas, Nevada; Miami, Florida; Phoenix and Tucson, Arizona and Cleveland, Ohio.

Table 2 compares the percentage of students who receive free or reduced-price lunch in those cities with those who attend neighborhood public schools. Except for Detroit, the differences are dramatic.

Table 2. Students who receive free- or reduced-price lunch in for-profit charters versus public schools in six cities

Status	Detroit	Las Vegas	Miami	Phoenix	Tucson	Cleveland
For-Profits	96%	29%	59%	32%	23%	50%
Public Schools	86%	70%	71%	67%	56%	75%

Table 3 compares the percentage of students who are classified as having a disability under IDEA. With the exception of Las Vegas, differences again are dramatic.

Table 3. Students who are classified as having a disability under IDEA

Status	Detroit	Las Vegas	Miami	Phoenix	Tucson	Cleveland
For-Profits	9%	10%	3%	8%	8%	11%
Public Schools	16%	11%	12%	12%	14%	20%

Results for the largest for-profit chains

For years, the Network for Public Education has received reports that the Academica and Charter Schools USA chains do not educate high-needs students at rates similar to the neighboring public schools. We asked Dr. Pfleger to drill down even deeper and investigate those claims. We begin with Academica.

The first city where disparities have been reported is Las Vegas, Nevada. Table 4 shows the differences Pfleger found.

Table 4. Academica versus public schools in Las Vegas

Status	Number of Schools	LEP	FRPL	IDEA
Academica	11	11%	29%	10%
Public Schools	277	21%	70%	11%

The same pattern exists in Florida, the state that has the most Academica schools. Below is a comparison between Academic schools in seven Florida cities and the public schools in the same cities.

Table 5. Academica schools and public schools in major cities in Florida (Miami/Miami Beach, Doral, Miramar, Homestead, Hollywood, Jacksonville, and Tampa)

Status	Number of Schools	LEP	FRPL	IDEA
Academica	62	12%	53%	4%
Public Schools	615	15%	65%	13%

Charter Schools USA

Charter Schools USA has schools across the state of Florida with an enrollment of more than 53,000 students. Table 6 below is a comparison between Charter Schools USA schools in six Florida cities and the public schools in the same cities.

Table 6. Charter Schools USA and public schools in major cities in Florida (Miami, Doral, Homestead, Hollywood, Jacksonville, and Tampa)

Status	Number of Schools	LEP	FRPL	IDEA
Charter Schools USA	17	11%	53%	9%
Public Schools	615	15%	65%	13%

The above results are concerning enough. However, disparities in enrollment are the most dramatic at Arizona's BASIS Charter Schools.

Basis Charter Schools

BASIS charter schools began in 1998 as an Arizona nonprofit chain known for its rigorous curriculum. The schools were founded by economists Michael and Olga Block in 1998. Students are required to take and pass Advanced Placement courses and examinations in order to be promoted to the next grade. The attrition rates, unsurprisingly at the school, are extraordinarily high.

In 2009, the Blocks founded the for-profit management company Educational Group, LLC dba. BASIS.ed. The for-profit management corporation manages both charter schools and for-profit private schools in the United States and internationally. BASIS.ed uses a nonprofit subsidiary, BCSI, to provide services to its charter schools.

According to the Arizona BASIS Charter Schools Inc.'s (BCSI) 2019 IRS Form 990, BCSI paid BASIS.ed about $100 million in fees (nearly $15 million for management and over $85 million for personnel) that year.[54]

Some refer to BASIS as a nonprofit because schools are governed by BCSI. We don't agree. Neither do supporters of the BASIS chain who refer to it as a for-profit, too, with a spokesperson calling the schools a "family owned business."[55]

Keep in mind that the 990 reports fees from only Arizona schools and excludes fees paid by BASIS schools in Texas, Louisiana, and DC.

Of all the for-profit chains, BASIS is the most exclusionary when it comes to enrolling economically disadvantaged students, students with disabilities, and students for whom English is an emerging language. In Table 7 we show just how large those gaps are.

Table 7. BASIS Charter Schools versus public schools in Arizona

Status	Number of Schools	LEP	FRPL	IDEA
BASIS	22	1%	1%	3%
Public School	1883	7%	52%	13%

Online and Other Chains

We now turn to the online or virtual charter market.

Although there are no real estate empires to be built, online charter schools provide enormous profit opportunities with their minimal overhead combined with the ease by which schools can "cook the books" on attendance.

The first for-profit online charter school emerged in 2000 when former banker Ron Packard founded K12 Inc. K12's rival, online Connections Academy, began a year later in 2001.

K12

The first online provider of charter schooling to enter the marketplace was K12, Inc. Ron Packard founded K12 with a $10 million investment from Michael Milken and $30 million from other Wall Street investors. Previously, Packard had worked for Milken, the "junk bond king,"[56] as Senior VP of Milken's investment holding firm, Knowledge Universe Learning Group, and CEO of Knowledge Schools, a chain of pre-schools.[57]

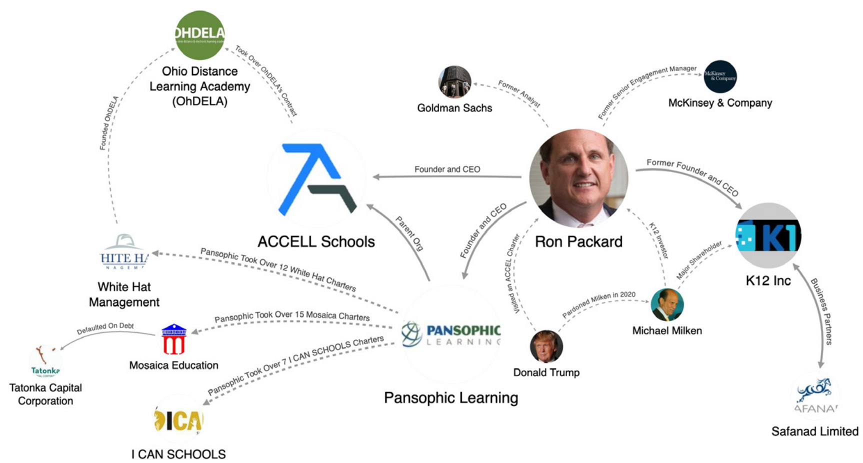
Between 2009 and 2013, Packard was paid more than $19 million as the company's CEO. The Center for Media and Democracy estimated that 86 percent of K12's revenue came from taxpayers during that same period.[58]

In an interview, Packard describes how K12 scaled its business model quickly by creating a web of non-profit entities that K12 could "turnkey" into charter schools.[59] K12 turned parents interested in an online school in their state into "entrepreneurs." Packard explained, "they [parents] formed the not-for-profit entities, and they go through the process of getting legal permission for the school. Once they did that, we could turnkey for them."

K12 became a publicly-traded company in 2007.[60] Five years later, a shareholder lawsuit[61] and a front-page New York Times article accused K12 of lying to investors and putting profits over kids.[62] To avoid the scrutiny that comes with a publicly-traded company, in 2014, K12 announced a new, yet-to-be-named company financed by Safanad Limited, an investment company located in Dubai. This company was to become Pansophic Learning, which we discuss below.

A summary of Packard's career founding and leading for-profit charter management corporations can be found by clicking on the LittleSis map on the following page.

LittleSis Map 2: Grifter in the Schoolyard: How Ron Packard Created Two For-Profit Charter Empires



The controversy surrounding K12 did not end with Packard's departure, however. In 2016, after an extensive investigation of the for-profit's dealings in California, then-Attorney General Kamala Harris announced a $168.5 million settlement with K12 due to its misleading advertising to prospective students and the reporting of inflated attendance numbers.[63]

The California decision had a cascading effect on K12 operations. A few months later, the Farmington, New Mexico School Board voted to shut down K12's New Mexico Virtual Academy, after the state's Attorney General, Hector Balderas, said that he intended to investigate the school.[64] Balderas' predecessor, Gary King, had released an opinion two years prior, stating that he believed the school violated the New Mexico Charter Schools Act, prohibiting for-profits from operating charter schools. In 2019, the Georgia Cyber Academy broke off its relationship with K12, resulting in students bearing the brunt of a contentious separation.[65]

Nevertheless, K12 revenue topped one billion dollars that year as it expanded a new line of online vocational schools, Destination Career Academies. Presently the corporation operates 51 online charter schools in 20 states.[66]

Connections Academy

Connections Academy was founded in 2001, a year after K12. It is a subsidiary of the multinational testing and curriculum publication corporation Pearson, headquartered in the United Kingdom. It presently operates 33 online charters in 22 states.

In the Public Interest (ITPI) is a national non-profit research and policy organization located in California. It regularly issues reports on taxpayer-funded goods and services, highlighting when public funding is abused. In February of 2021, it issued a report on California's online charter schools entitled, Costly Failure: California Is Overpaying for Online Charter Schools That Are Failing Students.[67] The report included a critique of Connections Academy, which operates eight charter schools in that state. Although for-profit operators are now banned by law in California, Connections formed a non-profit facade, CalOPS, to act as a CMO between the for-profit and its schools. A tweak in the model and the law loses its teeth.

Many of ITPI's findings regarding how much profit Connections extracts from its schools are significant. For example, ITPI estimates that the excess profit rate (profit rate of Connections compared with brick and mortar schools in California) is likely between 35 and 40 percent. Also, what Pearson charges appears not to be dependent upon actual cost, but rather, to put it bluntly, what they can get away with depending on the state. According to the report:

"Californians pay significantly more per-pupil than some other states. Some portion of this difference may reflect differential pay rates for school staff. But the gap between California and other states' funding rates cannot be wholly attributed to teachers' salaries.

For instance, each Connections Academy school pays 11-11.5 percent of its total revenue to Connections Education in return for treasury, marketing, and school administration services. These payments are sent to Pearson's corporate offices in Maryland. However, even though administrative or treasury services performed in Maryland should cost the same no matter which school they are serving, schools based in different states pay very different rates for these services. In Oklahoma, Connections Academy pays $720 per pupil for these services; in California, Connections Academies pay $1,143 for the same services."

In the Public Interest obtained fee schedules and invoices for Connections Academies via public information requests. They found nearly a $10,000 difference between the per-pupil funding that Connections takes in Pennsylvania as compared with Oklahoma. Profits like these have allowed the corporation to run television ads on major cable networks throughout the ongoing novel coronavirus pandemic.[68] In short, taxpayers in some states subsidized the online school's marketing in other states, including states like New York, where Connections Academy charter schools do not exist presently.

Pansophic Learning and ACCEL

In 2014, K12 announced a new, yet-to-be-named company financed by Safanad Limited, an investment company located in Dubai. Safanad would be the majority investor, and K12 would be the minority investor. This corporation would develop a portfolio of brick and mortar and online schools, plucking established chains that failed.

When Ron Packard and Safanad announced the rollout, Packard was identified as being in charge. The new corporation acquired licenses for K12 curriculum and technology, as well as "an international brick and mortar private school, a higher education platform business and the K12 business in the Middle East." Pansophic Learning's name and address were used to register a new Ohio for-profit, ACCEL Schools, LLC.

Seven months later, Pansophic took over the contracts of 12 charter schools managed by the controversial White Hat Management.[69] In July 2015, another large for-profit education management organization operating schools in Ohio, Mosaica, ran into financial trouble and sold its assets to Pansophic Learning.[70] The deal added another 15 charters to ACCEL's growing portfolio.

Packard was clear about the business strategy behind his purchase of these distressed charter chains. "By purchasing both of these entities, it gave us a base business to build off of. It's just very hard to start from nothing. We will open a lot of new schools, but this gave us a critical operating mass from which to build on."[71]

Packard continued to build a "critical operating mass" for his new venture. He took over the contracts for 12 I CAN charter schools,[72] and also the Ohio Distance Learning Academy (OhDELA), the last of the White Hat schools.[73]

The OhDela contract is a sweeps contract that funnels 97 percent of the school's revenue to ACCEL. We looked at several other contracts for ACCEL charters in Ohio and found that schools pay ACCEL either a 12.5 percent or an 18 percent management fee.

While ACCEL's model of taking over distressed assets may not include real estate, their charter contracts do stipulate that ACCEL will "identify a suitable facility...and arrange for a lease to be entered into by the Governing Authority for the operation of the School," thus providing the opportunity to profit from the building leases.

We searched the Ohio "Community Schools Documents" database and found that Global School Properties Ohio, LLC holds the leases for many ACCEL charter schools.[74] The lessor is at the same 1650 Tysons Blvd. address in McLean, Virginia, as Pansophic and ACCEL Schools.[75]

The charter contracts indicate that there are numerous other opportunities to realize profits. By contract, ACCEL oversees all of the following areas of school operations: talent acquisition; human resources administration; financial management; payroll and benefits; grants management; executive leadership; curriculum, instructional design and educational philosophy; marketing and community outreach; food service management; professional development for all staff, centralized purchasing, board governance services, transportation management, building-level leadership training and supervision, fundraising and technology administration.

The employee reviews of ACCEL on the Indeed job search website are scathing, with many accusing ACCEL of cutting corners on staff and students to increase profits. The reviews, which are mostly one or two stars, are best summed up by this comment:

> *The emphasis is on the "state tests" not on the students. Staff is told what they will do, not asked. Then, the next day, it is changed. Everything here is about getting money or saving money instead of providing quality education and fair wages. Most of the employees quit when Accel took over the schools, now we know why. Half the teachers are already looking for other jobs, and it's only March. Most of the teachers are long-term substitutes that are new to teaching, many are unqualified to teach.*

The Small For-Profits

Aside from the large, national for-profit corporations managing charter schools around the nation, we identified seventy-three smaller for-profit organizations that manage either one or two charter schools. These smaller for-profit charter management firms often slip under the radar. Clearly, they do not operate to bring an economy of scale to charter operations. The only logical conclusion is that they exist to allow the operator to extract profit and do business with little transparency.

For-profit management companies that operate only one or two schools vastly outnumber all of the larger for-profits combined. And yet, the National Association of Public Charter Schools (NAPCS) does not report for-profit education management companies in their annual yearbook unless they run three or more schools. By not including the small for-profits and misclassifying others, NAPCS reports a for-profit charter rate of "only 10.5 percent."[76] The reality is that the percentage of charter schools run for-profit exceeds fifteen percent.

We identified 99 charter schools run by 73 small for-profits. These include a handful of schools in Arizona where the for-profit is the school itself. The state with the most schools run by small for-profits was Michigan, with 35 schools run by 27 operators. Other states with sizeable numbers of schools run by tiny for-profits include Arizona (20 schools), Florida (25 schools), and Ohio (12 schools).

Despite their small size, the same concerns raised earlier in this report are relevant to the smaller for-profit managed schools as well, who use strikingly similar schemes as the large for-profit chains.

Arizona: AmeriSchools

Reginald Barr is the Founder and CEO of The Charter Foundation Inc., a non-profit organization that currently holds the charter for four AmeriSchools charter schools in Arizona.[77] His wife, Sandra, is the president of the nonprofit board.

The AmeriSchools Academy charter was awarded in 1996, just one year after the state's charter law was passed. Ideabanc Inc., a for-profit company, started by the Barrs, was the original charter holder.[78] In 2010 they transferred the charter to The Charter Foundation to make the organization eligible to receive federal funds.[79] Sandra signed the documents as both the president of Ideabanc and The Charter Foundation.

Edventure, Inc. is the for-profit owned by the Barrs that manages the four schools,[80] at the cost of $125 per student. However, as is the case in the large for-profit chains, management is not the only source of profit. The most recent 990 also reveals that the nonprofit paid close to $2.7 million to two other for-profit companies run by the Barrs.[81] Sixty Five Plus leases buildings to the charter schools,[82] and One Employment Plus, LLC pays the salaries of school employees.[83]

Sixty Five Plus is owned not just by the Barrs. It has two other owners—Deborah and Andre LeBlanc—Sandra Barr's parents. In a stunning example of self-dealing, mother and daughter hold two of the three seats on the nonprofit's board.

A board agenda from May 2020 includes a motion to approve the lease agreements between Sixty Five Plus and the school as well as contracts with EdVenture and One Employment Plus.[84]

Here is what that agenda says regarding the approval of the contracts between the president of the nonprofit and the three companies owned by her family.

> *Consent Agenda items are shaded and will be approved by one motion. There will be no specific discussion of these items unless an item is removed from the Consent Agenda at this time. Any item may be removed from the Consent Agenda by any Board member:..Mrs. Sandra E. Barr*

Michigan: Bay City Academy

Accountant Michael Randal and former insurance broker Brian Lynch formed the Mitten Educational Management Company to manage the Bay City Academy in Bay City, Michigan. For a time, Lynch served as the Superintendent.

The pair operates the charter school with a sweeps contract—salaries, benefits, and purchased services are all paid by Mitten, which also received $323,389 in 2020 even though the school is $811,258 in debt.[85] In 2015, the school was $1.3 million in the hole, with Randal and Lynch filing a debt plan with the state without the knowledge of the school board.[86] The most recent Common Core of Data enrollment figures show the two campuses of the charter serving only 365 students, which means that Mitten receives $886 for each student who attends the school.

Even though state funding never stopped flowing during the pandemic, Lynch and Randel applied for a federal Paycheck Protection Plan (PPP) forgivable loan of $368,800 for their corporation, claiming an at-risk payroll of $1.77 million, the payroll of the charter school.[87] The for-profit did not report the number of jobs that would be saved but nevertheless received the funds. Although the funds were received in April of 2020, they are neither listed nor referenced on the Bay City Charter Academy 2020 audit.

Florida: Seacoast Academy

Parents were having difficulty making tuition payments to the Seacoast Christian Academy in Jacksonville, Florida, so its owners converted the private religious school to a charter school. Dwight and Connie Cenac changed the name to Seacoast Charter Academy and turned their for-profit corporations HCMC Inc.[88] and HCMC Properties, Inc.[89] into the charter school's management company and its landlord.

This year (2021), the Cenac's are increasing their fee so that they will receive 10 percent of all of the taxpayer revenue to manage the charter school, where their daughter serves as principal.[90] Based on 2020 funding, that amount would be over $423,000. They will also collect $614,495 in rent. By 2025, the rent will increase to $690,555. That is because the Cenacs built in a 3 percent increase every year in the contract.

The Cenac's private Seacoast Christian Academy PreK-12 school re-emerged at a different location in Jacksonville. That school receives public voucher funding. In 2016, the charter school's renewal was in question because a parent complained that the elementary school was designed to feed students to Seacoast Christian Academy's middle school and that school events were held in a nearby chapel.[91] Both the charter school and the private Christian school share staff. Nonetheless, the charter was renewed, although for a shorter time.

This small charter school of about 400 students from which the Cenac's extract nearly a million dollars a year received PPP funding of $403,300, although state funding to make payroll never dropped.

Pennsylvania: CSMI Education Management

Pennsylvania-based CSMI Education Management LLC (CSMI) is an example of a for-profit charter management company that extracts large fees from the charters it manages with no accountability or transparency as to how those fees are spent, how much executives are paid, and how profit is gained.

In 1998, Vahan Gureghian, a Pennsylvania lawyer who is a major contributor to the state's Republican Party, "partnered" with the Chester Community Charter School to open its first campus.[92] The school draws the majority of its students from the financially distressed Chester Upland School District. Heading into the 2015-16 school year, the Chester Upland School District was bankrupt. The district's $64 million charter tuition payment was seen as a significant contributing factor in the bankruptcy[2].

2 Pennsylvania is a state where the district pays the charter school tuition for its attendees.

In the 2017-18 school year, state data show that Chester Community had the highest administrative expenses, including the payments to CSMI, of any charter school in the state.[93] With total expenditures of about $61 million, over $22.3 million, or 37 percent, was spent on administration. That year Chester Community received $9,759.90 from the district for each regular education Chester Upland student and $24,692.55 for each special education student attending the charter school.[94]

Because CSMI is a for-profit company, it is not possible to know how much their ten employees, including Vahan Gureghian and his wife, are paid.[95] It's also impossible to find out what percentage of the public funds they collect is profit. *The Philadelphia Inquirer* has noted that CSMI's books are not public and that CSMI has "never disclosed its profits and won't discuss its management fee."[96]

In 2013, CSMI opened Camden Community Charter School in New Jersey. Camden Community's administrative expenses were the highest of any charter school in the state. According to the state's Taxpayer's Guide to Education Spending, administrative expenses accounted for 37.8 percent of the budgetary cost per pupil.[97] Only 29.3 percent of the school's income went to classroom instruction.

With such misaligned budget priorities, it is unsurprising that after only four years in operation, the New Jersey Department of Education notified Camden Community that their charter would be revoked at the end of the school year.[98] The Commissioner's letter regarding the decision stated that in the prior two school years, "not a single student in the middle grades met or exceeded grade-level expectations in math." The closure notice also claimed that "the school's scores for student academic growth were among the lowest 0.1 percentile in all of the elementary schools in the state."

Atlantic Community Charter School, the other CSMI managed school in New Jersey, remains open. According to 2017-18 school board meeting minutes, the cumulative total management fee that year was $1,488,072.00.[99] The Taxpayer's Guide to Education Spending ranked Atlantic Community's total administration costs as the highest in Atlantic County and the second-highest of any charter in the state, at 34.8 percent of the budgetary cost per pupil.[100]

Although 26 states and the District of Columbia have charters run for profit, the 1,137 schools we identified are not equally distributed among the states. In fact, most states have no more than a handful of such schools, with some having only the virtual K12 and/or Connections Academies.

Four states presently have a large for-profit footprint. In two of the four—Michigan and

Where Do We Find Charters Run for Profit?

Florida—charters run for profit make up the majority of their charter sector. It will come as no surprise that the big chains that originated in those states still have a dominant presence there.

Table 8: Number and proportion of schools run for profit in the top four states

State	Number of charters run for profit	Number of public schools	Percentage	National For-Profit Chains
Michigan	244	365	66.8%	NHA, Pansophic, Leona, K12, Connections
Florida	347	688	50.4%	Academica, CSUSA, K12, Connections
Ohio	140	316	44.3%	NHA, Pansophic, Leona, K12, Connections
Arizona	192	557	35.4%	Leona, BASIS, K12, Connections, Academica

Together, these states account for over 80 percent of the charter schools we identified as run for profit. Not only do the big chains dominate these states, they are also the states that have the vast majority of schools run by for-profit operators of one or two schools. As noted previously, it is likely that the number is greater than we report due to how difficult it is to identify them.

Despite the concentration of schools, it would be foolish to conclude that schools operated for profit are a problem in only four states. The sector is expanding. As the big chains move into new territories, smaller players follow due to the political influence the big chains exert in legislatures in the state.

For example, Academica has a growing foothold in the state of Nevada. We located 31 Academica schools or campuses in the state. Sub-chains Mater, Pinecrest, SLAM, Doral, and Somerset all have a presence, indicating that the Academica corporation is planning a significant expansion. The Nevada state legislature's refusal to deal with the charter sector's courting of more advantaged students who are less expensive to educate likely makes it financially appealing for the nation's largest chain.
Another state we are watching is North Carolina.

Cassandra Ulbrich, Ph.D., President of the Michigan Board of Education:

"Michigan has a large number of for-profit run charter schools by design. The laws passed in the 1990s were among the least restrictive in the country and continue to allow for a tremendous lack of financial transparency. The entire system is set up to allow for profiteering on many fronts."

For-profit organizations run eighteen percent of the charter schools in the state. Charter Schools USA has eleven schools. National Heritage Academy runs twelve. In addition, a local for-profit chain called Roger Bacon Academy, Inc. runs six schools in the state. All three chains have a curriculum designed to appeal to politically conservative families in a state where charter schools have exacerbated racial segregation.[101]

Lobbying and Political Contributions Fuel the Growth

Despite laws that prohibit for-profit charter schools, charters run for profit have expanded by using the workarounds described in this report. Such strategies are possible because state legislators are willing to accept loopholes that allow schools that are clearly run for profit to be classified as nonprofits.

That willingness is due, in great part, to the political savvy of the for-profit management industry.

K12 has been the subject of numerous national stories that detail the extent to which it uses political influence to expand its market share. Former K12 CEO Ron Packard reassured investors that K12 understood "the politics of education." The Washington Post reported that from 2004 to 2010, K12 gave almost $500,000 in "direct contributions to state politicians across the country, with three-quarters going to Republicans."[102]

Packard also said that lobbying was a "core competency" of the company.[103] Former New Jersey Education Commissioner Chris Cerf denied two K12 applications, and said that his decision needed to be explained to Governor Chris Christie because the applications "came with extremely high-end and well-placed lobbyists that were exerting their influence at high levels of government."[104] As part of this report, we looked at 2020 lobbying reports in the state of Florida and recorded the amounts spent by three national for-profits operating in that state.[105] Amounts for legislative and/or

Sue Legg, Former State Education Chair, Florida League of Women Voters:

"Over the years, political cronyism, ethical concerns and profiteering have been noted by investigative reports and the U.S. Office of the Inspector General. Yet little has been done to curb the abuse.

A tight knit group of entrepreneurs and politicians with ties to former Governor Jeb Bush controls the charter industry. Bush was in real estate, and Florida's for-profit charters are driven primarily by behind-the-scenes revenue from real estate and fees. The legislature turns a blind eye. Ethics laws have been adapted for the new reality. Many benefit, but not the children."

executive branch lobbying under $50,000 per quarter are given in ranges, therefore we are unable to report exact amounts.

Table 9. 2020 Lobbying expenses of for-profit EMOs operating in Florida

For-profit	CSUSA	Academica	K12
Lobbying total	$584,008 - $763,982	$120,004 - $279,988	$120,006 - $299,982

CSUSA's Jonathan Hage claimed that he "can't stand" lobbying and political donations, yet in 2012 Hage "donated more than $200,000 to legislative campaigns, looking for support for measures friendly to charters."[106] Hage claimed he was donating more than ever to Democrats because they "need to know if they give up the teacher's union support, there will be someone else to support them."

Two recent reports on Oklahoma's Epic Charter Schools show that individuals associated with the EMO, including the company's founders, the CFO and their spouses, have contributed more than $375,000 in state elections since 2012.[107]

CSMI's founder and CEO Vahan Gureghian is a politically connected Gladwyne Pennsylvania attorney who was the single largest contributor to former Governor Tom Corbett.[108] Gureghian has contributed well over one million dollars to political candidates in the state since founding CSMI. His contributions have bought him access at all levels of government, including a spot on Corbett's education transition committee.[109] Gureghian also contributed to New Jersey politicians in the districts in which he hoped to open additional charters.[110]

In both Florida and Arizona, members of the legislature holding positions of power had, or still have, financial interests in the for-profit charter industry. Republican Senator Eddie Farnsworth made $13.9 million when he sold his for-profit schools to a non-profit operator.[111]

Florida legislators with ties to Academica have helped pave the way for charter schools in the state. Hialeah Rep. Manny Diaz and former Miami Rep. Eric Fresen, both Republicans, sat in the legislature while they received salaries from entities related to Academica.[112] Fresen, the brother-in-law of Academica founder and CEO Fernando Zulueta, and Diaz worked together on legislation that favored the charter sector while denying any personal benefit.[113]

Why are for-profit charter schools so plentiful in states like Florida, Arizona, Ohio, Michigan and Nevada? Lax laws, less transparency and legislatures open to the influence of the charter lobby encourage their expansion.

Conclusion

As we conducted our research, it became apparent why it is attractive to run schools for profit. In most markets, what the consumer purchases is determined by two factors. The first is the customer's attraction to the product. The second, which is even more important, is the customer's ability to pay. That is the reality of the marketplace.

In the for-profit charter market, the second restriction is gone—every customer that walks through the door comes in with ample cash from the taxpayers. Therefore, there is little risk for the entrepreneur. As long as children come through the door, the money flows in predictable amounts.

Second, managing a school not only results in a fee, it allows the management company to direct the board toward its real estate holdings and other services. Many have speculated that the acquisition of real estate is a primary driver of charter expansion. The property is purchased with low-interest loans or bonds. It is exempt from property taxes even as the mortgage is paid for by the taxpayers. Finally, when the time is right, the building is sold to the school. The owner walks away with profit; the taxpayers now have a new mortgage to pay.

Those who defend for-profit schooling claim it is no different than public schools using vendors for transportation services or to purchase textbooks. It is a cynical argument without merit. Public school boards and administrators operate under full transparency. They are forbidden to profit from school transactions—you can't steer business to Uncle Louie or yourself. All contracts are open to public inspection. Finally, most expenditures are subject to bidding, providing one more layer of protection to prevent inside deals. All or most of the regulations that protect public tax dollars are absent in most states when it comes to charter schools.

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 federal funds. Under federal law, only public, not private entities can receive federal funding.[114] As this report explains, however, those 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 require 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 in excess of 30 percent of all revenue flows directly or indirectly to for-profit vendors. Lease or mortgage payments would be exempt, except in those cases when 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 provider and posting its contract 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 would be 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.

Methodology

We identified charter schools operating for profit between September 2020 and January of 2021. Our accuracy is dependent on the accuracy of public records, including the websites of for-profit management companies, during that time period. We began with lists of for-profit EMOs on their websites. To confirm that EMOs were for-profit entities, we used the EMO's home state business entity search engine. Once we confirmed each entity's for-profit status, we located the EMO's website for a list of their schools and compared those lists to existing lists of charter schools maintained by the relevant state departments of education.

In order to find the schools controlled by for-profit EMOs that did not have websites, and to find additional EMOs not previously reported, we did a deeper search, especially in states that had a high proportion of for-profit entities managing charter schools and a publicly available system of documentation.

Florida

The Florida Auditor General's website maintains a database of charter school audit reports.[115] We reviewed the audits of all presently operating charter schools in the state in order to identify each charter school's management organization. We then checked the management organization's business registration with the State of Florida's Division of Corporations to determine its profit status.[116]

Ohio

The Ohio Department of Education has excellent transparency for those interested in finding out its charter schools' management structure, which are known as community schools in that state. It publishes a Directory of Community Schools, Sponsors, and Operators page on its website. The page contains a downloadable database that includes the name of each charter school's management organization.[117]

We checked each management organization in the Ohio Secretary of State business entity search engine to determine its profit status.

Ohio provides access to the contracts between the charter school and their management organization, providing the greatest level of transparency that we found in any state, and allowing us to understand to what extent the for-profit organization was running the school.[118]

Michigan

The State of Michigan maintains an Educational Entity Master "that contains numbers and basic contact information regarding educational systems in the state of Michigan."[119] We accessed the EEM downloadable dataset called Public School Academy Districts with Education Service Providers and Chartering Agencies.[120]

We checked the education service providers' business registrations with the State of Michigan's Department of Licensing and Regulatory Affairs Corporations Online Filing System to determine its profit status.[121]

Arizona

The Arizona State Board for Charter Schools (ASBCS) maintains a database that includes an Annual Education Service Provider Declaration form each charter-holding entity must submit. The list of charter holders can be found here. To access the forms, we clicked on the name of the charter holder, then the 'Documentation' tab, then the 'Document Management System' link, then the 'Charter Holder' link, and finally the 'Education Service Provider' link.[122]

We checked the ESP's business registration with the Arizona Corporation Commission to determine its profit status.[123] By following this procedure for each charter holder, we were able to identify numerous smaller EMOs that were not found on other available lists. The ASBCS database also lists the schools associated with each charter holder. We found that some of those schools were closed, so to ensure accuracy, we compared the list of schools on the ASBCS website with the Arizona Departments of Education's database of charter schools.[124]

By following this in-depth process in these four states, we were able to identify small and medium-sized for-profit organizations that managed schools in other states with less transparency. We also conducted extensive internet searches on schools in states such as North Carolina and Nevada that have a large for-profit footprint but less transparency.

Finally, we often referenced the IRS 990 statements of the nonprofit entities to confirm payments and to deepen our understanding of the interaction between the various related corporations that do business with the charter school.

An additional note:

A few weeks prior to publication of this report, The National Education Policy Center published its fifteenth yearbook on charter management organizations that provides an in- depth analysis on the expanse of the for-profit and nonprofit management landscape.[125] We are always indebted to Gary Miron and his team for their excellent work.

Readers of both reports may notice some discrepancies in the numbers of for-profit management corporations and schools between the Miron et.al. report and ours, and that is worth an explanation.

First, any organization that has done this work knows how difficult it is. The lack of transparency and uniformity among states when it comes to charter school operations is in a word, appalling. Second, judgements must be made based on the evidence found. For example, based on organizational 990s, we classify BASIS as a for-profit and explain why in our report. NEPC does not. However the NEPC report classifies the operator Victory Schools as a for-profit. We believe it is now a vendor.

The problem is compounded because many of these organizations change names, status and the services they provide—often at a rapid pace.

Additional reasons for differences are:

* Differing identification methodology
* The different time periods covered
* Our inclusion of Arizona's stand-alone for-profit schools and a handful of schools that are scheduled to open this year
* The decision on how to count schools and campuses—as reported by the EMO, state lists, CCD or a combination of some or all of the above.

What both our report and Miron's NEPC report acknowledge is that we have likely undercounted the sector (both EMOs and schools) due to its abysmal lack of transparency.

We will do our best to update this report and our interactive map as new information becomes available.

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