

Do charter schools profit from educating students?

Yes. Charter schools are structured and operate in ways that introduce new actors into public education who skim money from the system without returning any benefit to students and taxpayers. Even charters labeled “nonprofit” expand opportunities to profit from public tax dollars and privatize public assets.

This is why

Charter schools promote conflicts of interest with moneymaking enterprises. Often, members of the nonprofit boards who operate charters have ties to companies and foundations that serve the school. In some cases, the boards are the same.

Education management organizations (EMOs) and charter management organizations (CMOs) often follow a business model that puts business, not students, first. For example, after securing a contract to manage a school and purchasing a building for it, the EMO can then lease the property to a development company it is associated with, which can then grossly inflate the lease payments. If the EMO is ever fired, the charter board—and by extension the district—may have to buy back its own school.

Charter operations are sometimes linked to vendors that lease supplies and services to the school. Even when the school is closed, the desks, computers, and equipment that have been purchased with taxpayer money can still be owned the charter related businesses.

The vast majority of fraud perpetrated by charter officials goes undetected. The federal government, the states, and local charter authorizers lack the oversight necessary to detect it. By 2015, the federal government spent more than \$3.7 billion to boost the charter sector — with millions wasted on financing “ghost schools” that never opened.

Look at the facts

In **Michigan**, nearly 80 percent of charter schools have all or a significant part of their operations under the control of for-profit companies.¹ The state spends \$1 billion on unaccountable charter schools.

A **Pennsylvania** state auditor examining lease reimbursements paid by a charter, uncovered the school was located in a building that one of the school’s founders had originally owned and then transferred to a non-profit entity he controlled so he could receive the lease payments. A for-profit management company brought in to manage the school also had offices in the same building.²

A recent analysis of the business practices of EMOs operating in **Florida** found an example of the charter firm and its construction partner selling two newly completed schools to the companies’ real estate partner – one for only \$1 and the other for \$10. After taking over the leases, the real estate firm raised lease payments from the school that sold for \$1 to \$1,325,666 per year.³

A law review of charter school practices in **North Carolina** found “there is virtually no way” for the organizations to lose money. They control their charter schools’ money, pay themselves what they want in rent, and reimburse themselves for real-estate-related expenses. Their operations often mask how money is spent, how much they profit, and make it almost impossible to audit the real expenses.⁴

(continued)



In **Washington, DC**, a charter school owner diverted public education funding to his company that paid him more than \$2.5 million over a 2 year-period. Over the past 10 years, the school had paid his firm more than \$14 million.⁵

In **Ohio**, the superintendent and 2 board members of a charter awarded a \$420,919 consulting contract to an out-of-state company, which gave them kickbacks in cash, travel, and payments to a separate business.⁶

The largest charter school chain in **California**, part of the controversial Gulen chain, paid for six non-employees' immigration costs and could not justify \$3 million in expenses over four years to outsource curriculum development, professional training, and human resources services.⁷

An investigative report in **North Carolina** found an individual who was instrumental in creating four new charter schools, also controlled the for-profit management companies that managed the schools, leased the desks, computers, and other equipment to the schools, provided training to the schools' teachers, and leased most of the land and buildings the schools occupied.⁸

California's largest network of **online charter schools**, run by Virginia-based K12 Inc., is treated by the state as a charitable organization that need not pay taxes, even though K12 is a corporation publicly traded on Wall Street. The state has awarded the online charter with \$310 million in funding over the past dozen years. A non-profit "front" contracts with the for-profit corporation.⁹

WHAT PRIVATIZERS BELIEVE	WHAT WE BELIEVE
Charter schools have to serve students and parents in order to stay open.	Charter schools can stay financially viable by making money in ways that have nothing to do with education.
Schools should be run like businesses.	Businesses are about profit and loss, not about educating all children regardless of their circumstances.
Charter schools have to be nonprofit organizations by law.	Some charter schools are nonprofit in name only and are structured in ways that individuals and private enterprises connected to them can make money. Other charter schools are for-profit.

Bottom Line

Charter schools are businesses in which both the cost and risk are fully funded by the taxpayers. The initial "investment" often comes from the government or wealthy individuals. And if the business fails, the "owners" are not out a dime, but the customers, who are in this case children, are stranded. Education should not be about making money from tax dollars intended for our children and families.

¹ "Michigan spends \$1B on Charter Schools but Fails to Hold them Accountable," Jennifer Dixon, Detroit Free Press January 16, 2017.

² "The Business of Charter Schooling: Understanding the Policies that Charter Operators Use for Financial Benefit," Bruce Baker and Gary Miron, National Education Policy Center, December 2015.

³ "The League in Action on For-Profit Charters," Sue Legg and Pat Hall, Florida League of Women Voters, October 1, 2016.

⁴ "North Carolina Charter Schools' (Non-?) Compliance with State and Federal Nonprofit Law," Thomas A. Kelley II, North Carolina Law Review, Volume 93, Number 6, Article 4, September 1, 2015.

^{5,7} "The Tip of the Iceberg: Charter School Vulnerabilities To Waste, Fraud, And Abuse," Alliance to Reclaim Our Schools and the Center for Popular Democracy, April, 2015.

⁸ "Charter School Power Broker Turns Public Education Into Private Profits," Marian Wang, ProPublica, Oct. 15, 2014.

⁹ "California Virtual Academies: Is online charter school network cashing in on failure?" Jessica Calefati, The Mercury News, January 11, 2017.

