

Executive Summary

In May of 2019, the Michigan State Board of Education voted to stop the disbursement of a \$47 million grant from the federal Charter Schools Program (CSP). The duly elected Board had good reason to take action, especially given that the Michigan Department of Education had applied for the money without the Board's consent.¹

Ironically, just three years before, the Michigan Department's 2015 grant application had been rejected by the CSP; reviewers of the application noted the lack of supervision of the 44 authorizers that approve and monitor the state's charter schools.²

Charter school authorizing had become a lucrative business for colleges and universities that enjoy a three percent cut of the millions of tax dollars that charter schools receive each year. Nearly 80 percent of the charters in Michigan are controlled by for-profits that have their vested interest in growth as well.

But Washington had changed, and now Michigan billionaire Betsy DeVos was in charge. Previous reservations about oversight were set aside and her home state got the grant.

State Board of Education President, Casandra Ulbrich, explained to us why the Board tried to block the grant.

The State Board of Education was presented with a set of grant criteria to ultimately spend up to \$47 million expanding and creating new charters in Michigan. The Board was never consulted when the state applied for the funds, and had severe reservations focusing on two areas. The first was concern over previous use of the grant funds. The second was whether a state with a 17-year record of student enrollment declines, and parallel declines in student achievement, needed to open more charter schools. Following the vote, I began reviewing previous grant information and today, am even more alarmed by what I have found.³

Despite the objections of the state's elected Board, the Michigan Attorney General ruled that the grant must be dispersed.

Ulbrich also told us that NPE's March, 2019 report, *Asleep at the Wheel: How the Federal Charter Schools Program Recklessly Takes Taxpayers and Students for a Ride⁴*, had raised serious questions about the CSP program among the Board. That report told the stories of charter schools that nev-

er opened or closed after receiving hundreds of thousands in federal funds. *Asleep at the Wheel* shared evidence of the mismatch between what the applicants told the Department and what was actually happening at the grantee schools. It revealed that the U.S. Department of Education's Office of Inspector General had warned about abuses in the CSP but its warnings were largely ignored.

This report, *Still Asleep at the Wheel: How the Federal Charter Schools Program Results in a Pileup of Fraud and Waste*, takes up where our first report left off. In it, we provide detailed information, state by state, on how federal dollars were doled out to schools that no longer exist or never existed at all.

In 2015, the U.S. Department of Education (the Department) published a list of charter schools that received funding from grants that were active between the school years (SY) of 2006-07 and 2013-14. Using that database of 4,829 schools⁵, we meticulously determined which charters that received grants were still open, which had closed and which had never opened, resulting in state by state records of enormous waste. We examine the detailed spending records of some of Michigan's ghost charter schools that received grants exceeding \$100,000. We explain how money moves into the hands of for-profit management organizations and tell the stories of subgrantees that engaged in fraud—sometimes amounting to hundreds of millions of dollars—all beginning with funding from the federal Charter Schools Program.

Major findings of our research include the following:

- **Documented charter school closures and the waste of federal funds exceeds our first report's estimations.**

We believed that about 1,000 recipient charters were defunct. However, using the 2015 database, we identified **1,777 grantee schools** that either never opened or had shut down. The number of non-opera-

tional recipients, across 25 years of the program is inevitably in the thousands.

In the first report, we estimated the failure rate for recipient schools to be 30 percent. For schools listed in the database, however, our latest review found a **failure rate of 37 percent**.

It is impossible to document total waste for the entire 25 year program because the Department never required the states to report the names of funded schools until 2006. However, we have now documented **\$502,468,123** (28 percent of the total database amount) that was awarded to schools from grants that were active between SY 2006-07 and SY 2013-14 that never opened or that have closed. Applying that percentage to the total expenditures (\$4.1 billion) of the CSP programs designed to create new schools, **approximately \$1.17 billion** in federal funding has likely been spent on charters that either never opened, or that opened and have since shut down.

- **The disbursement of over one billion dollars during the program's first decade was never monitored for its impact or results. There is no record of which schools received the funds.**

From 1995 to 2005, enormous funds were pushed out to the states to distribute to schools via subgrants. Yet the Department *has no complete record of which schools received funding* during the program's early years, because it never required the states to report the names of subgrantee schools or their status. The Department's oversight ended when the funds left Washington.

During the first decade of the program when states did not have to report where the money went⁶, Florida, a state where nearly half of all charter schools are run

by for-profit organizations, received four grants totaling \$158,353,525. Michigan, where about 80 percent of all charters are run by for-profit management companies, received four grants totaling \$64,608,912. California also received four grants, totaling \$190,857,243.

- **Although the overall rate of failed charter projects was 37 percent, in some states the rate of failure was much higher.**

Iowa and Kansas have the largest proportions of failed subgrantee charter schools. Eleven charter schools in Iowa received grants. Ten failed, wasting over \$3.66 million. As of 2014, the database indicates that Kansas doled out \$8.51 million to 29 schools. Twenty-two (76 percent) of those schools either never opened or are closed today—\$6,389,964 of the \$8.9 million was wasted.

States with a **subgrantee failure rate exceeding 50 percent** include: Delaware, Georgia, Hawaii, Iowa, Kansas, Maryland, Mississippi, Virginia and Washington (state). Mississippi had only one grantee and that school failed. Georgia had 75 failures, resulting in over 23 million federal dollars wasted.

The percentage of defunct charter school grantees in Florida was 37 percent (\$34.2 million); the Michigan failure rate was over 44 percent (\$21 million) and Louisiana's failure rate was 48 percent (\$26.7 million).

The most astounding loss, however, was California's: nearly \$102 million was awarded to charters that never opened or have shut down—37% failed.

- **Five hundred thirty-seven (537) schools listed in the database never opened at all. Many received over \$100,000 in federal funds.**

Since 2001, charter school entrepreneurs have been eligible to receive CSP grants before they have even identified an authorizer or submitted a detailed application to open a school. In total, we identified 28 states that had at least one charter school (537 schools in total) that never enrolled even one student for one day and yet had received federal funds. According to the CSP database, those schools received, or were due to receive when the database collection ended, a total of **\$45,546,552 million**.

Topping the list was the state of Michigan where **72 never-opened schools received planning grants**, most exceeding \$100,000. Over \$7.7 million was wasted. In California, we identified 61—with waste of \$8.36 million.

Other states with large numbers of never-opened schools receiving CSP funds include Arkansas (18), Florida (46) Illinois (20), Maryland (38), Massachusetts (17), New Jersey (23), Ohio (20), Oregon (40), Pennsylvania (41), South Carolina (34), Tennessee (43) and Wisconsin (15).

This report provides details on how several of these never-opened charters in Michigan spent those federal funds.

- **Although Congress forbids for-profit operators from directly receiving CSP grants, they still benefit by having their schools apply.**

Although we could not identify every charter in the CSP database that was run by a for-profit management company, we were able to identify those run by the large for-profit chains including Academics, K12, National Heritage Academies, White Hat and Charter Schools USA. In total, we found 357 schools in the database run by major for-profit chains. These schools had received a total of \$124,929,017 in federal CSP start-up funds.



Unsurprisingly, most of this money flowed to for-profit run schools in Florida (\$46,936,979) and Michigan (\$26,452,927). Eighty-three (83) schools run by the Florida-based, for-profit chain Academica received CSP grants, totaling \$23,426,383.

Still Asleep at the Wheel also describes why so many charter schools fail, along with the stories of grantee schools that abruptly closed, sometimes with little or no notice to their students and families. Far too often those schools shut down due to corruption and fraud. Our report provides disturbing accounts of grifters and profiteers who took CSP and other taxpayer funds only to enrich themselves at the expense of the students they had promised to serve.

The staggering amount spent on schools that have closed or never opened, as well as those that have engaged in fraud, is nothing short of a national scandal. As public dollars are diverted from public schools, the students who attend their neighborhood schools have fewer resources. It is time to put on the brakes and chart a new course.

We were heartened that after the publication of our first report in March of 2019, the U.S. House of Representatives reduced funding for the CSP program for 2020. However, a small reduction is not sufficient to address the program's structural flaws.

We therefore strongly recommend that Congress end appropriations for new charter school grants in the upcoming budget and continue funding only for obligated amounts to legitimate projects. Once those grants have been closed, we recommend that the CSP be ended and that charter schools continue to receive federal support only through other federal funding streams such as Title I and IDEA. Students, not charter school entrepreneurs, should benefit from federal funds.

We also recommend thorough audits by Congress of previous grant awards, the establishment of regulations to ensure grant awards still under term are being responsibly carried out and that misspent money is returned to the federal coffers.