CHARTERED FOR PROFIT II: PANDEMIC PROFITEERING

NPE
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Executive Summary

In March of 2021, the Network for Public Education published *Chartered for Profit: The Hidden World of Charter Schools Operated for Financial Gain*. In this follow-up report on the charter for-profit sector, we chronicle its expansion during the years of the Covid-19 pandemic by reporting growth in the number of schools, the number of for-profit corporations that run them, and student enrollment.

Acccording to our research, the for-profit sector dominated the charter school sector during the pandemic years. As the pandemic wore on – the percentage of charter schools run by for-profits jumped from 15 percent to 16.6 percent of the charter sector. This is a far greater percentage than is reported by the National Alliance for Public Charter Schools, which inexplicably does not report schools run by for-profit Education Management Organizations (EMOs) that control only one or two schools. These micro-EMOS comprise nearly half of all for-profit EMOs.

However, the number of schools run for profit underestimates the true growth of for-profit schooling during Covid 19. The percentage of students attending a charter school designed to produce a profit for its management company soared. According to the Common Core of Data of the National Center for Education Statistics, the total student enrollment in charter schools during the second year of the pandemic (the 2021-2022 school year) was 3,676,635. Student enrollment in for-profit-run charter schools jumped to 731,406 that year.

That means that 20 percent of all charter school students, 1 in 5, were enrolled in a charter school managed by a for-profit management corporation by the pandemic's end.

More disturbing is that 27 percent of the students attending for-profit-run schools were enrolled in low-quality virtual charter schools that teach students either exclusively or primarily online. That was in 2021. During the prior year (2020) the number was even higher.

Those who defend for-profit charter schooling claim it is no different from public schools using vendors for transportation services or to purchase textbooks. However, as this report explains, for-profit chartering is very different from vendors who supply discreet products and services. We detail the various ways in which the owners of EMOs extract profit via a lack of oversight and regulation that fails to protect taxpayers from sweetheart deals, sweeps contracts, and related party transactions designed to enrich EMO owners, their

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friends and their family members. And we explain how the acquisition of real estate and exploitative lease and purchase agreements drive the expansion of for-profit-run charter schools and, in some cases, put the school at financial risk.

Chartered For-Profit II: Pandemic Profiteering makes a case for substantive state and national reform so that the best interests of students and taxpayers trump financial gain. Like our first report, it provides insight into the most controversial sector of the charter school world—charters operated for financial gain.

Introduction

During a 2016 visit to California, Network for Public Education (NPE) Executive Director Carol Burris met Michael Matsuda, the Superintendent of the Anaheim High School District. Matsuda showed her a flyer that advertised a new online Oklahoma-based charter school called Epic. The online school, which was actively recruiting students in his district, was giving enrollees $1,500 for a "personal learning fund," along with free laptops, iPads, and Internet services.[1] According to Woodward News, Epic, growing at a breakneck speed in Oklahoma, was also handing out free concert tickets, vacations, and other prizes for student referrals to its school, which had a four-year graduation rate of only 28 percent.[2]

Even as Epic was moving into California, it had been under investigation in Oklahoma for three years.[3] While in theory, the school was run by a nonprofit called Community Strategies Inc., the real decision-maker was a for-profit company called Epic Youth Services (EYS). EYS received a 10 percent cut of taxpayer-funded revenue. Epic's founders, David Chaney and Ben Harris were the co-owners of EYS, with Chaney serving as both the first superintendent of the school and the CEO of EYS.[4]

EYS attempted to block the Oklahoma investigation into its dealings, arguing that it was a private for-profit corporation and did not need to make its financial dealings public – even though it received public funds. After a ten-year investigation, Chaney, Harris, and Josh Brock, the long-time financial officer for both Epic Charter and EYS, were arrested in June of 2022 for cheating Oklahoma taxpayers out of tens of millions of dollars.[5]

The trio had regularly enrolled "ghost students," including students in home and private schools, created fake invoices, used school credit cards for personal items, and dipped deep into the aforementioned "learning funds" account to make political contributions to stall and obstruct the audit. Chaney, Harris, and Brock regularly used the learning fund advertised in the Anaheim flyer not only as a way to entice new students to the school but as a personal piggy bank.

Whether Chaney, Harris, and Brock will serve time for their crimes is yet to be determined. In a similar scam involving online charter schools in California known as the A3 scandal, the two criminal ringleaders behind the bilking of hundreds of millions from taxpayers were not required to spend even a single night in jail.[6]

Perhaps most disturbing is that most of what Epic did is perfectly legal. Assigning no-bid contracts to friends and relations, giving parents bonuses for enrolling their own student or steering others to the school, and even paying teachers, as Epic did, for every student they enrolled were not the reason for the arrests. These practices are permissible in Oklahoma and would also be allowed in most other states. The Epic chain recently moved to self-management and is on probation. Its future is unclear.

Since our March 2021 report the online for-profit charter sector has dramatically expanded its enrollment, accounting for most of the enrollment growth in charter schools during the pandemic. For example, enrollment in Epic, the corrupt online chain described above, more than doubled, increasing by over 31,000 students between the 2019-2020 and the 2020-2021 school years alone.

This report, a follow-up to our earlier one, chronicles the expansion of the sector in several important ways: the number of schools, the number and size of the for-profit corporations that run them, and enrollment growth. We also include a detailed explanation of how several for-profit chains, generally referred to as Education Management Organizations or EMOs, extract profits from their schools via insider deals, "sweeps contracts," and real estate transactions. We show which states are now the leaders in for-profit charter schooling and where new growth is most likely to occur.

We include summaries of findings from our first report and encourage readers to look at that report as well as it includes important background information to provide the fullest picture of the for-profit sector.

For-profit Chartering: How it Works

Title 20 of the Elementary and Secondary Education Act requires schools to be non-profit organizations to receive federal funding. In 2003, the U.S. Department of Education's Office of Inspector General discovered that Arizona was ignoring the law, offering for-profit charter schools federal funds.

After the Department clamped down, several Arizona for-profit charters sued. But the courts upheld the U.S. Department of Education's decision to withhold federal funding from for-profit charter schools.

Federal funding includes support for special needs students and students who live in low-income households. It also means access to the federal Charter Schools Program (CSP), which offers states grants to open and expand charter schools. Federal funding was too great a prize to pass up. The for-profit charters merely reorganized, creating non-profit facades for their for-profit organizations.

Although Arizona still allows for-profit entities to be licensed as charter schools, the federal government's increased oversight led most of the state's direct-run for-profit schools to change their status in order to become eligible for federal funds.

That workaround involves creating or engaging a non-profit organization to secure the charter for the school, then contracting with a for-profit management corporation, commonly referred to as an Education Management Organization or an EMO, to run it. Funding then flows from the taxpayers, through the nonprofit to the for-profit corporation.

A review of U.S. Department of Education (ED) 2021 CSP funding reports, which we obtained with a Freedom of Information Act (FOIA) request, allowed us to identify newer grants, bringing the total of federal funds received by for-profit run charters to open, replicate or expand to a whopping $260,632,391 since 2006 until the spring of 2021. The Department began tracking CSP grants in 2006, although the program began in the mid-1990s. The number of schools run-for-profit that received CSP grants jumped from 440 to 647. The size of the grants also increased, with many exceeding $1 million. Note that this does not include recent grant payments or grants to some schools we did not identify because they never opened or have already closed.

In 2022, the U.S. Department of Education issued new regulations restricting the ability of charter schools run by for-profit management from receiving funds.

Nearly half of all charter EMOs in the United States manage only one or two schools. However, some large chains manage over ninety. Whether large or small, 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 that are owned by the owners of the EMO, their families, or friends.

Therefore, a more precise nomenclature for these charter schools run by EMOs is the term we coined in our first report – "charters run for profit."

Why are Charters Run for Profit Problematic?

In our last report, we reviewed advocates' claim that operating a charter school for profit enhances school performance and competition.[7] 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."

But for-profits, unlike non-profit organizations, are responsible for maximizing profit for their owners and investors. And that creates tension between what is best for students and what is best for profiteers. 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. Although in a few states, there are regulations regarding the percentage that an EMO can take as a fee, there is no absolute cap, nor are there restrictions regarding how much for-profit management companies and their related organizations can make. And, unlike public schools and non-profit operators, the public cannot see the unspent balance.

One of the easiest ways to maximize profits is to cut costs. The simplest way to do that in schools is to pay teachers and principals less or pay fewer teachers by increasing class size. Savings can also accrue from hiring uncertified or inexperienced teachers or discouraging students who need the most services from enrolling. Examples of for-profit-run charters using these strategies are included in our first report.

Josh Cowen is a professor of Education Policy at Michigan State University. He worries that the profit margin EMOs make running schools is so narrow it could lead to educational malpractice.

> *"It's quite possible that these organizations do turn handsome profit, but I'm much more worried – and we have evidence from the traditional public sector on the high costs of educating kids – that most "for profit" organizations hide their profit margins because they*

are actually quite narrow. Narrow profit margins give charter management companies every incentive to skimp on services, cut corners, pay teachers below a prevailing wage, and find ways to avoid serving kids who through no fault of their own simply cost more to educate."

In his recent National Education Policy Center (NEPC) review of a pro-charter Thomas B. Fordham Foundation's study that attempts to justify the for-profit sector, Cowen notes that the Foundation's upbeat spin on the Ohio for-profit sector has no basis in the reality of their own findings (the Fordham Foundation is a charter authorizer in Ohio).[8]

The study revealed many serious reasons for concern, including for-profits having lower student achievement, lower graduation rates, and higher absentee rates. Students in for-profit virtual charters quickly fall behind those in brick-and-mortar schools. And the more services that the for-profit provides, the greater the adverse consequences to kids.

Despite all of the problems with the sector, the for-profit EMO industry grew significantly during the COVID-19 pandemic, seizing what they undoubtedly recognized as a market opportunity occurring during a national health crisis.

The Landscape in 2022

At the beginning of the 2022-2023 school year, we identified 1,305 charter schools,[9] run by one of 150 EMOs. This is an increase since our 2021 report, which identified 1,138 for-profit-run charter schools run by 141 EMOs. Although a few of the newly identified schools are ones we missed, nearly all are schools that opened during the 2021-22 and 2022-23 school years. We also removed from the count schools that were no longer operated by for-profits or have closed.

During these two school years – as the pandemic wore on – the percentage of charter schools run by for-profits jumped from 15 percent to about 16.6 percent of the charter sector.[10] However, the number of schools run for profit underestimates the impact of for-profit schooling. A better measure is the percentage of students attending a charter school designed to produce a profit for its management company.

According to the Common Core of Data of the National Center for Education Statistics, total student enrollment in charter schools during the second year of the pandemic (the 2021-2022 school year) was 3,676,635, a decrease of 5,323 students from the 2020-2021 school year. We isolated schools run by for-profit operators and totaled their 2021-2022 enrollment. 731,406 students were enrolled in a charter school run by a for-profit.

That means that nearly 20 percent of all charter school students, 1 in 5, were enrolled in a charter school managed by a for-profit management corporation by the conclusion of the pandemic.

More disturbing is that 27 percent of the students attending for-profit-run schools were enrolled in low-quality virtual charter schools that teach students either exclusively or primarily online.

The percentage of students in for-profit EMO-run schools sharply increased during the pandemic. In February of 2021, The National Education Policy Center published *Profiles of For-profit and Nonprofit Education Management Organizations: fifteenth edition*.[11] According to the NEPC report, during the 2018-2019 school year, 568,199 students were enrolled in a charter school managed by a for-profit. Although there are some differences in the schools that NPE and NEPC identified, those differences were minor. The growth of enrollment in for-profit-run schools between the 2018-2019 school year and 2021-2022 school year exceeded 29 percent.

The pandemic certainly accelerated the growth of for-profit online schooling, a sector already the fastest-expanding charter school sector. Charters operated by the for-profit online giant Stride K12 increased from 72,474 students in 2019-2020 to 110,767 in 2020-2021. Its strongest competitor, Pearson's Connections Academy, experienced even greater proportional growth, from 53,673 to 85,749. Later in this report, we will discuss the growing numbers of students in virtual schools, the problems associated with that sector, and why for-profit operators are attracted to running them.

METHODOLOGY: How did we determine which schools are managed by for-profit operators?

Determining which charter schools are run for profit is a laborious task. Ohio is the only state that posts its charter schools' management contracts on its education department website. However, even Ohio does not disclose whether the management organization is non-profit or for-profit. We had to look at the corporations' tax status to find out.

In most states, there is little or no documentation regarding charter management. Arizona and Michigan provide the names of operators, and Michigan requires schools to post budgets on their websites, including the EMO budget. To find out which Florida schools were managed by for-profits, we reviewed the audits of every Florida charter school. If they listed an EMO, we checked its status on the state business website to determine if it is for-profit or non-profit.

In other states, we identified the majority of schools from listings on the websites of for-profit management organizations. Because many for-profit management organizations are formed to manage a small group of schools or even a single school, there are likely some we missed.

Nevertheless, by following the process we describe in greater detail on page 34, we believe that we successfully identified nearly all charter schools operating for profit between May 2022 and August 2022, including new schools registering students for the 2022-23 school year. Our accuracy is dependent on the accuracy of public records during those dates.

Circumventing Taxpayer Protection Laws

States have bidding procurement laws that require public entities – including school districts – to use a bidding process when purchasing services. Although each state has its rules regarding at what price threshold a bid must be secured, most states require three bids, with the award going to the lowest responsible bidder.

Bidding laws are designed to ensure that taxpayers are not getting fleeced by school districts entering into sweetheart deals with preferred vendors. Through competitive bidding, school districts get the very best price they can secure since vendors want to outbid their competitors in order to get the job.

Ironically, one rationale for the existence of charter schools, that competition produces better outcomes, does not apply to the sector when it comes to the procurement of goods and services. Ohio, for example, has prescriptive bidding laws regarding facility purchases and improvements for public schools.[12] However, charter schools, called "community schools" in that state, are exempt.

In other states, while procurement requirements are on the books, so many exceptions are granted that the law becomes meaningless. For example, according to this presentation found on the Arizona State Board for Charter Schools website, 91.8 percent of all charter schools in the state were granted procurement exemptions in 2015.[13]

Included in the presentation is this rationale: "The bond between venders [sic] and buyers is an important one and when a good relationship has been created it is important to not put them through the ringer [sic] each time a new contract comes up."

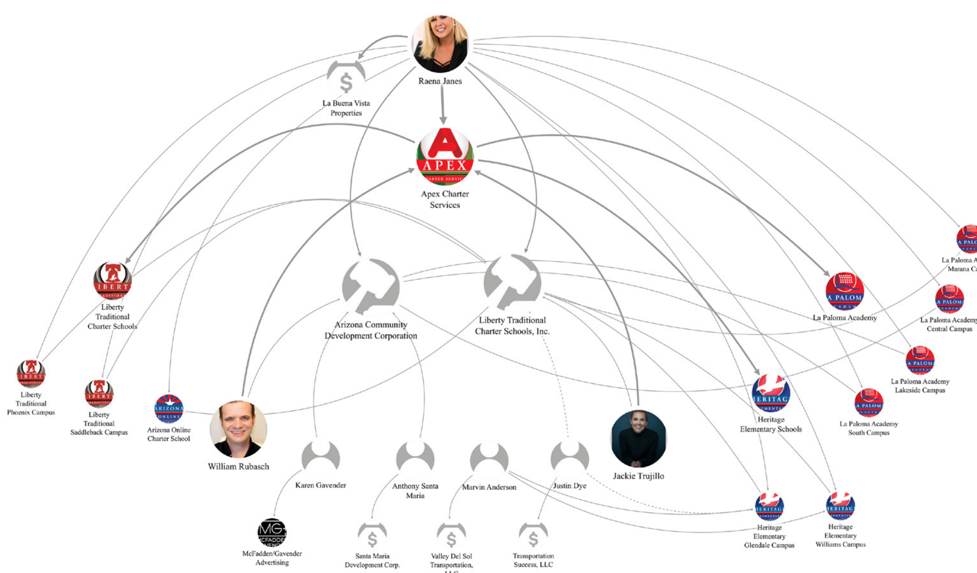
The wringer that charters wish to avoid slows down or at least makes transparent the ways that profiteers use charter schools as piggy banks through insider deals.

Insider Deals

Insider deals, formally referred to as related party transactions, occur when those who have control of a charter school's decision-making process award contracts to their own companies or those owned by family members, colleagues, or friends. It is remarkable how often such deals occur, even though such relationships put the non-profit charter at risk of losing its 501(c)(3) status.[14] Some examples:

APEX Charter Services: Arizonan Raena Janes is the sole owner of APEX Charter Services, a for-profit EMO that manages nine charter schools.[15] Those nine schools are overseen by two non-profit boards, the Arizona Community Development Corporation and Liberty Traditional Charter Schools, Inc.

A detailed description of insider deals among the charter school boards and Janes, APEX employees, and board members can be found in the LittleSis map linked in the image below. The map shows how not only Janes but also board members and employees of the schools have profited from contracts that include real estate, advertising, construction, transportation, and maintenance agreements. Since the 2010-11 school year, public documents show that Janes and her colleagues have extracted nearly $33 million taxpayer dollars from the charter schools.



Torchlight Academy Schools: North Carolina's Torchlight Academy was managed by a for-profit owned by Don McQueen. McQueen's wife, Cynthia, was the charter school's principal. Don McQueen was the executive manager of Torchlight Academy Schools, LLC, the for-profit management company. According to North Carolina Policy Watch, Torchlight's audits show that the EMO was paid $1.8 million to manage the school in 2016 and 2017, with fees decreasing to nearly $366,000 in 2021.[16] That year, however, the McQueens gave themselves raises, increasing their salaries from $100,000 to $160,000.

WRAL News reported that the McQueens hired their daughter Shawntrice Andrews as the special education director and her husband Aaron Andrews as a teaching assistant. Mr. Andrews also owned Luv Lee Sanitation, which had a lucrative cleaning contract with the school. The Individual Education Plans (IEPs) of the school's special education students under Shawntrice Andrews were so out of compliance the school was obligated to return federal special education funding.[17]

Following the scandal regarding special education funding, the EMO was fired, and the school was shut down. According to the WRAL story, during the state closure hearing, the chairwoman noted that many board members had the same last name. She said a school board is better "with a lack of familial relationships." Note that she used the word "better," not the word "illegal."

Charter One: There is no better example of how a for-profit EMO leverages insider deals than Arizonan Glenn Way's Charter One. While some operators are discreet, others have no problem acknowledging the fortunes they have made.

Glenn Way began his involvement in charter schools when he was a state legislator in his home state of Utah. After losing his reelection bid in 2002, he resigned before the end of his term. However, before his resignation, Way was an avid school choice proponent and an active American Legislative Exchange Council (ALEC) member.

He and his wife developed American Leadership Academy (ALA), a conservative charter school in Spanish Fork.[18] Along with two seated Utah legislators, he financed and constructed five Utah charter schools, which included ALA. A 2005 report in the *Salt Lake Tribune* stated that his corporation, U.S. Charter Development, would make "$1 million a year in publicly funded rent from American Leadership Academy alone."[19]

Because he would be up against a charter cap in Utah, Way moved to Arizona, where for-profit entities can open and operate an unlimited number of schools under the nation's loosest charter school laws. He started a chain of ALA charter schools and founded Charter One LLC, a for-profit EMO, to manage the schools. By 2018, Way raked in as much as $37 million on real estate deals related to ALA charters through his real estate development company, Schoolhouse Development.

When Craig Harris of the Arizona Republic asked Way if such profiteering from taxpayer dollars intended for children should be allowed, he responded, "It's [charter schooling] no different than building a Walmart, CVS, or Walgreens."

Until July 2017, Glenn Way was the board chairman for American Leadership Academy, Inc., the façade non-profit board overseeing the Arizona ALA campuses.[20] It wasn't until Jim Hall, a former high school principal who researches charter school finance on his website, Arizonans for Charter School Accountability, exposed Way's self-dealing and profiteering that Way stepped down from the ALA board.[21] While he is no longer the board chair, Way is not fully divested from ALA. He is currently the Charter Representative for the Arizona ALA charter schools, responsible for signing ALA's 20-year charter contract with the state, and all other documents related to the ALA charter schools, ensuring Way maintains a certain level of control over the ALA campuses.[22]

Way's charter empire is now moving beyond Arizona into Nevada, North Carolina, and South Carolina. Although Charter One assures authorizers that Schoolhouse Development and Charter One are not engaged in "financial misconduct" and that there are no "related party transactions between any of the organizations," a close look at publicly available documents raises questions as to the veracity of these statements.

North Carolina's Wake Preparatory Academy board minutes show that Glenn Way and his sons advise the board on behalf of Charter One and SchoolDev East, the east coast affiliate of Schoolhouse Development. Way's sons Michael and Jordan attend meetings as representatives of Charter One, and his son Jim is the principal project manager for SchoolDev East. Way himself attends meetings as the "managing partner" of Charter One.

Charter One management contracts and related fees vary from state to state. The 2022 audit of American Leadership Academy, Inc., the nonprofit that oversees the ALA schools in Arizona, shows that Charter One's fee is 10 percent plus a "performance bonus" per student enrolled at an A- or B-rated school.[23] In North Carolina, Charter One charges Coastal Prep Academy a 15 percent management fee, and the contract stipulates additional services in the agreement, including Technology and IT services, grants and fundraising, maintenance and public relations, and marketing, to be paid separately to Charter One.

The 2022 Arizona audit also shows the following:

> Way Construction Development, LLC was formed to provide construction and building services to the Arizona ALA schools. The corporation is managed by five of Way's children and SGW Holdings, a real estate holding company owned by Glenn Way and his wife, Shelina. The audit shows that the schools paid $715,573 for Way Construction Development's services.

> C1 Apparel, LLC, which supplies school uniforms and spirit wear for Charter One-managed schools, is owned by Way's son James, and Charter One is also a member of C1 Apparel. The audit reports that C1 apparel was paid $357,043.[24]

Sweeps Contracts

In 2014, ProPublica, a nonprofit dedicated to investigative journalism, raised the alarm on what it referred to as "sweeps contracts" in a piece entitled *When Charter Schools are Nonprofits in Name Only*.[25] A sweeps contract is an arrangement in which a charter school turns over all or nearly all of its public funding to an operator who then runs the school. Although it found that such arrangements occur with both non-profit and for-profit operators, ProPublica focused on the for-profit sector because, while all management companies "have no legal obligation to act in the best interests of the schools or taxpayers… When the agreement is with a for-profit firm like National Heritage Academies (NHA), it's also a chance for such firms to turn taxpayer money into tidy profits."

National Heritage Academies (NHA): NHA runs more than 100 schools with sweeps contracts. The most recent contract between NHA and Bennett Venture Academy of Ohio is typical of the contract that supposedly independent school boards enter into with NHA.[26] NHA provides labor, facilities, equipment, materials, and supervision of the school's education program. It provides co-curricular and extra-curricular activities, all personnel functions, food, and transportation and reserves the right to subcontract any services as it sees fit. The school is obligated to provide an office within the school for NHA. And except for a $35,000 allowance to the school board, all the revenues that come to the school are passed through and controlled by NHA. The contract also clarifies that NHA is entitled to keep any funds that are not expended at the school.

In 2014, the *Detroit Free Press* reported what occurred when one NHA school, Detroit Enterprise Academy, attempted to break free of NHA.[27] The board had questioned why the school spent almost $1 million a year on its building lease. When the board sought financial information, they were "treated as a student council." The board president resigned when she pressed for financial details and was told by NHA that it was "none of the board's business." When the board tried to fire NHA, the school's authorizer, Grand Valley State University, said it would not have its charter renewed if it pulled out of its agreement with the for-profit management company. According to the letter obtained by NPE, breaking away from NHA would result in school closure.[28]

When the Michigan State Board of Education recently tried to extract information via a FOIA to find out how state dollars were being spent at NHA schools, they were stymied, receiving a response not from the charter schools but from the EMO. "The academy contracts for the above services through a third-party management company by way of an education management agreement and, thus, the academy is not a party to the service contracts," the State Board was informed by a National Heritage FOIA officer.[29]

ACCEL Schools: The fourth largest and fastest growing for-profit chain, ACCEL, runs its supposedly non-profit schools with sweeps contracts. The majority of the chain's 54 schools are in Ohio. Akron Preparatory School's contract signed in 2017 to expire in 2027 is best described as muscular.[30] From beginning to end, it not only details the sweeping services that ACCEL will provide but also makes it clear that the decision-maker will be the for-profit, not the board. ACCEL is the "exclusive custodian" of all revenues, choosing the bank into which the funds are deposited and managing the accounts. The 18 percent fee from revenue received ensures that ACCEL makes a profit.

Florida's **Charter Schools U.S.A.**, the third largest for-profit chain, operates its schools with sweeps contracts, as does the **Leona Group**, based in Michigan.

Because EMO **Academica** puts a nonprofit in between itself and its schools, the control of the for-profit is not as clear. However, while Academica may have its nonprofit-related subsidiaries control the educational program, the rest of the school's operations and funds are controlled by the for-profit. Because Nevada requires transparency in the spending and operation of EMOs, we get a rare glimpse into Academica's spending here.

Sweeps contracts are associated with more than just the big chains. The now-defunct North Carolina Torchlight Academy closed amidst scandal and was run with a sweeps contract for years. And mid-size for-profit chains like Ohio's Performance Academies also use sweeps contracts to run their schools, an example of which can be found here.[31]

While sweeps contracts lessen the burden on charter boards and may result in some economies of scale, their students pay a steep price. **Even Fordham's largely apologist report on Ohio's for-profit sector found that the more services the for-profit provided, the worse the student outcomes. As noted in NEPC's previously cited review of the Fordham report, "Generally, the report shows an almost linear correlation between school quality and contracting out for services: The more an authorizer contracts out for services – especially for staff support – the worse their schools appear to do."**

Sweetheart Real Estate Deals

One of the many advantages of sweeps contracts is the ability to control the building lease. When we began our investigations into chartering for profit, we were told that "the real money" is made in real estate. The five biggest for-profit management companies – Academica, National Heritage Academy, Charter Schools USA, ACCEL, and Leona – have related real estate corporations with contracts that put the EMO in charge of lease relationships.

Charter One and Schoolhouse Development: As mentioned earlier, a 2018 *Arizona Republic* investigation revealed that businesses owned by or associated with Glenn Way's Charter One made approximately $37 million on real estate deals associated with ALA schools in that state.[32]

A review of publicly available documents in Arizona, North Carolina, and Nevada illuminates the extent to which Glenn Way and his business associates profit from the real estate deals related to charter schools operated by Way's EMO, Charter One. Enough similarities were found in documents across states that it became clear that business practices employed in one state are likely replicated in others. This is further illustrated on the Schoolhouse Development website, which lays out their five-step process.[33]

For each development project, a separate LLC is formed. Members of the LLCs are typically Glenn Way or his holding company, SGW Holdings, and his business partners, Scott and Corey Brand.

In Arizona,[34] prospective schools first enter into a Nonbinding Letter of Intent with Schoolhouse Development, which spells out the terms of entering into a development agreement with Schoolhouse (see here and here). Schoolhouse adds a 6 percent development fee to the project cost and provides a construction project manager to oversee the project. According to the Schoolhouse Development website, Way's son Jim is the company's Principal Project Manager.

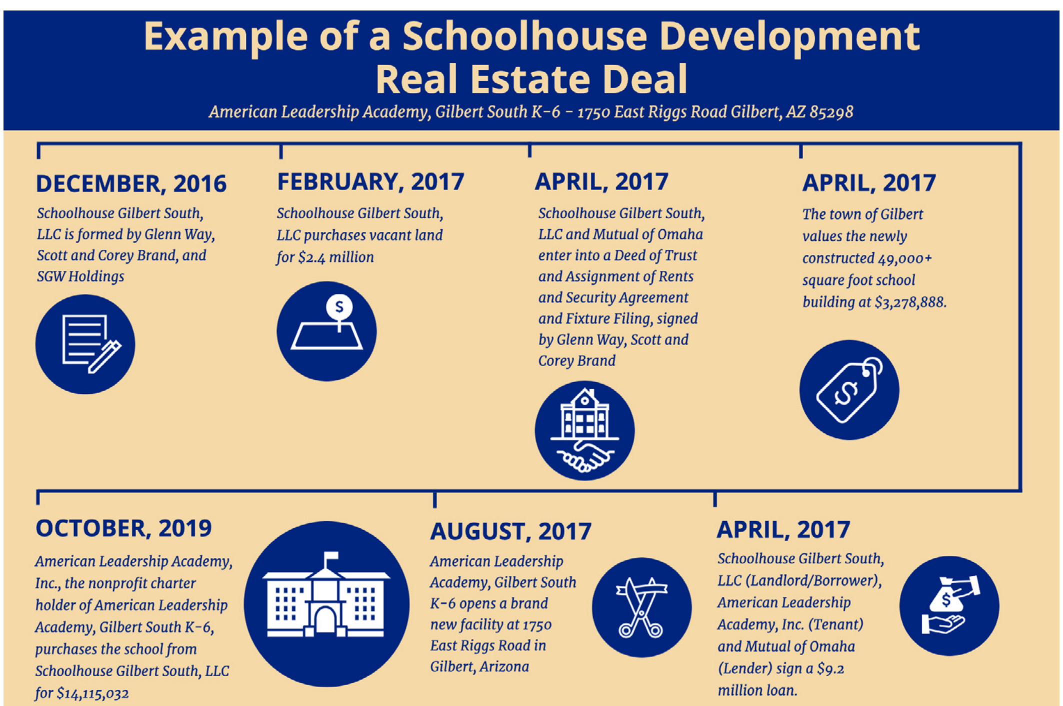
The newly formed LLC either acquires vacant land and builds a facility or renovates an existing facility, which becomes the property of the LLC. The LLC then enters into a Build-to-Suit Lease with Option to Purchase agreement with the school (see examples here and here). The school is responsible for paying rent and insurance, maintenance, and taxes on the property.

The LLC then takes out a construction loan and signs a Subordination, Non-Disturbance, and Attornment Agreement (see an example here) with the school. The agreement identifies the LLC as the borrower/landlord and the school board as the tenant. It requires the school to use any state funds, including those received for student enrollment, to pay the lease "before other transfer for other purposes or to other payees," ensuring that Schoolhouse's construction loan will be paid by the school with a steady stream of tax dollars.

The lease agreements have built-in yearly rent increases of 2.5 percent after year 5 of the lease. The Option to Purchase clause in the lease states that the purchase price will be 120 percent of the total development costs, ensuring a healthy profit for Schoolhouse Development if the school opts to purchase the facility. That percentage also increases by 2.5 percent per year, so the longer a school waits to buy its facility, the higher the purchase price will be. This essentially traps schools in a double bind of either paying escalating rents or paying an increased purchase price. And that incentive ensures that even if the charter fails, Schoolhouse Development will still have made a substantial profit from the sale.

Documents related to the development of the facility for Signature Prep in Nevada illustrate how Schoolhouse Development real estate deals trap schools into rising costs that divert money from the classroom. As described in this letter from Signature Prep Board Chair Michael Olsen to the Nevada State Public Charter School Authority to request a charter amendment to acquire their facility, the combination of rising rents and the escalating purchase price creates a compelling incentive for the schools to purchase the facility: "… The School desired to exercise the option to purchase to avoid future rent escalations (and an increased purchase price), lower facility costs, and promote long-term stability."

Rising lease payments and looming purchase price increases create budgetary concerns for schools, as seen in this spreadsheet which Signature Prep included in their request to the state of Nevada to purchase the facility. The spreadsheet shows that, depending on interest rates, the school can save anywhere from $200,000 to $600,000 a year by purchasing the facility. Once they do, Schoolhouse Development pays off their construction loans, and the 20+ percent profit embedded in the lease agreement is realized.



Way and his business partners walk away with millions in profit, but the schools are left with what is often crippling debt. The most recent audit of American Leadership Academy Inc. shows the nonprofit is holding over a quarter of a billion dollars in debt.[35] Their 2023 budget shows that in FY 22, ALA spent over $16 million on debt service, and their most recent 990s show that ALA has been running at a deficit since 2017, when the nonprofit took on $192,290,000 in bond debt to purchase numerous ALA locations.[36]

Glenn Way and his partners profit from every aspect of Schoolhouse Development's real estate transactions, from development to leasing, to the final purchase by the school. The deals are structured so that it behooves the school to purchase the facility as quickly as possible to avoid rent increases and an ever-escalating purchase price; however, once the charter school takes ownership of the facility, debt service payments can have a similar negative impact on the charter schools' budgets. And that means less money for kids.

Academica: The largest EMO is Academica, based in Miami, Florida. Academica's owner is a real estate developer, Fernando Zulueta, who opened the first charter, Somerset, as part of a housing development he had constructed.[37] He reasoned that his real estate venture would be more attractive to buyers since students would have a school within the development. Using their real estate companies, Fernando and his brother, Ignacio, built what journalist Jessica Bakeman called "an empire of charter schools."

Over 100 active corporations linked to Fernando Zulueta and his family members are listed as residing at Academica's Miami headquarters at 6340 Sunset Drive.[38] and 6457 Sunset Drive in Miami.[39] They include real estate corporations, holding companies, and finance corporations, as well as sub-chains both within and outside of Florida.

Like many other charter schools and chains, Academica cashed in on the COVID Paycheck Protection Program during the pandemic. Individual schools and other nonprofit and for-profit entities related to the chain received in total up to $35.7 million dollars, even though there is no evidence of revenue lost during the pandemic. In fact, during the pandemic, the EMO continued to expand. In total, charter schools cashed in on one billion dollars from the PPP program.

Mater Academy Foundation, Inc., the related non-profit corporation that oversees Academica's Mater brand of charter schools, acquired a $127.5 million educational facilities lease revenue bond to purchase several facilities from Academica. The *South Florida Business Journal* detailed the purchase price of several of the facilities and the Academica-affiliated real estate entities that cashed in on the sales, concluding that "the deal allows Academica to cash out after investing in the development of charter schools, although it will still earn management fees for the schools."[40]

The connection between Fernando Zulueta's real estate holdings and his for-profit managed charter schools goes beyond the state of Florida. According to the State Public Charter School Authority, Academica Nevada pays the lease on behalf of the charter school Mater Academy Mountain Vista of Nevada to Stephanie Development LLC.[41] The managing members of Stephanie Development are Fernando and Ignacio Zulueta and Robert and Clayton Howell.[42] Robert Howell is the manager of Academica Nevada.

National Heritage Academies and the Charter Development Company: The nation's second-largest for-profit chain, National Heritage Academies' (NHA) real estate arm is the Charter Development Company (CDC), a for-profit wholly owned subsidiary of NHA.

Both NHA and CDC are owned by J.C. Huizenga, whose father and uncle created the behemoth multinational company Waste Management. CDC acts 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. Because NHA has sweeps contracts with its schools, it controls the leases and maintenance of school buildings.

NHA has been called on the carpet for its outlandish lease agreements with two New York charter schools – Brooklyn Excelsior Charter School and Brooklyn Dreams Charter School.[43] [44]

In 2021, Charter Development Company began selling off schools to a nonprofit called Campus Partners 1, which appears to have been formed for the sale.[45] Campus Partners secured one billion in bond funding from La Paz County in Arizona. The president of the board of Campus Partners 1 was Huizenga's personal attorney. The sale allows Huizenga to profit from the sale of the schools while still managing the lease and facilities through Huizenga's Charter Development Company. This real estate deal will potentially net up to one billion dollars from the sale of schools that had been paid for with tax dollars. Even after the sale, the schools will pay the lease via CDC to the new nonprofit, meaning the taxpayer will continue to foot the bill for the buildings over and over again.

The model of the for-profit related real estate corporation selling to a formed nonprofit with the EMO still controlling the lease arrangements was not invented by Huizenga. The same model was used back in 2007 when Bill Coats, the sole owner of the Leona Group LLC, the fifth largest for-profit EMO, sold ten schools owned by Leona to a nonprofit he created in 1998, the American Charter Schools Foundation. The sale price was $33,000,000 more than their market value.[46]

ACCEL Schools and Global Schools Property: The fourth largest brick-and-mortar for-profit chain, a subsidiary of the international corporation Pansophic, uses a model similar to NHA. Using the sweeps model contract described above, they place schools in buildings owned by their real estate arm, Global School Properties, LLC, located at the same address in Tysons Corner, Virginia as ACCEL and its parent corporation, Pansophic.

In 2018, ACCEL took over a failing school in Columbus, Ohio, called Buckeye Prep. According to a report written by Carol Burris that appeared in Valerie Strauss's Answer Sheet blog in the Washington Post on January 14, 2022,[47] Buckeye Prep had been previously operated by a troubled for-profit chain called the Cambridge Education Group. Cambridge Education was started by Marcus May, now imprisoned for fraud and racketeering connected with that for-profit managed charter chain. ACCEL operated the school as Buckeye for one year.

In June 2019, Buckeye voluntarily relinquished its contract. The following day, Kent School, LLC, sold the school's building to Global School Properties for $1,380,635[48] and reopened the school as Capitol Collegiate Prep.

Capitol Collegiate Prep served only 135 students, yet it paid ACCEL's related real estate company $145,006 in rent, with ACCEL projecting a rent payment of $319,840 for the building in 2025.[49] At that rate, ACCEL would recoup what it paid in six years – precisely the length of the school's charter. Therefore, if the charter fails and closes, ACCEL would retain the building paid for by the taxpayers of Ohio.

Charter Schools U.S.A. and Red Apple Development: The third largest for-profit chain runs its real estate holdings through its related corporation Red Apple Development, founded in 2007 to facilitate the construction of charter schools. Jonathan Hage is the CEO of both CSUSA and Red Apple Development, LLC.[50] Although Red Apple finances and develops CSUSA schools, they don't construct them. An unaffiliated company, Ryan Construction, does that work.

A scholarly article in the North Carolina Law Review by Thomas A. Kelley III illuminated the relationship between Red Apple Development and Ryan Construction.[51] Ryan Construction initiates the real estate development, entering into a twenty-year commercial "triple net lease" with the charter-holding nonprofit. A triple net lease is one in which the tenant assumes all expenses, including taxes, insurance, and maintenance.

Kelley wrote that this arrangement ensures that "neither Red Apple Development's nor CSUSA's name is associated with the schools' real estate development during the crucial period when they are being closely examined by state and federal regulators," thus hiding the fact that the school's management organization will also be its landlord.

Cashing in on Learning Pods:

Learning pods and micro-schools are an outgrowth of homeschools. They emerged during the pandemic as a way for parents to work together to keep their kids learning while schools were operating virtually. Small groups of students are taught by an adult, who may or may not be a certified teacher. Anxious to cash in on a potentially profitable model, Charter Schools U.S.A.'s Iberville Charter Academy opened learning pods located far from its Louisiana campus with enrollments that ranged from 5 to 92 students. One was located in two rooms in a strip mall; another in offices in a commercially owned building.

According to a report in *The Advocate*, auditors sounded the alarm on these pods, whose existence was unknown to state officials. The auditors also uncovered that the chain was charging families fees ranging from one to five thousand dollars a year. Politically connected Charter Schools U.S.A., which is the second largest chain in the state, is fighting restrictions on their pod expansion.

"Soon thereafter, Ryan conveys the property to Red Apple Development, which steps into Ryan's shoes and assumes the lease," according to Kelley. CSUSA "is the largest seller of charter school bond debt in the country" according to a 2012 feature article on Jonathan Hage in *Florida Trend*, an online business newsletter.[52] Hage stated that the company would sell "$100 million worth of bonds" that year. The 2018 990s for CSUSA's three main non-profit boards indicate that as of 2019, the boards were carrying shy of $800,000,000 million in bond debt.[53] There are 15 bonds, ranging in value from $13,400,000 to $86,835,000.

The bonds are tax-exempt because "technically," the non-profit charter boards issue them.

In their 2015 report "The Business of Charter Schooling," professors Bruce Baker and Gary Miron pointed out that the non-profit boards are co-borrowers with Red Apple Development.[54] "The non-profit guarantees the lease payments, but Red Apple is the eventual owner of the property," Baker and Miron wrote. A thorough search of the Florida Division of Corporations website revealed related real estate entities, a service corporation, and a uniform supplier registered at the same address as CSUSA: 800 Corporate Drive in Fort Lauderdale, Florida.[55]

These entities present additional opportunities for Hage, CSUSA, and Red Apple Development to profit from the charter schools in their chain.

The Big Five Brick and Mortar For-Profit Chains

Thirteen EMOs run chains of 20 or more charter schools. Below are short profiles of the five largest for-profit operators with a multi-state presence. Four of the big five began with the charter movement in the 1990s. ACCEL, which is an outgrowth of the online for-profit charter Stride K12, is the most recent arrival and the fastest-growing for-profit chain. For more detailed information on each, see our 2021 report.

ACADEMICA

Managed schools: 205

Increase since 2020: 16 schools

National presence: Arizona, Colorado, Florida, Georgia, Idaho, Nevada, North Carolina, South Carolina, and Texas.

School type: Primarily brick and mortar, some virtual.

Corporate status: Privately owned by Fernando Zulueta, who serves as CEO. He also owns related organizations that do business with the school.

NATIONAL HERITAGE ACADEMIES (NHA)

Managed schools: 101

Increase since 2020: 1 school

National presence: Colorado, Georgia, Indiana, Louisiana, Michigan, New York, North Carolina, Ohio, and Wisconsin.

School type: Primarily brick and mortar. One virtual charter school.

Corporate status: Privately owned by its founder J.C. Huizenga, the CEO and president of NHA. He is the owner of related organizations.

CHARTER SCHOOLS USA

Managed schools: 94

Increase since 2020: 4 schools

National presence: Florida, Georgia, Louisiana, North Carolina, South Carolina.

School type: Brick and mortar.

Corporate status: Privately owned by its founder and CEO, Jon Hage.

ACCEL SCHOOL, a subsidiary of PANSOPHIC

Managed schools: 67

Increase since 2020: 17 schools

National presence: Arizona, California, Colorado, Michigan, Minnesota, Ohio, Washington and West Virginia.

School type: Brick and mortar and online.

Corporate status: A private company owned by CEO Ron Packard and Safanad Limited, an investment company located in Dubai.

THE LEONA GROUP, LLC

Number of Managed Schools: 50

Increase since 2020: 3 schools

National Presence: Arizona, Indiana, Michigan, and Ohio.

School type: Primarily brick and mortar. One virtual charter school.

Corporate status: Privately owned by its founder, Bill Coats, the CEO and president of Leona Group LLC.

Low-cost/High Profit: Virtual Charter Schools

This report began with the story of the Oklahoma virtual school giant, Epic charter schools. During the pandemic, the total enrollment in Epic charter schools rose to nearly 60,000 students. By the spring of 2021, it began to crumble -- it fired its for-profit management company, and enrollment plummeted to 39,427 during the 2021-2022 school year.

Nationally, virtual charter schools run by for-profits, both large and small, dominate the virtual charter school landscape – a landscape that is growing. During the 2020-21 school year, an additional 175,260 students enrolled in virtual charters bringing the total enrollment in virtual charters to 483,871. Even more importantly, that shift accounted for over 70 percent of the increase in charter school enrollment between the 2019-2020 and 2020-2021 school years – the pandemic years. The increase was heralded as a victory for school choice.[56]

In 2020-21, 141 virtual charter schools were run for profit and enrolled 61 percent of the nearly half-million students in virtual charter schools.

Eighty-three were run by two longstanding and prosperous charter chains – Stride K12 and Pearson's Connection Academy. Together, these two corporations alone enrolled nearly 41 percent of all students in virtual charter schools that year.

During the first year of the COVID-19 epidemic, Stride K12 engaged in an aggressive marketing campaign that resulted in a sharp increase in enrollment. Charters operated by Stride K12 increased from 72,474 students in 2019-20 to 110,767 in 2020-21. One school alone, Ohio Virtual Academy, nearly doubled from 12,693 to 21,049 between 2019-20 and 2020-21. In 2021-2022, enrollment dropped to 16,161 -- a substantial decrease but still higher than prior to the pandemic.

Like Stride K12, Connections ran television ads on cable networks throughout the COVID-19 pandemic.[57] Pearson's Connections Academy experienced an even more substantial proportional growth in enrollment than its primary competitor, from 53,673 to 85,749 during the pandemic's first year.

Stride K12 "spent about $1.8 million on TV ads in just the first quarter of 2021, up from $1.2 million in the same period last year, according to an analysis for *The Hechinger Report* conducted by the consulting firm Kantar Media. Connections Education spent $1.2 million in that period, almost quadruple last year's spending, the analysis showed."

Why are Online Charter Schools so Attractive to Profiteers?

The answer is simple. There is a lot of money to be made. 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.

In March 2022, The Government Accountability Office (GAO) issued a critical report on virtual charter schools.[58] One of their concerns was the haphazard way that many virtual schools take attendance. The GAO investigators found that some schools relied on students only logging into a portal or a program, regardless of how long they stayed. While some virtual charters took daily attendance, others only took weekly or monthly attendance.

Because enrollment data determines how much money virtual charter operators will get from our state and federal tax dollars, manipulating those numbers can significantly enhance end-of-year profits. Fraud, costing taxpayers hundreds of millions of dollars, from enrollment schemes involving virtual schools has occurred with alarming frequency. Notable cases include the A3 charter school network,[59] Epic charter schools,[60] California Virtual Academy (CAVA),[61] a Stride K12 school, and Ohio's Electronic Classroom of Tomorrow (ECOT).[62]

Even for those not engaging in fraud, virtual charter schools are still a source of enormous profit, which is why for-profits operate over half of the sector. The GAO provides insight into why this is so. According to the report, "The student-teacher ratio across virtual charter schools was about 75 percent higher than for brick-and-mortar traditional public schools, according to 2017-2018 CRDC data." The GAO found that while district public schools spent $13,646 per student on instructional staff in 2017-18 (50 percent of all of their income), virtual charters spent only $8,295 per student (25 percent of all of their income).

STRIDE K12

Managed schools: 57

Increase since 2020: 6 schools

National presence: Arizona, Arkansas, California, District of Columbia, Florida, Idaho, Indiana, Kansas, Louisiana, Maine, Michigan, North Carolina, Nevada, South Carolina, Oklahoma, Ohio, Oregon, Pennsylvania, Utah, and Wisconsin.

School type: Virtual Schools

Corporate status: A publicly traded corporation

PEARSON'S CONNECTIONS ACADEMY

Managed schools: 39

Increase since 2020: 6 schools

National presence: Arizona, Arkansas, California, Colorado, Florida, Idaho, Indiana, Kansas, Louisiana, Maine, Michigan, New Mexico, Nevada, North Carolina, Nevada, South Carolina, Oklahoma, Ohio, Oregon, Pennsylvania, Texas, Utah, and Wisconsin.

School type: Virtual Schools

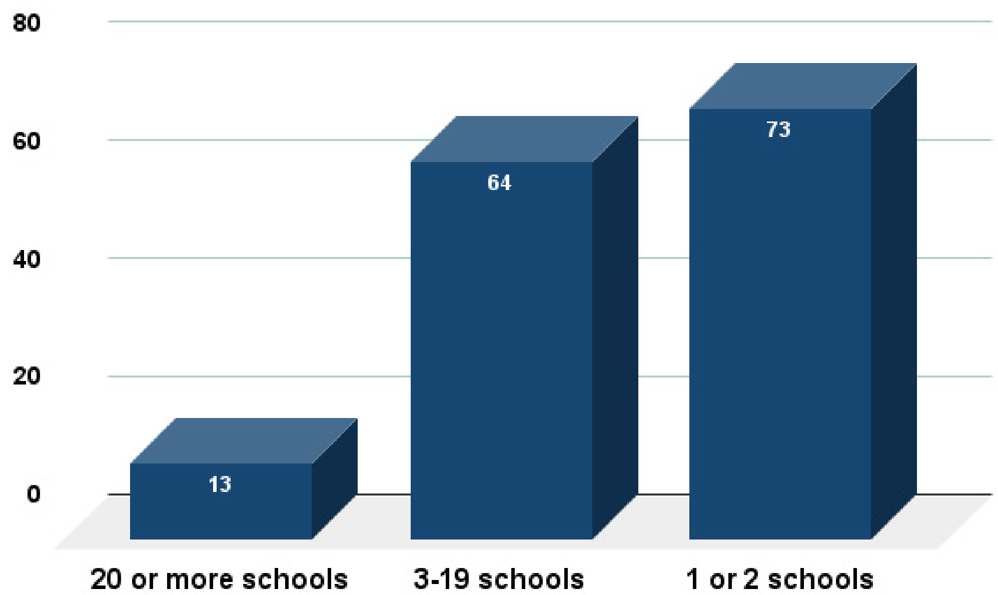
Corporate status: A publicly traded corporation

A Growing Market: For-profit Chartering

Aside from the large, national for-profit corporations managing charter schools, 64 small or mid-size for-profit management corporations manage between 3 and 19 schools, and 73 micro-for-profits run only one or two charter schools. Many of these EMOs do not exist to provide economies of scale but rather to allow the operator to extract profit and conduct business with little transparency. This, as we have shown throughout this report, allows owners to maximize profit.

Micro-for-profits (EMOs that manage one or two schools) comprise nearly half of all for-profit EMOs, 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 smallest of the for-profit management companies and by misclassifying BASIS, one of the larger chains managed by a for-profit, the National Alliance for Public Charter Schools, underreports the percent of charters run for profit (EMOs) at 8.8 percent instead of 16.6 percent and the percentage of students in those schools at 13 percent instead of 20 percent.[63]

Figure 1: Distribution of Charter Schools by EMO Size



The pandemic resulted in the expansion of big chains. Three additional for-profit EMOs now have twenty or more schools in their portfolio. There are eight more mid-size EMOs than there were just two years ago, and a few additional micro-for-profits opened.

Although most states allow for-profits to manage their charter schools, five states presently have a sizeable for-profit footprint. In three of the five states – Florida, Michigan, and Ohio – charters run for profit make up the majority of the charter sector. Nevada's for-profit sector expanded during COVID, primarily through the growth of the Academica chain.

Table 1: Top 5 States with the Largest Proportion of For-profit Run Schools

State	Number of charter schools run for profit	All charter schools	Percentage of charter schools run for profit
Michigan	259	371	70%
Florida	368	704	52%
Ohio	173	334	52%
Nevada	40	100	40%
Arizona	220	570	38%

The expansion of the for-profit sector continues beyond the five states listed above. As the big chains move into new territories, smaller players follow due to the political influence the big chains exert in state legislatures.

In 2022, 24 percent of all charter schools in North Carolina were run by for-profit operators. Two years ago, the for-profit sector comprised 18 percent. South Carolina's for-profit charter sector now exceeds 17 percent. And in West Virginia, which passed a law allowing charter schools in charter law in 2019, three of the four schools that have opened are managed by a for-profit, with another for-profit school opening as soon as it finds a site.

The National Education Policy Center's *Profiles of For-profit and Nonprofit Education Management Organizations: fifteenth edition* includes a compendium of both non-profit and for-profit charter management organizations at the time of its publication.[64] We will make our 2022-2023 updated list of for-profit EMOs, addresses, and schools available for research purposes on request.

Conclusions and Recommendations

In the free market, businesses rise and fall based on two factors. The first is the customer's attraction to the product. The second, even more important, is the customer's ability to pay for the product at a price that secures a profit for the vendor. That is the reality of the marketplace.

During the pandemic, the low-performing for-profit online charter schools expanded, and one chain, Charter Schools USA, jumped into the micro-school market. Whether or not such schools are in the best interest of children or taxpayers is irrelevant to the free market. The marketplace expands where there is an opportunity, using marketing to draw customers. The pandemic provided that opportunity.

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

Managing a school results not only in a management fee but also allows the EMO to direct the charter board toward its related real estate holdings and other services. The school buys services from companies related to the EMO, sometimes owned by EMO owners' relations or companies with which the EMO has a business relationship. Is the EMO taking a cut? The truth is because of the absence of transparency, we simply do not know.

Many have speculated that acquiring real estate is a primary driver of charter expansion. In this report, we showed how that works. 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, the building is sold to the school when the time is right. The owner walks away with profit; the taxpayers now have a new mortgage to pay; control of the lease remains with the EMO. If the charter folds before the transfer happens, the real estate company, often owned by the same individual who owns the chain, has a building to sell or lease to another charter school. The lease payments can be so high that the building's mortgage is paid off prior to the school's charter renewal, lowering risk even further.

Those who defend for-profit charter schooling claim it is no different from 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. 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. The idea that a superintendent or a board president would own property and then lease it to a school district would never be allowed in the true public school world.

Recommendations

Quote from Josh Cowen: Professor of Education Policy at Michigan State University

"For-profit charter management companies like National Heritage Academies (NHA) aggressively market aspects of their charter school portfolios. I've been present for marketing demonstrations myself. They provide some admirable information about their operations but are in my experience completely unwilling to share information about their profit margins or other information that would allow taxpayers to understand just how much money is being made on the public dime.

Progressive advocates and some public school supporters sometimes talk as though charter schools and other educational service providers are big money makers – the reality is we don't know.

The only way to assure taxpayers that our money is being spent both wisely and fairly is to open all charter contracts to the light of day – in just the same way that shareholders are able to view the bookkeeping when they own company stock."

During his Presidential 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.[65] As this report explains, however, those regulations have been evaded using the non-profit façade. That must be fixed.

Some progress has occurred. In 2022, the U.S. Department of Education issued new regulations that would prohibit charters run by for-profits via a sweeps contract from getting federal Charter School Program funds and require transparency of all for-profit-run schools. Congress upheld those regulations in December 2022. Right on cue, however, that regulation is being challenged in the courts by the charter school lobby – including the Thomas B. Fordham Foundation, as well as a Michigan charter support and lobby organization. It is not a coincidence that both organizations are located in states in which more than half of all charter schools are run by for-profits.

Whether or not those regulations survive, there is far more to be done to protect the public and students. We recommend that:

> the Federal government require all charter schools that receive federal funds to provide the name and corporate 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.

- charter schools run by EMOs via a sweeps contract not be eligible to receive any federal funds. Sweeps contracts are a blatant violation of the spirit of federal law, which permits only non-profit schools to be recipients of federal funds.

- states follow the lead of Ohio and list charter school management providers and post their management contracts. To that information, the corporate status of the EMO should be added as well as the detailed income and expenditures of the EMO, including posted EMO audits.

- sweeps contracts be outlawed in every state. In addition, we recommend that related corporations of for-profit and non-profit management companies be prohibited from doing business with their managed charter schools. Board members recusing themselves from votes is not enough.

- all charters be held by the school or campus and not by a non-profit subsidiary of the school. When a nonprofit holds the charters of multiple schools or campuses, and governs those schools with a single board, it is impossible for an individual school to break free of the for-profit or the non-profit EMO.

- a national database be developed that lists all charter EMOs and their corporate status (for-profit or non-profit), along with their address and the name(s) of the private corporation's owner(s).

Now more than ever, it is imperative that every tax dollar be directed to delivering a high-quality education to our students, whether they be in charter or public schools. It is time to end chartering for profit and to ensure that children, not corporations, gain 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 May 2022 and August of 2022. 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. 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.

Ohio

The Ohio Department of Education has excellent transparency for those interested in finding out its charter schools' management structure. Charter schools are called 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.

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.

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." We accessed the EEM downloadable dataset called Public School Academy Districts with Education Service Providers and Chartering Agencies.

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.

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.

We checked the ESP's business registration with the Arizona Corporation Commission to determine its profit status. 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.

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 reference 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.

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