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The Charter School-Hedge Fund Romance

By [Walt Gardner](#) on May 23, 2014 7:58 AM

The adage that the money trail almost always leads to the answer to any question is once again on display by the interest hedge funds have shown in charter schools ("[Why Hedge Funds Love Charter Schools](#)," Huffington Post, May 20). They are taking advantage of a change in the federal tax code that provides substantial tax credits to businesses that locate and hire residents in economically depressed urban and rural areas.

Readers who are so inclined can check out the specifics by referring to the [Community Renewal Tax Relief Act of 2000](#). But in a nutshell, hedge funds (and others) are allowed to combine the tax credit with other tax breaks at the same time they are collecting interest on any money they lend out. As a result, it's quite possible for hedge funds to double their money in seven years. That's not a bad investment at all these days.

I see nothing wrong with incentives, be they tax or other, as long as there is evidence that they result in a better education for students. The problem with charter schools is that results are decidedly mixed. But that hasn't deterred hedge funds one bit. The most recent example was the \$7.75 million kicked in by hundreds of Wall Streeters on Apr. 28 for Success Academy Charter Schools at a fund-raising dinner in New York City.

They were dazzled by the publicity that the 22 Success Academy Charter Schools under the leadership of Eva Moscovitz have attracted ("[Eva Moscovitz: Teachers Union Enemy No. 1](#)," The Wall Street Journal, Feb. 15). It's easy to understand why. The 6,700 students enrolled are overwhelmingly from poor, minority families. Yet they managed to score in the top one percent in math and top seven percent in English on a recent state test. That's an impressive accomplishment. What the contributors don't understand -or don't want to understand - is the effect that admission through a lottery has on performance. It means parents are involved in their children's education, or they wouldn't bother participating in the lottery in the first place. In other words, selection bias plays a huge role in outcomes.

Nevertheless, Moscovitz received a salary of \$475,244 in 2011-12, which is more than twice the pay for New York City's chancellor, who runs a system of 1.1 million students. No doubt her salary also appealed to Wall Streeters, who are always impressed by who is making how much, although her salary is chicken feed compared to what they bring home.

Before hedge funds became enamored with charter schools, there were big philanthropies that couldn't give away their money fast enough. (It's estimated that private foundations spend \$1.5 to \$2 billion annually on K-12 education.) I don't doubt that they believe they are doing good, but their tax-exempt status doesn't give them immunity from criticism. For example, the Walton Family Foundation has awarded more than \$1 billion in grants nationally since 2000 to reshape public education, creating concern that its deep pockets have too much influence ("[A Walmart Fortune, Spreading Charter Schools](#)," The New York Times, Apr. 25).

I have nothing against charter schools. But they play by an entirely different set of rules than traditional public schools. They don't have to admit special education students, and they can push out students who are not performing. Right now charter schools are educational stars in the spotlight. They appeal to those who are angry and frustrated by the admittedly glacial pace of improvement by other public schools. A day will come when a better assessment of their overall achievement will be available. I expect it to confirm that when similar populations of students are admitted under the same requirements and remain enrolled under the same rules there is little difference in performance.