New Report Shines A Light Into The Charter School Black Box

Charter schools are now the most rapidly growing form of schools in the nation's education system, but surveys show Americans generally don't understand what charters are even if they tend to favor them. Are these schools public? Are they private? Who really runs these schools, and how do they take in and spend money?

According to charter industry reports, more than 500 new public charter schools opened during the 2014-15 school year enrolling an estimated 348,000 additional students, representing a four percent growth in the number of operating public charter schools and 14 percent growth in public charter school students. There are now more than 6,700 public charter schools enrolling about 2.9 million students nationwide.

But in-depth investigations conducted in communities where these schools proliferate find that government officials who have to deal with the impact of charters generally are perplexed about the "business model" driving these schools. And public school parents who send their children to these schools generally know very little about the financial machinations that support the schools' operations and staffing.

So little is known about how charter schools are organized and operated that they're often referred to as a "black box."

A new policy brief from the National Education Policy Center pries at the lid of the charter school black box to shine a light into these institutions and reveal how charter schools blur the line from what it means to be a "public school" and, by their very design, expand opportunities to profiteer from public tax dollars and privatize public assets.

The brief "The Business of Charter Schooling: Understanding the Policies that Charter Operators Use for Financial Benefit" delves into the many ways the design of charter schools complicates any analysis of the flow of money into and out of these schools. The authors Bruce Baker and Gary Miron – university professors from Rutgers and Eastern Michigan, respectively – detail how the very structure of the charter school business introduces new actors into public education who skim money from the system without returning any benefit to students and taxpayers.

In one of the more bizarre schemes the authors examine, charter operators will use third-party corporations to purchase buildings and land from the public school district itself, so taxpayer dollars are used to purchase property from the public. Thus, the public ends up paying twice for the school, and the property becomes an asset of a private corporation.

In other examples, charter operators will set up leasing agreements and lucrative management fees between multiple entities that end up extracting resources, which might otherwise be dedicated to direct services for children.

These arrangements, and many others documented in the brief, constitute a rapidly expanding parallel school system in America, populated with enterprises and individuals who work in secret to suck money out of public education.

Charter Schools Aren't Really 'Public Schools'

The first secret of charter schools that keeps their financial workings hidden and their funding prone to exploitation is that they aren't really public schools, despite what charter advocates say.

As Baker and Miron explain, charters generally aren't subject to the same disclosure laws that apply to state operated entities and public officials, especially when the governance bodies for these schools outsource management services to for-profit management firms, as is increasingly the case.

As the brief explains, outsourcing school operations to private entities has the potential to make transparency laws – for open meetings, public access to records, and financial disclosures by public officials and state operated institutions – subject to court interpretation. Courts across states have offered mixed opinions as to whether and to what extent to apply transparency laws to charter schools, their authorizers, operators, and governing boards.

Further, the public-private arrangement of charter schools often place new limits on the constitutional (and some statutory) protections that are customarily guaranteed to school employees and students in state operated institutions.

These important differences between charter schools and traditional public schools are not generally understood or appreciated by even the most knowledgeable people, which is why charter advocates put so much energy and resources in marketing their operations as "public" schools.

How The Charter School Gravy Train Works

Just as the complexity of public-private governance emerging in the charter sector complicates analysis of these organizations' legal rights and responsibilities, it also complicates analysis of how money flows into and out of these schools

Because education management organizations do not report relevant, detailed, and comprehensive expenditures in the same format or with comparable documentation as public districts, charter operations can spend money in ways that would generally be impermissible in public institutions.

The types of controversial expenditures in charter schools – what the NEPC brief calls "excess costs" – include bloated executive salaries, wildly inflated administrative fees, acquisitions and transfers of buildings and property, and "asset hoarding" where school supplies and materials purchased with public tax dollars are retained in private holdings.

Most troubling of the charter school excess costs documented in the brief are the various forms of financial arrangements that steer vast sums of public money designated for education to private investors and their firms.

In one such financial arrangement, charter operators will use independent, though often closely affiliated, private nonprofit or for-profit entities to acquire long-term debt that ultimately must be paid for by the public. In these arrangements, the third party entity repays investors by charging the charter operator exorbitant lease payments – a cost that is ultimately charged back to the public taxpayer. Yet, this lease payment, the brief notes, "doesn't need to be approved by local taxpayers."

This arrangement also leads to excess debt service expenses where financial transaction and loan interest costs divert money that had been used for education into the financial industry. Remarkably, the brief notes, these debts generally will not mature until after the year 2040, way beyond when the authorization of most charters will have to be renewed.

In another questionable financial scheme, taxpayer funds are used, without voter approval, to purchase a property from the taxpayers themselves, for someone else – the charter school operator or the education management company. In other words, "the taxpayers are buying the facility a second time, albeit from themselves, but the result is that these taxpayers will no longer own it. Worse, in the process of transferring the property, taxpayer dollars have subsidized substantial fees and interest to various parties. The icing on the cake is that the federal government has spent federal taxpayer dollars to stimulate these transactions."

As Charters Gain Financially, Students And Schools Lose Educationally

In addition to their financial wheeling and dealing, charter schools also "enhance revenues," as the authors phrase it, by engaging in practices public schools would never get away with.

"Some charter schools have been found to condition continued student enrollment on parent volunteer activities," the brief documents. "Others have been found to charge exorbitant fines for student disciplinary infractions."

Charters also frequently engage in a "head count" game in which they inflate enrollments before a cut-off date in the fall and then retain money given to them by the district as students dis-enroll from the charter throughout the rest of the school year.

Another revenue enhancement strategy frequently employed by charters is to avoid serving children with more severe, more costly disabilities.

After charters have tapped all revenue enhancements related to students and parents, they go after teacher salaries and benefits. The brief documents how charter chains, such as KIPP, slash teacher personnel costs at the same time they spend more than what comparable public schools in their communities spend. Another charter chain, Harmony, cuts teacher expenses to spend considerably more on the operating costs of the schools than what comparable public schools spend.

Often, these lower personnel costs are accomplished by keeping a relatively inexperienced staff of teachers who frequently leave the school and are replaced by other low-cost, inexperienced teachers.

Why Are We Doing This?

What emerges from these revelations should be deeply concerning to government officials, public policy makers, charter school lobbyists, and others who advocate for more expansion of the charter sector.

As the authors state, a "substantial share of public expenditure intended for the delivery of direct educational services to children is being extracted inadvertently or intentionally for personal or business financial gain, creating substantial inefficiencies."

The outright unlawful costs of charter schools to the public are not a trivial matter. A recent report from the Center for Popular Democracy and the Alliance to Reclaim Our Schools uncovered over $200 million in "alleged and confirmed financial fraud, waste, abuse, and mismanagement" committed by charter schools around the country. Authors of the report called their findings the “tip of the iceberg,” because much of the fraud goes undetected.

Reports of charter schools financial misconduct are now so numerous that it seems every day brings a new revelation of how these schools misappropriate and misspend public money.

However, many of the financial arrangements and business opportunities discussed in the NEPC brief are legally permissible and entirely understandable from the point-of-view of charter schools and their operators. States and authorizers have given these institutions permission to do this.

But authors of the brief ask us to consider whether “that which is legal is not necessrily ethical, or in support of the public interest.”

While charter schools can claim to be doing “a reasonably good job of satisfying parents and students,” the authors contend, the academic results of these schools are mixed at best, and there is considerable evidence charter schools have acted to further racial segregation and privatization of our education system.

Given their findings, Baker and Miron argue that as these public-private relationships have become increasingly complex and opaque, state charter laws have failed to keep pace. They propose reasonable recommendations for revisions of laws and financial reporting requirements and a tightening of the regulatory provisions for these schools.

These revelations and the recommendations they lead the authors to constitute an invaluable service to all who care about our children’s education.