

# KNOW YOUR CHARTER

## *How Ohio Charter Schools are performing*

### **For Profit Charter Schools**

*More Money Outside the Classroom, Less Education for Kids*

Ohio has long been a hotbed of for-profit charter schools.

While Ohio requires that all charter schools be technically non-profit, Ohio law permits these schools to hire for-profit management companies that come in and, in essence, run the school and take control of the school's taxpayer funding.

For-profit charter school operators have been at the forefront of Ohio's array of charter school scandals. From White Hat Management's long history of dodging scrutiny while maintaining political influence<sup>i</sup>, to Imagine Schools' boondoggle on school rent agreements<sup>ii</sup> to the collapse of White Hat's political successor, Altair Learning Management, that ran the Electronic Classroom of Tomorrow – the epic collapse of which was widely reported last year and continues to generate headlines even today. It was recently reported that not one of the more than 4,666 students enrolled in ECOT's final year actually attended the school<sup>iii</sup>. Yet Ohio taxpayers paid ECOT to educate those kids for half a year.

But long overdue change is in the wind. Ohio House Speaker Larry Householder told assembled media shortly after he took the gavel that "I know they are technically nonprofit, but that second tier, those management entities, I believe should be nonprofit."<sup>1</sup>

The Know Your Charter website has updated the state data found on the website so parents, students, officials and media can compare the performance of charter schools and local public schools and districts. As part of that new data release, the Ohio Charter School Accountability Project examined how the 178 Ohio Charter Schools run by for-profit management firms<sup>2</sup> perform and spend money compared with the costs incurred by local public school districts.

The results are eye-opening.

- Schools run by for-profit operators spend a hefty **\$1,167 more per pupil than school districts on non-instructional administrative costs**<sup>3</sup>.
- **That's 73 percent more money per pupil being spent by for-profit operators outside the classroom than the typical Ohio school district**<sup>4</sup>.

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<sup>1</sup> <https://www.dispatch.com/news/20190201/no-more-for-profit-charter-school-operators-speaker-householder-talks-priorities>

<sup>2</sup> This is according to the operator database listed with the Ohio Department of Education. Operators can change frequently. So the 178 school figure may vary, depending on whether schools change operators or operator types during the school year.

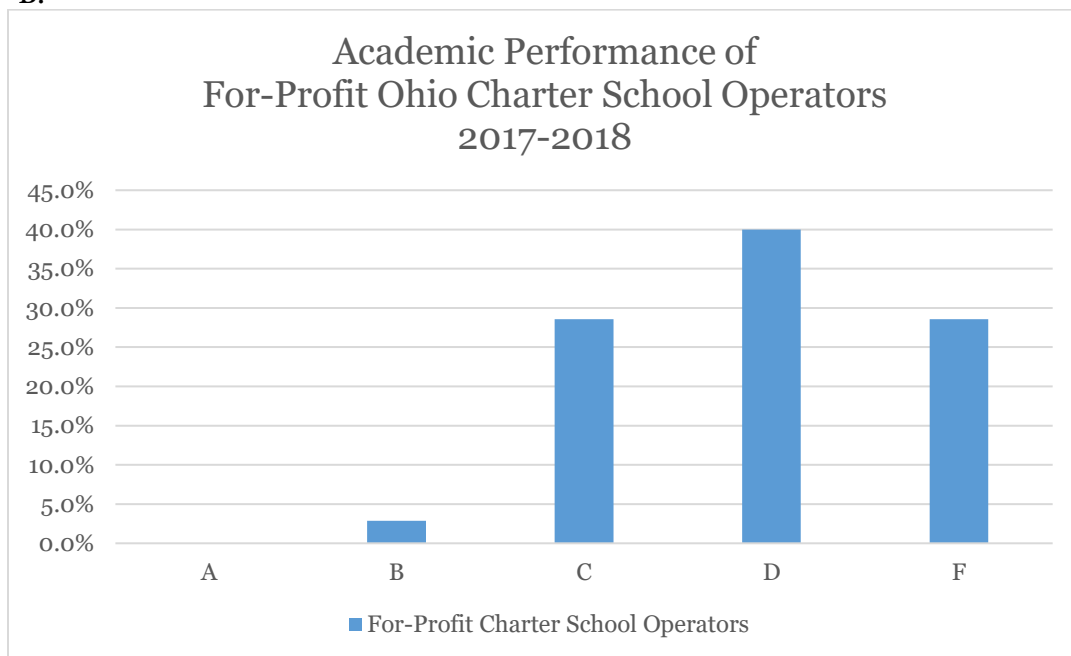
<sup>3</sup> According to the Ohio Department of Education, administrative costs are "costs (that) do not deal directly with the education of the students and encompass planning, research, information services, staff services, and data processing expenditures." A significant portion of these costs can be attributed to the management fees charged by for-profit operators. The fee will vary in each school.

<sup>4</sup> The average per pupil expenditure on administrative costs by school districts is \$1,597.

- This disparity is largely driven by the fact that for-profit charter schools typically spend more than double the per pupil money on General Administrative costs<sup>5</sup> than the state’s major urban districts, with one school spending 16 times as much<sup>6</sup> and one for-profit operator<sup>7</sup> spending 7 times as much in each of its 32 schools.
- Even for-profit charter schools that don’t spend as much on general administration spend more than 3 times as much as major urban Ohio school districts on school administration.
- 36 of 43 for-profit charter school operators spend a larger percentage of their tax dollars on administration, on average, than the 13.7 percent spent by a typical Ohio public school district.
- If the bloated spending by for-profit operators were curbed, at least **\$52.7 million that has been spent on administrative overhead** could be spent instead on kids attending these schools.

For profit operators also don’t turn out better academic results.

- Nearly 7 out of 10 for-profit operators receive an F or D from the Ohio Department of Education on its operator evaluation.
- Not a single for-profit operator received an A from the department. And only 1 received a B.



Some for-profit operators are especially spendthrift and poor performers. Here are a few.

### White Hat’s Remnants

<sup>5</sup> According to the Ohio Department of Education, the following expenses are considered general administrative and non-instructional: Board of Education, Board of Education Services, Executive Administration Services, Office of the Superintendent Services, Staff Relations and Negotiations Services, Executive Administration, State and Federal Projects Coordination Services, Executive Administration, Education Services, Executive Administration, District Administration Services, Executive Administration, Special Education Services - Administrative/Supervisors, Executive Administration, Special Education Services - Support Staff, Executive Administration, Limited English Proficient – Coordination Services, Executive Administration, Other Executive Administration Services.

<sup>6</sup> Orchard Park Academy spent \$5,016 per pupil.

<sup>7</sup> Accel Schools, Inc. – run by the founder of K12, Inc. – the nation’s largest for-profit online charter school operator.

The former White Hat empire has splintered into several different for-profit operations, essentially running several of the former charter school giant's Life Skills centers. On average, these White Hat progeny are no better at spending wisely or educating children than the original behemoth.

The remaining 5 former White Hat operators now running Life Skills operations in Cincinnati, Columbus, Elyria, and Toledo spent, on average, a whopping \$4,388 per pupil on non-academic administrators – that's 175 percent more than is spent by a typical local school district. And while they don't spend as much on general administration as most for-profit operations, they spend more than 3 times as much as major urban school districts on School Administrative costs<sup>8</sup> – also considered by the Ohio Department of Education to be non-instructional.

One major reason for this disparity is these remaining former White Hat operators have kept that company's legendarily high management fee structure largely intact. According to the contract with Life Skills of Columbus North, **the operator – LS of Columbus North, LLC – collects 94 percent of all revenue, plus 100 percent of all grants given to the school.**

Here's how the Auditor of State described the relationship in the school's 2018 audit:

“The School is required to pay LS Columbus North, LLC a monthly continuing fee of 94 percent of the School's “Qualified Gross Revenues”, defined as, all revenues and income received by the School except for charitable contributions. Also, LS Columbus North, LLC shall receive 100 percent of any and all grants (excluding Ed Jobs) or “funding of any kind generated by LS Columbus North, LLC, and its affiliates beyond the regular per pupil state funding received by the School, subject to any terms and conditions attached to the grants, if any.” The continuing fee is paid to LS Columbus North, LLC based on the previous month's qualified gross revenues.”

But this arrangement hasn't been a good thing for the kids they are supposed to educate. These operators received 3 Fs and 2 Cs from the department's rating system.

### **Accel Schools**

This is the for-profit group run by Ron Packard – the former head of K-12, Inc.<sup>iv</sup> – the nation's largest online charter school operator. Several years ago<sup>v</sup>, Packard bought up White Hat's former non-dropout recovery operation – the former Hope Academies. White Hat schools have traditionally performed the worst of Ohio's mostly low performing charter school sector<sup>vi</sup>. Packard's arrival hasn't changed a whole lot at the schools.

**Packard's schools spend \$3,763 per pupil outside the classroom. That's 135% more than is spent by a typical school district.**

And this inflated cost is driven by the fact that Accel schools spend nearly 8 times as much as a typical major urban district on general administrative costs and in the schools that don't spend as much on general administration, the schools instead spend more than 3.5 times as much on non-instructional school administrative costs as major urban districts.

These disparities are largely driven by the fact that Packard has largely kept in place the original White Hat management fee structure. **Instead of collecting 94 percent of all revenue**

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<sup>8</sup> According to the Ohio Department of Education, the following expenses are considered non-instructional school administration costs: Office of the Principal Services, Secretarial Services, Building Management Services, Non-instructional Support Services, Other Support Services - School Administration.

**like LS Columbus North, LLC, for example, schools run by Accel<sup>9</sup> collect 94.5 percent of all revenue.**<sup>vii</sup>

In addition, by splitting his original operation into satellite operations that run one or two schools, the separate operations can keep going even if one or more fail.

Originally, Accel was under one roof and earned an F from the state. Now it's 5 operations and got 2 Fs, 2 Cs and 2 Ds.

**Cambridge Education Group**

This operator's founder – Marcus May – was sentenced in November 2018 for 20 years in prison for fraud and racketeering in connection with a scam in Florida<sup>viii</sup>. According to the Akron Beacon Journal<sup>ix</sup>, “Prosecutors linked public money May gave to a vendor in Ohio to his personal finances, not the financially struggling Florida charter schools that should have received the funding.”

**Cambridge spends \$3,117 per pupil outside the classroom on administration – about double what a typical school district spends.** This is driven by the fact they spend more than \$2,000 per pupil, on average, for general administrative costs. The typical major urban district spends \$308.

Cambridge charges 18 percent of all revenue to its schools for management fees, along with a \$500 per pupil “curriculum fee”, according to state audits<sup>x</sup>. However, schools also have to pay the salaries and benefits of Cambridge employees, which end up essentially eating up all of a school's revenue.

Here's how state auditors described one of Cambridge's schools – Mason Run High School – financial situation:

“The School had purchased service expenses for the year ended June 30, 2018 to Cambridge of \$497,943 for salaries and benefits, \$307,191 for management fees and \$82,500 for curriculum fees. **At June 30, 2018, the School owed Cambridge \$354,559 for services and advances made to the School.**” (emphasis added)

Cambridge Education received a D on the state's Operator report card.

**Edison Learning**

This operator was the subject of a front-page USA Today story<sup>xi</sup> describing the school this way:

“Last school year, Ohio's cash-strapped education department paid Capital High \$1.4 million in taxpayer dollars to teach students on the verge of dropping out. But on a Thursday in May, the storefront charter school run by for-profit EdisonLearning was mostly empty.

In one room, vacant chairs faced 25 blank computer monitors. Three students sat in a science lab down the hall, and another nine in an unlit classroom, including one youth who sprawled out, head down, sleeping.

Only three of the more than 170 students on Capital's rolls attended class the required five hours that day, records obtained by ProPublica show. Almost two-thirds of the

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<sup>9</sup> According to state audits, WHLS, Inc. still runs the Hope Academies, but the Auditor of State says that WHLS “is under ownership of Accel Schools of Ohio, LLC.”

school's students never showed up; others left early. Nearly a third of the roster failed to attend class all week.”

Edison, which received a C from the department's operator rating, spent an extraordinary amount of its resources on administrators. More than 45 percent of the money Edison schools spent went to administrators – the fourth-highest ratio of any for-profit operator in the state. **They spent \$4,701 of the \$10,510 they spent per pupil on administrative costs – nearly triple the amount school districts spent per pupil on administration.**

This is driven by the fact that Edison Schools spend, on average, \$3,972 on general administrative costs. The typical Ohio major urban district spends \$308.

Edison's management fee structure may sound less outrageous than the others, <sup>xii</sup> – 20 percent of any revenues over expenses rather than taking 20 percent off the top. This means, for example, there were no management fees paid last year by the Road to Success Academy. However, Edison didn't do their work for free. Here's how they were paid, according to the Auditor of State's report released earlier this year:

“Salaries and Wages and Benefits	\$ 385,238
Professional and Technical Services	\$109,751
Property Services	\$158,573
Curriculum and materials	\$141,317
Other Direct Costs	\$35,911
<b>Total Expenses</b>	<b>\$830,790”</b>

**In 2018, the Road to Success Academy received \$745,893 in state aid and federal grants<sup>xiii</sup>. So this school, even though it didn't pay a penny in management fees, owes its for-profit management company about \$100,000 more than it took in.**

## Conclusion and Solution

As the legislature seeks to develop a fairer and more equitable means of funding public schools in Ohio and to find the revenue needed to do so, the question must be raised of whether charter school operators should continue to pocket considerable profits.

Of the \$590 million sent to charters run by for-profit operations last year, \$133 million went to non-instructional, outside-the-classroom administration<sup>10</sup>. If for-profit charters spent on administrators what the average Ohio local public school districts spent on administrators, they would have saved \$52.7 million that could have been spent in classrooms helping children succeed.

We urge the General Assembly and Governor to re-examine allowing for-profit operators to run Ohio charter schools. In recent years, Ohio taxpayers have been made more aware of the abysmal performance of so many of Ohio's charter schools and coupled with the political fallout from the ECOT scandal, the time is ripe to rein in the bad actors before another ECOT-like scandal unfolds. With the Speaker's call to eliminate the profit motive from our children's classrooms, efforts should be re-doubled to ensure that learning – not profiteering – is what drives the operation of our children's schools.

We recommend the following reforms to help remedy this situation:

- 1) Require charter school operators to be non-profit entities
- 2) Cap the percentage of a school's revenue that can go to an outside operator of the school

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<sup>10</sup> This is a smaller average than the one used earlier because the earlier average was an average of all charter schools' administrative spending. This analysis is looking at all spending in Ohio's for-profit charters as a total.

3) Forgive all debts owed by charter schools to for-profit operators

The Ohio Charter School Accountability Project will produce future reports detailing the more egregious abuses carried out by several of these for-profit charter school operators. We urge the General Assembly and Governor to act. Speaker Householder's call to reform should be heeded.

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<sup>i</sup> [https://www.cleveland.com/metro/2013/07/white\\_hat\\_managements\\_ohio\\_cha.html](https://www.cleveland.com/metro/2013/07/white_hat_managements_ohio_cha.html)

<sup>ii</sup> <https://www.dispatch.com/news/20180729/ohio-taxpayers-paid-77-million-to-renovate-charter-school-building-valued-at-24-million>

<sup>iii</sup> <https://www.dispatch.com/news/20190407/capitol-insider--no-students-were-legally-enrolled-in-ecots-final-year>

<sup>iv</sup> <https://www.nytimes.com/2011/12/13/education/online-schools-score-better-on-wall-street-than-in-classrooms.html>

<sup>v</sup> [https://www.cleveland.com/metro/2018/07/white\\_hat\\_charter\\_school\\_decline\\_continues\\_ohdela\\_e-school\\_given\\_to\\_former\\_k12\\_inc\\_executive\\_ron\\_packard.html](https://www.cleveland.com/metro/2018/07/white_hat_charter_school_decline_continues_ohdela_e-school_given_to_former_k12_inc_executive_ron_packard.html)

<sup>vi</sup> <https://files.eric.ed.gov/fulltext/ED573584.pdf>

<sup>vii</sup> [https://ohioauditor.gov/auditsearch/Reports/2019/Hope\\_Academy\\_Northwest\\_Campus\\_18-Cuyahoga.pdf](https://ohioauditor.gov/auditsearch/Reports/2019/Hope_Academy_Northwest_Campus_18-Cuyahoga.pdf)

<sup>viii</sup> [https://www.cleveland.com/metro/2017/08/operators\\_of\\_new\\_west\\_park\\_cha.html](https://www.cleveland.com/metro/2017/08/operators_of_new_west_park_cha.html)

<sup>ix</sup> <https://www.ohio.com/news/20181115/ohio-charter-school-founder-sentenced-to-20-years-in-florida>

<sup>x</sup> [https://ohioauditor.gov/auditsearch/Reports/2019/Mason\\_Run\\_High\\_School\\_18-Franklin.pdf](https://ohioauditor.gov/auditsearch/Reports/2019/Mason_Run_High_School_18-Franklin.pdf)

<sup>xi</sup> <https://www.usatoday.com/story/news/investigations/2017/10/05/profit-charter-schools-bill-taxpayers-empty-desks/714433001/>

<sup>xii</sup> [https://ohioauditor.gov/auditsearch/Reports/2019/Road\\_to\\_Success\\_Academy\\_18-Franklin.pdf](https://ohioauditor.gov/auditsearch/Reports/2019/Road_to_Success_Academy_18-Franklin.pdf)

<sup>xiii</sup> Ibid.