Charter schools in the US: Wall Street’s education model

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Last month a new for-profit investment fund was created, the first of its kind, to finance the construction of charter schools across the United States. Jointly managed by Canyon Capital Realty Advisors ($20 billion in assets) and Agassi Ventures, LLC, owned by Andre Agassi, it plans to buy up undervalued urban land and jumpstart the construction of 75 new charter schools.[1]

The Canyon-Agassi Charter School Fund announcement states, “The fund will provide investors with current income and capital appreciation by responding to the growing demand for quality charter school facilities in the nation’s burgeoning urban centers and by capturing the opportunities arising out of the current dislocation in the real estate market.”

In other words, it will buy inner-city land cheaply, develop it and then sell the facilities to charter operations. The firm expects to raise $300 million in equity and invest up to $750 million.

This model appears to draw on the wildly successful playbook established by the Michigan-based National Heritage Academies. The for-profit chain is the nation’s second largest charter school management company, at 67 schools with 42,000 students, and profits largely on their usurious building and rent fees (see “Michigan charters are a runaway train”).

The Canyon-Agassi Fund initiative dovetails with the recent announcement by the Obama administration that hundreds of thousands of dollars of “education reform” grants will be made available for assisting the start-up of new charters schools. Those grants will be in addition to the $1.35 billion allocated for Race To The Top (RTTT), which includes funds for partnering with businesses (see “Obama’s 2012 budget deepens attack on public education“).

In a similar vein, recently *Hour Detroit* magazine flatteringly profiled developer Joel Landy, who purchased the Jefferson School from the Detroit Public Schools for $1,000 in 1991. He replaced 900 windows and held onto the property for nine years, eventually negotiating an eight-year agreement for $65,000-a-month rent from a charter.[2]

Real estate market manipulation is, nonetheless, just one aspect of the steady looting of public education tax dollars.

The eagerness of Wall Street to profit from education dollars was famously pointed to by Jonathan Kozol, the well-known education advocate. He cited a NationsBanc Montgomery Securities prospectus in his column published by *Harpers*, writing: “The education industry represents, in our opinion, the final frontier of a number of sectors once under public control that have either voluntarily opened” or “been forced” to open up to private enterprise.

The education industry, the bank concludes, represents the largest market opportunity since health care services were privatized during the 1970s. While college education can offer “attractive investment returns, the larger developing opportunity is in the K-12 EMO [Education Management Organization] market,” it observed. “The K-12 market is the Big Enchilada.”[3]

While virtually every state in the US is facing draconian cuts in public schools, charters have been a mechanism, a Trojan horse, through which large profit concerns have taken over substantial and growing segments of kindergarten through grade 12 education.

This offensive is now receiving hundreds of millions of dollars of direct underwriting by the Obama administration. Of a piece with the bailout of banks, Obama is providing what little “education” money the federal government is allocating to facilitate the privatization of education.

How have charters aided this process?

As public schools, charters are funded by public tax rolls. Yet they are exempted from many state and local rules and regulations, especially those that protect the work rules and rights of teachers. Most have “at will” employment, no unions and no pension programs for teachers. While they must open their doors to all applicants, they have the right to dismiss students who do not “fit” or have “disciplinary issues.” For this reason, charters typically have few students classified as special education, or for whom English is not their first language—and are therefore cheaper to operate.

Some of these schools are run by a group of individuals, but most are administered by companies known as Education Management Organizations (EMOs). This name was deliberately coined by Wall Street to reference Health Maintenance Organizations (HMOs). The name clearly implies health insurance’s successful business model of increasing profits by denying services. While a few EMOs are nonprofit, most are now for-profit.

Since they are public schools, charters cannot charge tuition. The regulations governing the charter vary by state and by the authorizing institution, to which they are ultimately responsible.

The nation’s first charter schools were legalized in 1991 in Minnesota in the aftermath of the relative failure of school vouchers to gain traction.

The 1990s was the roaring decade of deregulation, financialization, securitization and subprime mortgages. As Wall Street found new and more rapacious methods to loot the economy, a section of the bourgeoisie eyed the billions of dollars spent annually on K-12 education. Charters grew rapidly and a market was created.

In the late 1990s, the largest for-profit EMO was EdisonLearning (formerly Edison Schools), which grew from $12 million in revenues in 1995 to $217 million in 2000. Today it is eclipsed by Imagine Schools and National Heritage Academies.

As of 2010, there were nearly 5,000 charter schools in the US, educating about 1.5 million students. The for-profit segment of the charter market had also steadily grown. According to a Western Michigan University study, for-profits nationally have risen from 131 firms in the 1997-1998 school year to about 729 today.

Michigan has the most for-profit Education Management Companies in the nation with 40 firms running 185 schools, or about 80 percent of the state’s Public School Academies (PSAs). Florida (with 145 schools), Arizona (99), Ohio (92) and Pennsylvania (40) are also considered large

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concentrations of for-profits.

No national accounting

Because of the unregulated, local nature of charters, reporting to national studies is largely voluntary. The amount of central analysis is limited to that performed by universities or other nongovernmental bodies. “There’s an awful lot of diversity in these companies [EMOs],” points out Henry Levin, a professor of education at Columbia University. “And most of them are proprietary, so we really don’t know how they’re operating,” he concluded in a ProPublica investigative article.[4]

Western Michigan University has sponsored studies based on self-reporting. A 2010 report, “Equal or Fair? A Study of Revenues and Expenditures in American Charter Schools,” shows charters top heavy with administration at the expense of instruction.[5]

According to this study, charter schools spend 54.8 percent of their operating budgets on instruction compared with 60.3 percent at traditional public schools. For-profit schools spend even less on instruction. In Michigan, the average drops to 44.8 percent. A random search online, for example, brings up Crescent Academy in Southfield, Michigan, which leases all of its employees and spends only 42.67 percent on instruction.

National statistics in “Equal or Fair?” show student support services are even more unbalanced—at $858 per year for public schools and an average of $517 for charters, with for-profits even lower at $366 *less* per pupil than nonprofit charters. On the other end of the scale, the charters are spending considerably more on administration than their public school rivals.

The disproportionate share of charter school income spent on administration includes the consultant fees and high rents, and therefore the hidden profits, especially in the cases of chain enterprises.

Michigan charters, on average, participate only 28 percent in the state retirement system, meaning that most charter school teachers have no pension.

A *Detroit News* survey of charter schools published July 7 shows that of 25 high school charters in Metro Detroit surveyed, most did worse in math or science proficiency than Detroit Public Schools on the most recent Michigan Merit Exam. Even more charters did poorer in reading and writing. All Detroit-proper charters surveyed did worse than their public counterparts.

National research has also shown that EMO-operated schools have increased school segregation and created environments where students are more isolated by race, class, ability and language from public schools, while conferring no statistically relevant test score advantage.[6]

The State of Ohio is presently suing White Hat Management, which has collected about $230 million to run charters in that state since 2008. With Annual Yearly Progress at only 2 percent of students, the company—like National Heritage Academies—receives 96 percent of the state charter revenues, owns the property and handles all operations. White Hat operates 51 schools nationally. The company refuses to account publicly for the funds it has received.

Virtual charters and Michael Milken

As troubling as the brick-and-mortar charters are, they do substantially better than the latest charter model, the online or virtual charter—in which children get their instruction entirely at home on their computer.

The largest taxpayer-funded online charter, Agora Cyber Charter, is managed by K12, an EMO founded and substantially owned by Michael R. Milken, the junk-bond dealer and securities fraud felon, former US Secretary of Education William Bennett and former Goldman Sachs banker Ron Packard. The banker told *Newsweek*, “Mike [Milken] believes that education is a phenomenal investment opportunity.”

K12 was established as a publicly traded entity in 2007 with about $90 million from Milken. This operation now has 81,000 students in 27 states. Local schools are designated as non-profit, which then hire K12 as the for-profit management company. This, for example, enabled K12 to corner the Pennsylvania charter market, and receive 80 percent of the funding of traditional schools, approximately $8,000 per student, while supplying no building, books or teachers.

Milken’s firm expects to generate $500 million in revenue this year and earned $21.5 million in profits last year. Its stock valuation has doubled.[7] According to the Western Michigan study, three quarters of K12’s students fail to achieve Annual Yearly Progress goals. Last June, the State of Pennsylvania filed a complaint against K12 citing its failure in reading and math proficiency.

Notes:

1. Canyon-Agassi Charter School Facilities Fund press release.
2. *Hour Detroit*, December 2010, “On Track.”
3. “The Big Enchilada,” by Jonathan Kozol
4. “Charter Schools Outsource Education to Management Firms, With Mixed Results,” by Sharona Coutts
5. “Equal or Fair? A Study of Revenues and Expenditures in American Charter Schools” by Gary Miron and Jessica L. Urschel. Western Michigan University. June 2010.
6. “Schools Without Diversity: Education Management Organization, Charter Schools, and the Demographic Stratification of the American School System” by Gary Miron, Jessica L. Urschel, William J. Mathis, and Elana Tornquest. Western Michigan University, February 2010.
7. “Education According to Mike Milken,” Bloomberg Businessweek, June 2, 2011.

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