

# **NEPC Review: For-Profit Charter Schools: An Evaluation of Their Spending and Outcomes (Thomas B. Fordham Institute, September 2022)**



**Reviewed by:**

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**December 2022**

**National Education Policy Center**

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## Summary

The Thomas B. Fordham Institute recently published *For-Profit Charter Schools: An Evaluation of their Spending and Outcomes*. The report examines academic outcomes in Ohio's nonprofit and for-profit charter schools; in addition, it explores whether differences in contracted services in for-profits appear to correlate with differences in their outcomes. Although the report finds that charters generally have higher academic outcomes relative to traditional public schools, for-profit schools perform slightly lower academically than their nonprofit counterparts, and they perform worse than traditional schools in some areas as well. In addition, the report finds that for-profits typically contract for *either* staffing *or* other services and that those contracting for staffing perform especially poorly. Based on these findings, the report includes cautions about overregulation of for-profit charters but also raises concerns about virtual and charter schools that contract out for nearly all services. Contrary to the report's enthusiastic Foreword, written by Fordham executives Amber Northern and Michael Petrilli and containing implications that somewhat vary from those in the report's body, there is little in the report to remove skepticism from the debate over for-profit status. Rather, the report includes negative findings such as fewer students in for-profit charters earning diplomas, and it reinforces concerns about for-profit schools—particularly those that contract out for staff. In addition, the report is limited in its focus on only Ohio, which has substantially more transparency than many states require for school choice options. As a result, the report offers little to inform policy and practice in dissimilar or nationwide contexts.



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## I. Introduction

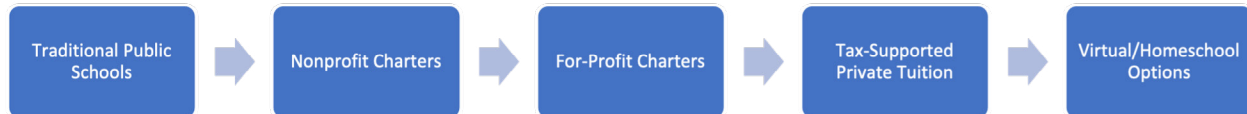
School privatization in the United States is expanding. In just the last few months, Arizona passed the most extensive school voucher program in the nation; New Hampshire created its own voucher accounts; Betsy DeVos-backed advocates created enough signatures to put a private tuition tax credit before Michigan’s legislature; and, just weeks ago the West Virginia Supreme Court found its state’s new voucher program permissible.<sup>1</sup> On the federal level, over the summer in *Carson v. Makin*, the U.S. Supreme Court issued its latest decision allowing tax support for private schools and forbidding states to exclude religious schools from tuition support.<sup>2</sup>

In this context, it can seem almost quaint to revisit the role of charter schools in American education. Charter schools—public schools independently managed by an organization outside a typical school district framework—have existed for more than 30 years and appear in some form in 45 states. Researchers have studied charter school impacts for almost that long, finding a variety of impacts ranging from negative to positive to no impact at all, depending on the state and year and study.<sup>3</sup>

The report *For-Profit Charter Schools: An Evaluation of their Spending and Outcomes* by Ohio State University professors Stéphane Lavertu and Long Tran, commissioned by the Thomas B. Fordham Institute,<sup>4</sup> examines for-profit and nonprofit charter school performance in the state of Ohio. The report is relevant to the privatization movement for two reasons. The first is that on a continuum of education policy related to privatization of schools, for-profit charters exist in the middle of a scale ranging from completely public traditional public school districts on one extreme to completely private tax-funded tuition and at-home learning options on the other. The simple figure below illustrates this range, with for-profit

charter schools providing a useful middle ground to assess privatization trends. Politically moderate policymakers and advocates may find some appeal in for-profit charters as an alternative that combines public oversight with more diffusely organized education options.

### Steps Toward School Privatization



The second reason for the report’s relevance to the privatization debate is that it explores particular differences between nonprofit and for-profit charters as well as differences within the for-profit sector. This offers advocates, critics, and researchers alike a closer look at privatization mechanisms. Specifically, the report provides insight into contracting differences, the most important appearing to be whether the for-profit charter schools contract for staffing or for non-staff management support.

## II. Findings and Conclusions of the Report

The report’s main findings can be divided into two categories: spending and student outcomes. These are:

### Spending

1. Charters run by for-profit companies send more funds to their management companies than do charters run by nonprofit organizations.
2. Charters run by for-profit companies vary in the extent to which they contract out for staff or for non-personnel services.
3. Charters contracting out for staffing spend more on classroom activity than administrative costs.

### Student Outcomes

4. Charters run by for-profit companies have, on average, lower student achievement gains than do charters run by nonprofit organizations.
5. Charters run by for-profit companies have higher absentee rates than those run by nonprofit organizations—and these differences are driven by for-profit schools that contract out for staff.

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.

Although the report does not include them in the main text as primary findings, results in sidebar comparisons yield still more information. These comparisons illustrate that:

6. Nonprofit charter schools outperform traditional schools in English/language arts and the ACT test for college readiness, but for-profit schools have no similar advantage—and score lower in math than traditional public schools.
7. Students in for-profit high schools are less likely to earn diplomas.

Based on these findings, the report concludes: that overregulation of for-profit charters might adversely affect disadvantaged students; that virtual and charter schools that contract out nearly all of their services to for-profit organizations may bear particular scrutiny; and, that states should consider expanding high-quality charters.

### **III. The Report's Rationale for Its Findings and Conclusions**

The report's findings provide the rationale for its conclusions.

It is important to note, however, that the Foreword offers a somewhat different set of implications and conclusions, discussed below in section VI.

### **IV. The Report's Use of Research Literature**

As a commissioned work, the report adequately incorporates the research base on charter schools and for-profit schools in particular. Major support comes from previous work in Ohio by the lead author Lavertu, who is arguably the country's leading expert on Ohio charters and whose work includes publications in major academic journals. The research literature cited here is therefore spare, direct and to the point. It is far from comprehensive, but it need not be in this case.

### **V. Review of the Report's Methods**

Because Ohio is the only state requiring substantial transparency related to charter spending, the report notes correctly that the state is a special case—which limits the study's potential generalizability and replication outside Ohio. Therefore, the report's contribution to the knowledge base lies in its comparisons and its simple descriptions of differences between Ohio's nonprofit and for-profit charters, and within its for-profit sector. Particularly telling is the analysis of spending differences for particular for-profit services—especially staffing. This descriptive evidence is presented clearly and objectively.<sup>5</sup>

The authors employed a reasonable and perhaps best available method given the data—one relying on within-geographic-district variation over time—for analysis of student achievement. This was based on detailed student and school-level data. Methods thus control for fixed time-invariant geographic conditions that may impact students' charter status (non-

or for-profit) as well as student outcomes.

These models are appropriate given the data, but they do less to help explain findings than other methods, such as regression discontinuity or randomized control trials. While available data and questions specified for this commissioned work inevitably restricted methodology, the weakness is important to note because the report overstates the validity of its methodology by claiming that:

Comparing students who attend school in the same geographic district goes a long way toward making sure that we are comparing the educational outcomes of students who are identical except for the type of school they attend.<sup>6</sup>

Moreover, while an appendix commendably indicates multiple robustness checks for several findings, additional analyses might have included a student fixed effects bounding exercise, modeled in a similar report on Texas charter schools.<sup>7</sup>

## **VI. Review of the Validity of the Findings and Conclusions**

As noted above, the conclusions drawn in the Foreword of the report—which may be the only section many people read—vary from those in the report itself. Because of this variance, conclusions from both the report and the Foreword are discussed here.

### **Findings and Conclusions in the Report**

The research literature, data and methods sections of the report are all adequate within contextual constraints, and findings based on analyses are reasonable and appropriate. Nevertheless: It is difficult to justify two of the report's three conclusions.

Regarding the first conclusion, that tightly regulating charters engaging in for-profit management might hurt “disadvantaged students that such schools primarily serve . . . ,”<sup>8</sup> findings are suggestive at best. The report offers no direct evidence to support the claim.

The second conclusion, that “virtual charters and charter schools that contract out almost all of their services to a for-profit organization may deserve extra scrutiny . . .”<sup>9</sup> is strongly supported by the findings.

The third conclusion, that “states should continue to expand high-quality charter schools, given their strong track record,”<sup>10</sup> is unwarranted. Rather than “a strong track record,” the findings are mixed. While achievement results do not provide an argument to prohibit for-profit schools, neither do they provide incontrovertible support for them. The report clearly shows that the more services contracted out—especially staffing—the weaker the school's performance, suggesting that the for-profit model can prove detrimental to student outcomes. Additionally, for-profits show chronic absenteeism, and in for-profit high schools students are less likely to earn a diploma. In short, the study reflects charter literature as whole: Some evidence suggests charters operate well under certain conditions, and some evidence suggests they operate poorly under other conditions.



## Conclusions in the Foreword

While the report's conclusions appear overly optimistic, the analyses in the report proper are based on essentially sound methodology and its findings appear valid. However, that careful quantitative work is somewhat undermined by the Foreword, which provides too sanguine a view of the report's findings and sets a dismissive tone relative to concerns of for-profit critics. The Foreword describes critics as "oblivious to whether the functions performed by a for-profit organization have anything to do with *school quality*,"<sup>11</sup> and charges that their negative perception "oozes...animosity"<sup>12</sup> that is reflected in regulatory policies. The conclusion stemming from this perception of critics is that charter schools should not be regulated "based on the tax status of their management organizations"<sup>13</sup>—despite the fact that the report demonstrates multiple weaknesses in the for-profit model. This body of the report, however, does not draw this conclusion and its appearance in the Foreword appears more directly related to the U.S. Department of Education's decision to differentiate between nonprofits and for-profits in the federal Charter School Program (CPS) than to findings in the report itself.

## VII. Usefulness of the Report for Guidance of Policy and Practice

Substantively, the report has little to no use for policymakers and practitioners outside of Ohio because, as briefly noted above, the conditions for the (limited) success it documents are unusual elsewhere.

But the report is useful for policymakers in one regard: The questions it asks would be impossible to document in other states where charter (especially for-profit charter) transparency is lacking. Currently, few if any states require the level of transparency on contracts that Ohio provides. Michigan's state Board of Education, for example, recently has had to file an open records request to learn about its charter sector financial behavior.<sup>14</sup> Policymakers wishing for similar analyses in their states should turn to Ohio's oversight and transparency requirements as a guide for model legislation.

Further evidence of the need for more spending transparency lies in other scandals related to charter school financial fraud or misuse of funds.<sup>15</sup> That the Ohio context has an open and transparent way of documenting charter spending is commendable but rare, and so limits the usefulness of the report beyond the Ohio context. Moreover, few states have succeeded in closing the low-performing charter schools the lead author has documented in other work,<sup>16</sup> so that any calls for expansion in the face of known weaknesses—in for-profit charters especially—appear born of unfounded enthusiasm rather than disinterested inquiry.

Even if the wildly optimistic Foreword summary were accepted as reasonable, policymakers and practitioners would nevertheless be left only with an illustration of how a for-profit charter sector might succeed *on the margins* if highly stringent conditions were met. Those conditions would require that: 1) contracting be generally limited to non-staff expenses; 2) contracts were transparent and available for public scrutiny; and, 3) charter authorizers or



the state itself were ready to close poorly performing charters quickly and without exception. Those conditions are largely fanciful in other states, where unrestrained and largely unregulated school choice policy are generally expanding rather than contracting.

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