

PROFILES OF FOR-PROFIT AND NONPROFIT EDUCATION MANAGEMENT ORGANIZATIONS: FIFTEENTH EDITION



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Suggested Citation: Miron, G., Gulosino, C., Shank, C., Elgeberi, N., Davidson, C., Hernandez De Alvarez, F., Jurdzy, B., Larsen, J., Pham, D., Ruder, K., Urdapilleta, L., & Urschel, J. (2021). *Profiles of For-Profit and Nonprofit Education Management Organizations: Fifteenth Edition*. Boulder, CO: National Education Policy Center. Retrieved [date] from <http://nepc.colorado.edu/publication/emo-profiles-fifteenth-ed>

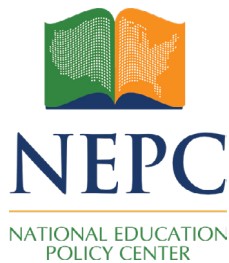
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Table of Contents

Executive Summary	4
Introduction and Background	8
Purpose and Significance of This Report	8
The EMO Industry: Background and Rationale	9
Defining Education Management Organizations	9
Why Group Nonprofit EMOs with For-Profit EMOs?	10
Description of Data Collection and Sources of Information	12
Findings	15
Number, Status and Size of EMOs Profiled	15
Total Number of Schools Managed by For-Profit and Nonprofit EMOs	18
Number of EMO Schools by State	20
Number of Students in Schools Managed by EMOs	20
EMOs, Privatization, and Public Charter Schools	22
Summary	25
Recommendations	26



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February 2021

Executive Summary

The past two decades have marked tremendous growth in the number of public schools that are privately operated and, in a growing number of cases, also privately owned. Known as education management organizations (EMOs), these are private companies or organizations that are rapidly expanding their market shares of the public education sector, particularly public charter schools.

The release of the Fifteenth Edition of the Profiles of For-Profit and Nonprofit Education Management Organizations comes after a more than seven-year lapse since the fourteenth edition was released. As the evidence underlines, between the 14th and 15th Edition of this report, there has been steady growth across for-profit EMOs, and a much more expansive growth by private nonprofit EMOs.

EMO Number, Status, and Size

- A total of 636 EMOs are profiled in this report. One hundred and seventeen of these are for-profit entities and 519 are nonprofits.
- Altogether, in 2018-19 EMOs operated a total of 3,729 public charter or district schools—900 by for-profit organizations and 2,829 by nonprofits. The total is likely an undercount, because excluded are several hundred schools that showed no enrollment in federal records or didn't open until 2019 or 2020.

- In terms of size: 21 EMOs were classified as Extra Large, operating more than 30 schools; 43 as Large, operating 10 to 30 schools; 173 as Medium, operating between four and nine schools; and 399 as Small, operating one to three schools. Across categories, there is a trend for EMOs in one size category to expand into the next. A current surge in smaller organizations anticipates likely correlative growth in EMO-managed charter schools.
- KIPP Schools remains the largest nonprofit EMO, with 159 schools. Academica is the largest for-profit EMO, with 141 schools. Because virtual schools are comparatively very large, K12 Inc. has the highest student enrollment in its EMO schools, with just over 100,000 students enrolled in 2018-19.

EMOs and States

- In the past eight years, EMOs have expanded the number of states in which they operate by six, for a total of 41 states, plus D.C. in 2019-2020.
- Large differences are evident across states; Texas and California have the most schools operated by EMOs (664 schools in each state). In terms of the charter school sector, Michigan stands out as an anomaly with more than 85% of its charter schools operated by private EMOs. California, Illinois and New York have the largest concentrations of nonprofit EMOs, while Arizona, Florida, Michigan, and Ohio have the largest concentrations of for-profit EMOs.

EMO Student Enrollment

- In 2018-19, EMO total student enrollment reached just under 1.95 million students, marking rapid and steady expansion.
- Although for-profit EMOs have larger enrollments per school, nonprofit EMOs continue to expand their market share. Nonprofits now enroll 71% of all students in EMO-operated schools, while for-profit share has declined to 29%.
- Schools operated by for-profit EMOs have an average 631 students, and nonprofits an average 488 students. School size continues to increase as both for-profit and nonprofit EMOs add more students to existing schools and create new schools with higher initial enrollment.

EMOs, Privatization, and Public Charter Schools

- Over the past two decades, EMOs have increasingly fueled growth in the charter school sector.
- In 2018-19, 48% of all public charter schools were operated and increasingly “owned” by private EMOs.

- On average, EMO-operated charter schools tend to be larger than independent charter schools. For this reason, the percent of students in EMOs is consistently higher than the percent of schools that are EMO operated.
- In 2018-19, over 53% of all public charter school students were in privately operated charter schools. If current growth patterns continue, the percent of charter school students in privately-run charter schools is expected to increase to 66% by 2025 and close to 80% by 2030.
- The charter school ideal, as articulated in legislation from the 1990s, noted that charter schools would be locally run, innovative, autonomous, and highly accountable. Information gathered for this report indicates these traits do not accurately describe the current reality.

Summary

Although charter advocates may concede that the charter school ideal has been altered, it is important to recognize that they have always promoted expansion. EMOs are clearly the key vehicles for growth, both in the number of new school size and also in their quest to increase the size of existing schools. Without EMOs, there would likely be a limited number of new charter schools opening each year.

The extensive research and analysis invested in this profile yields the following general observations:

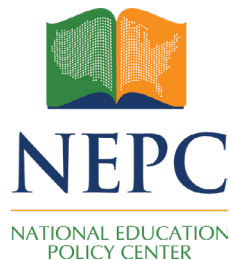
- The process of identifying and profiling EMOs is becoming increasingly challenging. Interconnected webs of nonprofit and for-profit organizations and trusts, corporate or organizational owners with distant headquarters, affiliated entities—sometimes distributed geographically—engaging in services and property ownership, and various fundraising entities make it challenging to accurately portray the existing EMO landscape.
- The number of EMOs and the number of schools they manage have more than doubled in the past decade. Similarly, the enrollment of students in EMO-operated schools has grown from 600,000 in 2008-09 to 1.95 million in 2018-19.
- Growth of nonprofit EMOs has outpaced growth of for-profits, while growth of the virtual school sector is also increasing—likely even more significantly in recent months and years because of the pandemic.
- Small EMOs are rapidly increasing, and they show a pattern of steady expansion as they open or purchase an increasing number of schools.
- Charter school growth has largely been fueled by EMOs, which have opened an increasing number of charters each year. Independent charter schools also continue to create their own EMOs and expand by opening additional schools.

- The increased buying and selling of charter schools—which offers the strongest evidence of privatization of a reform originally intended as a public good—is one of the most striking trends observed.
- EMOs have diversified by adding such services as tutoring, afterschool programs, summer school programs, alternative school programs, virtual schools, and improvement programs for turnaround schools. Some have also packaged and sought to sell or lease their curricula, accountability, and in-service training systems.
- Despite considerable differences across schools and in their relationships with EMOs, differences between nonprofit and for-profit EMOs are decreasing.
- Relationships evolve over time, but it appears that it is more likely for shifting relationships to involve vendors evolving into EMOs than the reverse.
- A number of EMOs are expanding to other countries and tout plans for increased expansion globally.

Recommendations

Given the trends and the ways in which EMOs have developed, we make the following recommendations:

- To ensure genuine accountability, a charter school board should be in place before an application for charter status is submitted. Such boards should have control and oversight of budget.
- Authorizers should not permit charter applications from EMOs.
- If charter school boards contract with an EMO, the authorizer should be required to approve both the management agreement and leases or other agreements related to facilities and property.
- Charter school boards should be required to receive training relative to their legal and fiscal responsibilities, ensuring they function as intended as responsible representatives of public charter schools and the taxpayers supporting them.
- When contemplating a relationship with an EMO, a school board should require three or more bids from potential contractors.
- School boards should refuse “sweep contracts,” which allow an EMO to secure all revenues with a guarantee to leave a small year-end balance. Sweep contracts mask the actual budget and limit transparency by the governing boards and the public.
- EMO contracts should have stringent requirements for transparent reporting.
- States should not exempt nonprofit EMOs from restrictions placed on for-profit EMOs.
- Federal and state agencies should award start-up grants and financial support only to independent charter schools.



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Introduction and Background

Purpose and Significance of This Report

The EMO Profile reports are comprehensive digests of data on private education management organizations. Analysis and interpretation of the data in this report are, for the most part, limited to describing general trends over time. The report is intended for a broad audience. Policymakers, educators, school district officials, and school board members may use this information to learn more about current or potential contractors. Investors, persons involved in the education industry, and employees of EMOs may find it useful in tracking changes, strategizing for growth, and planning investments. Journalists and researchers who study and seek to learn more about education management organizations may also find much here to interest them.

This comprehensive inventory is significant given that the federal government and most states are not tracking or monitoring private EMOs.

This edition is particularly noteworthy in that it provides a lens on how the charter school ideal has been altered. Findings outlined later in this report contrast current trends and growth patterns of EMOs with the policy intent articulated in charter school legislation of the 1990s.

The EMO Industry: Background and Rationale

Education management organizations emerged in the early 1990s in the context of widespread interest in what is known as market-based school reform. Wall Street analysts coined the term EMO as an analogue to health maintenance organizations (HMOs). Proponents of EMOs claim that they bring a much-needed dose of entrepreneurial spirit and a competitive ethos to public education. Opponents argue that outsourcing to EMOs results in already limited school resources being redirected for service fees, profits, or both while creating another layer of administration. Opponents have also expressed concerns about transparency and the implications of public bodies relinquishing control or ownership of schools.

The theory behind market-based school reform is that, by being forced to compete with other schools, existing public schools will necessarily improve or be forced to close. Competition under this theory generally comes in two forms: private schools, with taxpayer-funded tuition vouchers, or charter schools, which operate largely independent of the school district but, once a designated public or publicly appointed entity grants their charters, qualify for local and state taxpayer funds in the same way as conventional district schools. In practice, voucher schools have remained a small part of the market-reform arena, while charter schools now account for the lion's share of the alternatives to traditional public schools.

The same faith in market competition as an effective engine of reform provides a general theoretical basis for turning operation of both public district schools and public charter schools over to for-profit education management organizations. This trend arises essentially from a belief that private business models are more efficient and effective than nonprofit, government-operated institutions. A for-profit company contracted to manage district public schools, it is reasoned, will have incentives (making a profit in the short term and retaining a profitable contract in the long term) to seek efficiencies and improve student outcomes and achievement. While competition for students takes place among traditional district public schools and charter schools, competition in the EMO context takes place among current or potential managers of schools. In both cases, competition is believed to be the key to improvement.

Defining Education Management Organizations

We define an education management organization as a private organization or firm that manages public schools, including district and charter public schools. While the term "education management organization" and the acronym "EMO" are most commonly used to describe these private management organization, they are sometimes labeled with such other names as "education service providers." A contract or management agreement details the terms governing an EMO's executive authority to run one or more schools, often requiring the EMO to be accountable for outcomes. Generally, the EMOs profiled in this report operate under the same admissions rules as other charter schools.

However, EMOs vary on a number of dimensions, such as whether they have for-profit or nonprofit status; whether they work with charter schools, district schools, or both; or whether they are a large regional or national franchise or a single-site operator. For-profit EMOs

are businesses that seek to return a profit to the owners or the stockholders who invest in them. By contrast, many of the nonprofit EMOs tend to have missions related to social objectives or to expanding charter schools. Although a smaller portion of EMOs have historically been nonprofits, over the last decade nonprofit EMOs have expanded rapidly. Excluded from the inventory compiled here are EMOs that operate *private* schools, including those that may receive public funds under tuition voucher programs such as those operating in Milwaukee, Cleveland, or the District of Columbia.

Charter school authorizers are typically state education agencies or state or local school boards. In some states, institutions of higher education can also grant charters. In most states, authorizing charters are granted to the school board governing a public charter school; an EMO engages in a contract with that board. However, a few states, such as Arizona and Texas, allow private entities and EMOs to be “charter holders.” When the EMO is the “charter holder,” the operational contract is the agreement between the EMO and the authorizing body. Such a contract specifies the terms under which the EMO-managed school may continue to operate as a charter school. When EMOs hold the charter and operate two or more schools, we consider them still to be EMOs although they are sometimes referred to as private networks of charter schools.

An important distinction should be made between EMOs, which have executive authority over a school, and service contractors, often referred to as “vendors.” Vendors provide specific services for a fee, such as accounting, payroll and benefits, transportation, financial and legal advice, personnel recruitment, professional development, and special education. In this report, we do not profile companies that work exclusively as vendors, although it is important to note that some EMOs we include provide services to schools they do not manage. In these cases, we include data only on those schools that are fully managed by the company or organization.

Why Group Nonprofit EMOs with For-Profit EMOs?

Between 1998 and 2004, there were increasing scandals involving for-profit EMOs. During this time philanthropists shifted their support to nonprofit EMOs, away from the for-profit EMOs attracting negative attention. The New Schools Venture Fund, which provides philanthropic support for charter schools, designated a subgroup of nonprofit EMOs attracting philanthropic dollars to charter schools—often in amounts greater than their management fees—as “Charter Management Organizations,” or CMOs. Meeting the criteria of bringing successful models to scale with philanthropic support, this group of CMOs includes no more than 40 or 50 nonprofit EMOs. However, today there are close to 600 nonprofit EMOs that resemble for-profit EMOs based on fee structures and excessive individual enrichment practices. While their financial records do not show profits disqualifying them from their tax-shielded, nonprofit status, the organizations’ leadership and owners can nevertheless reap profit from them. Over the past decade, charter advocacy groups have sought to use the CMO label for all private nonprofit EMOs whatever their financial performance as a likely means of distancing themselves from the for-profit EMOs that have drawn heavy criticism.

It is worth noting that the label “charter management organization” is a poor fit for many

EMOs for reasons beyond the financial. While the term originally applied to organizations managing only charter schools, many of the organizations now designated CMOs have expanded their portfolios to include the management of district schools. In addition, nonprofit EMOs or CMOs are also increasingly diversifying to offer services and supplemental programs for district schools. Given these changes, and given the increasing similarities between many CMOs and for-profit EMOs, we believe it is appropriate to continue to group both for-profit and nonprofit operators as EMOs.

In brief, we have avoided CMO terminology for nonprofit EMOs in both past and current editions of our profile for several reasons:

- Management contracts for nonprofit and for-profit EMOs are typically similar in terms of management fees, governance issues and local control of the schools, and even ownership issues.
- Both for-profit and nonprofit EMOs commonly use subsidiary entities or trusts to hold property and accrued equity from the school. Often one or two related organizations interact with a complex web of entities, both for-profit and nonprofit, connected to the EMOs and their owners.
- States that have restrictions on for-profit EMOs, such as California, New York, and Tennessee, have nonprofit EMOs established that work with or partner with for-profit EMOs to circumvent legislative intent.
- While charter advocates argue that charter schools are still controlled by a public board, often such boards have minimal input into contractual arrangements. Both nonprofit and for-profit EMOs decide when and where to create their own charter schools. In these cases, the EMO is engaged in creating and naming members to the school board, which is then approved by the authorizer. The new board then signs the management agreements and agreements related to property and materials that were prepared by the EMO.
- Over time, we have seen evidence of nonprofit EMOs converting to for-profit status, and for-profit EMOs applying for and gaining status as nonprofits. The most noteworthy example of the former is Constellation schools. As a nonprofit EMO, Constellation received philanthropic support; however, its status later changed to for-profit, despite the fact that each of its schools and at least one other related entity are listed separately as nonprofit LLCs in the well-known, nonprofit directory Guidestar.org. An example of the latter is Imagine Schools, one of the largest and—given its lawsuits—one of the more controversial for-profit EMOs. Since approximately 2006, it has claimed to have changed its status to nonprofit. However, for some years we continued to classify Imagine Schools as a for-profit because the IRS had not approved its application for nonprofit status. It was only in 2015 that we found a 990 tax filing for Imagine Schools that allowed us to reclassify them as nonprofit.

Description of Data Collection and Sources of Information

As noted above, this edition of our report involved adding seven years of data since the last, 2013 edition. Ownership and names for EMOs are drawn from the 2019-20 school year. Data on schools and student enrollment, however, come from the school year 2018-19, which made it possible to obtain audited enrollment data from the National Center for Education Statistics (NCES).

In addition to providing detailed data for recent school years, the report updates and tracks longitudinal data. Where possible and appropriate, we have corrected or updated past information and data that was missing or changed, a process we are committed to completing for every new edition. Updating past information has allowed us to more accurately illustrate trends over time.

In preparing this work, we generally proceeded by: (1) identifying and vetting EMOs, (2) identifying EMO-operated schools and linking school data with EMOs, (3) confirming and verifying data, and (4) analyzing and preparing the report and inventory, including short descriptive summaries of each EMO profiled.

Identifying and Vetting EMOs

First, we conducted research to identify and accurately classify EMOs. In order to determine whether entities are for-profit or nonprofit, we checked registrations in state business registries. We also consulted the nonprofit directory Guidestar.org and other public resources to determine whether records of 990 IRS forms confirmed nonprofit status. In addition, we searched charter school names to identify private entities having a relationship to specific schools.

During this initial phase, we searched for relevant information from websites maintained by EMOs. The larger EMOs, especially the larger for-profit EMOs, tended to overplay or exaggerate the size of their portfolios. We also found that some EMOs, more often small or medium-sized EMOs, attempted to underplay their reach by offering incomplete lists of their schools or, in some cases, providing no lists or clues at all about which schools they operate. In a number of cases, we could find no web presence for EMOs, aside from registration forms on state business websites, 990 tax forms for nonprofits, and references in news articles from local or regional print media.

In vetting EMOs, a challenging task was determining whether EMOs have a vendor relationship or an EMO relationship with schools. To make this determination, we considered such factors as: (1) who established the school and submitted the charter application? (2) who owns the school facility and, if the facility is leased, what is the relationship between the EMO and the entity owning or leasing the building? (3) who owns materials and equipment? (4) who employs the teachers and administrators—the private entity or the public district or the charter school board? (5) who prepares the budget for the school? (6) who is responsible for recruiting and selecting students? (7) who is responsible for the school model? (8) does the contract to the private entity articulate accountability for outcomes? and (9) how easy or viable is it for a school board to separate itself from the private entity without shutting

down the school?

To answer these questions, we gathered evidence from public websites, but we also requested such documents as charter applications, management agreements between school boards and private entities, and lease agreements. Answers to most of these questions can be found in the management agreements between the EMOs and the schools they operate. If we did not receive responses from our information requests, we sent out Freedom of Information Act (FOIA) requests to the public school boards for charters and some districts. Unfortunately, we typically received less than a 30% response to the FOIA requests. While the public charter schools are required to respond to FOIAs, the EMOs are private companies or organizations, and they cannot be compelled to share information about their operations, products, major customers/clients and services. When we sent FOIAs to the public charter school boards, it was common for a response to be sent by the EMOs, often stating that they were not required to respond.

Based on the evidence we collected, we weighed the preponderance of evidence to determine whether the private EMO in question has executive control of the school and accountability for outcomes.

For each EMO identified, we updated information on its past schools and sought information on new schools it operates. For each school, our team recorded and double-checked key variables such as name, federal ID, state ID, and contact information.

After compiling and updating lists of EMOs and the schools they operate, we broke the information into state-specific files and shared these lists with key state informants who could help determine whether our lists were complete or required revisions. It is interesting to note that over the years, the importance of key informants has decreased while the importance and utility of general searches in regional and local sources has increased as a tool for identifying and confirming our lists of EMOs and their schools.

While data and information for the most recent year is verified, the research team has also gone back to update and incorporate data from the earlier editions of this report, allowing us to more confidently document the long-term trends.

Identifying nonprofit EMOs was particularly complicated since a larger portion of these do not have a pronounced web presence. We used Guidestar.org to search for nonprofit EMOs and other nonprofit organizations that have a relationship with charter schools. Many of these proved to be trusts set up by charter schools or their EMOs to receive and spend

private sources of revenue on behalf of the charter school or its EMO.

As an illustration of the difficulty in the area of classification, it's important to understand that for every for-profit EMO on the resulting list, there was at least one other EMO that either changed status or was eliminated as an EMO because its role was verified as a vendor. Similarly, for every nonprofit EMO included in the inventory, there were one or two additional nonprofit entities that we investigated and eliminated because they did not have an EMO relationship, or because the nature of their relationship with public schools had changed, or because they had a different relationship, such as sponsor or a founding organization, that later became severed from school operation.

Identifying EMO-Operated Schools and Linking School Data with EMOs

After our state-specific lists of EMOs and EMO-managed schools were updated, we turned to web-based sources to confirm and verify our lists. We also used information from state education agencies to confirm that the schools we identified were still operating. From state education agencies, we obtained official student head-count data, especially for newer schools not yet included in NCES datasets. Using NCES IDs as a matching code, we further incorporated key data and information from the Common Core of Data (CCD). When inconsistencies appeared in our data set and the federal data set, we conducted another review.

We have continued to uncover EMOs and schools that have been in operation for years but evaded earlier detection. We also continue to update past data as it becomes available, so that the data now identified for past years may not match exactly data presented in earlier editions.

Confirming and Verifying Data

After information was gathered and merged from all official state and federal sources, we shared the data we wished to publish with EMOs so that they could confirm or correct our information. We made two attempts to solicit responses from all EMOs in 2018 and 2019. In 2019, we also sent data to schools with available and functioning email addresses. We made only one attempt to contact EMOs to allow them to confirm or correct data on EMOs and schools that we added after July, 2020. If the companies or organizations provided enrollments or other information that did not match official state or federal data, we used the official government data.

Analysis and Report Writing

The final phase of work in this project involved data analysis and preparation of the report and its inventory of EMOs. While data and information for the most recent year is verified, the research team has also gone back to update and incorporate data from the earlier editions of this report, allowing us to more confidently document the long-term trends in terms of EMOs, the schools they operate, and the numbers of students they enroll. Because this report is largely a statistical inventory which will support future research, we have not drawn more than descriptive analyses. Much of our work at this phase related to cleaning the data and looking for irregularities.

In total, our large project team logged more than 2,000 hours to complete this edition. Two-thirds of this time was devoted to identifying and vetting EMOs over the past few years. This has always been the most complicated and time-consuming part of our work.

As already noted, the nature of the industry and the lack of public information make the process of collecting and updating the data for the Profiles reports difficult. In the early editions, EMOs were primary sources for information. For the past three editions, we have invited the EMOs to review and correct information, but they provide a relatively small por-

tion of the information needed to compile this inventory.

Because we had a large team working on this project, written instructions and a system for coordinating notes on EMOs and on schools was used to ensure the more systematic collection and processing of information.

Although our inventory is intended to be comprehensive, we recognize that over time there are EMOs that escape our notice, or that we misclassify. The same is true for schools. As always, the authors welcome corrections and suggestions to help ensure that we continue improving the quality and completeness of this national EMO inventory.

Findings

EMOs profiled in this report are categorized by profit status and size, as well as a few other variables such as charter status or virtual school status. For-profit EMOs are those that are registered as private for-profit or publicly traded corporations. The nonprofit status of EMOs was determined by the existence of 990 tax forms, evidence that the Internal Revenue Bureau (IRS) had approved their applications for nonprofit designation. Our size classification is somewhat arbitrary, although this allows us to examine more closely the characteristics of EMO subgroups. Small EMOs are those operating one to three schools. Medium are those operating four to nine schools. Large are those operating 10 to 30 schools. For this 15th Edition, we added one new category, Extra Large, which includes EMOs operating more than 30 schools.

Number, Status and Size of EMOs Profiled

As Figure 1 illustrates, between the late 1990s and 2010 there was relatively even growth in the number of for-profit and nonprofit EMOs. By 2011, the presence of new for-profit EMOs leveled out while there was rather expansive growth in the number of private nonprofit EMOs being established. Some of the expansion among for-profit EMOs is masked by the fact that some EMOs consolidated through mergers or, in some cases, by one EMO selling its schools to one or more other EMOs. It is noteworthy that after 2015, for-profit EMOs again began to increase, although at a slow but steady pace.

For the 2019-20 school year, we identified a total of 636 EMOs to be profiled here—an increase from the 79 identified in our 1919 first report. One hundred and seventeen (18.4%) were for-profits and 519 (81.6%) were nonprofits. The number of states in which EMOs operate has grown from 16 at the end of the 1990s to a recent 41 states, plus D.C.

We found more than 30 for-profit EMOs that experienced significant change between 2013 and 2019. Some changed their names, others sold their schools to other EMOs, some merged with others, and a handful changed from for-profit entities to nonprofits.

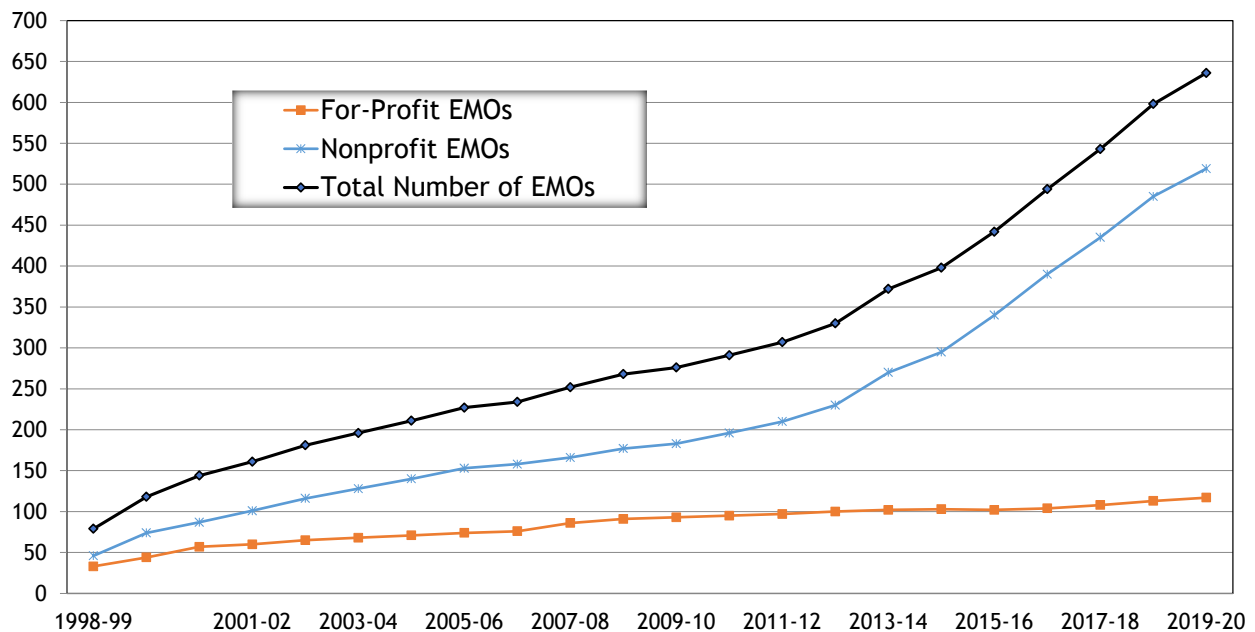


Figure 1. Number of For-Profit and Nonprofit EMOs by Year

As noted earlier, our current categories for EMO size are: Small, between 1 and 3 schools; Medium, between four and nine schools; Large, between 10 and 30 schools; and Extra Large, with more than 30 schools. Table 1 highlights the number of EMOs by profit status and size. Among Extra Large EMOs, there were more nonprofits (14) than for-profits (7), although overall only 3% of all nonprofit EMOs were classified as Extra Large. Overall, among small EMOs, there was a higher concentration of for-profits (65.8% of all for-profit EMOs) than nonprofits (62% of nonprofit EMOs).

Table 1. Number of EMOs by Profit Status and Size, 2019-20

	Number of EMOs	Percent by Profit Status	Percentage of EMOs by Profit Status and Size
For-profit EMOs	117	18.4%	
Small	77		65.8%
Medium	23		19.7%
Large	10		8.5%
Extra Large	7		6.0%
			100.0%
Nonprofit EMOs	519	81.6%	
Small	322		62.0%
Medium	150		28.9%
Large	33		6.4%
Extra Large	14		2.7%
			100.0%
Total	636	100%	

In some of the prepublication presentations of our findings, we have been questioned and even criticized for including single and small-sized EMOs with the larger and more readily recognized EMOs. We continue to include and profile small EMOs in this report because they share the same issues as larger entities in relation to privatization and local governance and control. Also, with each new edition of this report we see single-site and small EMOs increasing their portfolios of schools and growing to medium size.

Figure 2 presents two histograms depicting the number of EMOs ordered by the number of schools they operate. Each bar represents a single EMO. The upper-level histogram characterizes 2011-12, when 298 EMOs were operating (97 for-profit and 201 nonprofit). The lower histogram characterizes 2018-19, when 636 EMOs were identified and profiled—an increase of 338 between the two illustrations.

As Figure 2 illustrates, over the eight-year period 2011-12 to 2018-19, the numbers of new EMOs and the number of schools they operate have both more than doubled.

Over the past two decades—and fifteen different editions of our reports—it has been easy to track how Small EMOs increase their portfolios of schools and move to Medium status. Similarly, we have tracked Medium EMOs expanding to become Large and even Extra Large. The tremendous growth in new Small EMOs over the past decade suggests that there is likely to be rapid expansion in charter schools in the next decade as the Small EMOs create new charter schools and expand their portfolios of schools.

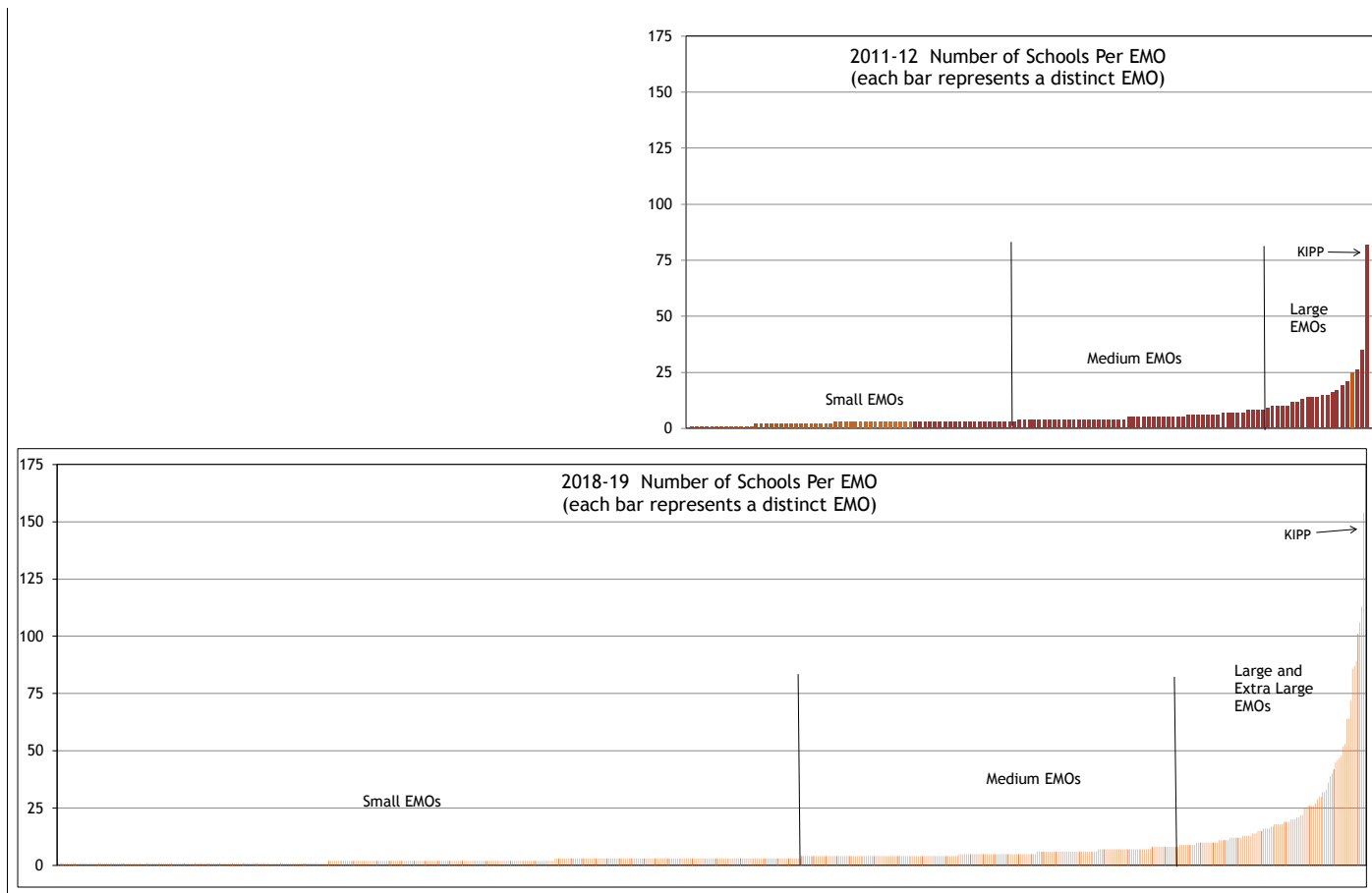


Figure 2. Histograms Depicting the Number of EMOs Ordered by the Number of Schools They Operate, 2011-12 and 2018-19

Total Number of Schools Managed by For-Profit and Nonprofit EMOs

Figure 3 illustrates the total number of schools managed by for-profit and nonprofit EMOs of all sizes from 1998-1999 to 2018-2019. In 2018-19, for-profit organizations operated a total of 900 schools while nonprofits operated 2,829 schools—so that overall, private EMOs managed a total of 3,729 public or charter schools. The increase in this area is staggering: from 285 schools in 1998-99, to 1,615 schools in 2008-09 and to 3,729 schools in 2018-19. Note, too, that our data set indicated several hundred additional schools but these were excluded because they lacked evidence of enrollment or they didn't open until 2019 or 2020.

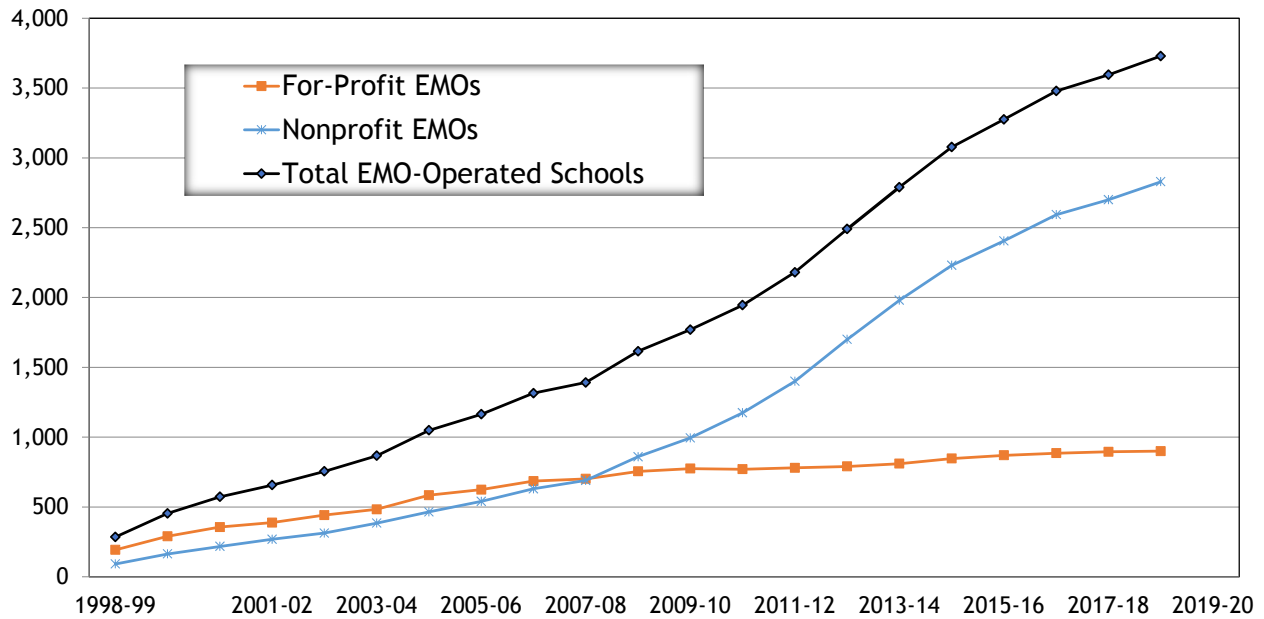


Figure 3. Number of Schools Operated by For-Profit and Nonprofit EMOs by Year

Both for-profit and nonprofit EMOs increased their portfolios of schools managed at a similar rate between 1998-99 and 2008-09. After that point, however, the number of schools operated by nonprofits increased at a much faster rate, while the number of schools operated by for-profits continued to increase at the same pace.

Table 2 illustrates the number of schools operating in 2018-19 by each EMO size. The 21 EMOs classified as Extra Large accounted for more than a third of all EMO managed schools, 35.5%. Large EMOs accounted for 18.7% of all schools managed, Medium for 25.3%, and Small for 20.4%. Even though the small EMOs account for the fewest schools, existing patterns suggest they will lead to the greatest increase in EMO schools in the coming years.

Table 2. EMO-Operated Schools by EMO Size, 2018-19

EMO Size	Number of Schools	Percent of all EMO-Operated Schools
Small	761	20.4%
Medium	945	25.3%
Large	698	18.7%
Extra Large	1,325	35.5%
	3,729	100%

Over 90% of all EMO-managed schools are charters. Over the past decade, the number of EMO-managed brick-and-mortar district schools has not changed much, although there has been an increase in the number of district virtual schools managed by EMOs (N=60).

For-profit EMOs continue to dominate the virtual school market, operating 80% of them with average very large enrollments in each school.

Number of EMO Schools by State

In total there were 41 states plus D.C. with either a for-profit or a nonprofit EMO operating schools within its boundaries in 2018-19. That is an increase of six states over the past eight years.

As Figure 4 indicates, Texas and California, two of the biggest states, had the most schools operated by EMOs. Relative to its population, Michigan is still a leader—or anomaly—in that over 85% of its charter schools are privately operated.

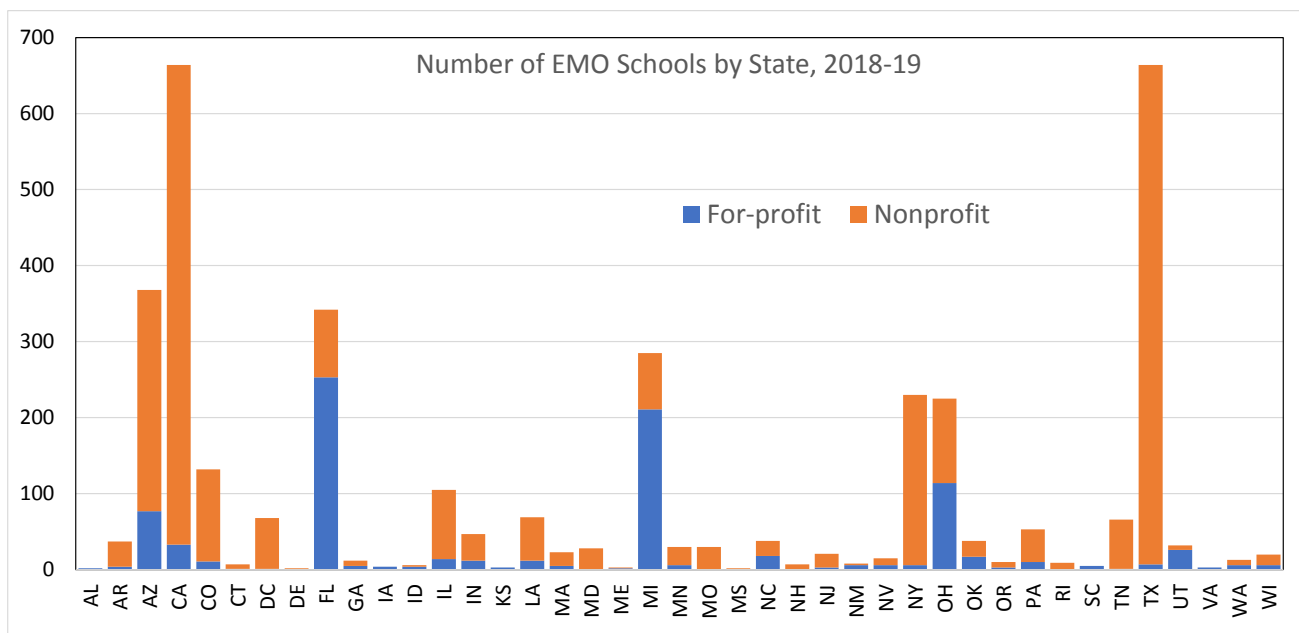


Figure 4. Number of EMO Schools by State, 2018-19

California has officially restricted for-profit EMOs, but we have still classified some of the schools as for-profit because they have made only minor changes to circumvent restrictions. Also, as is true in other states, for-profit EMOs operating charter schools in California—have often created affiliated nonprofit entities as a front to the for-profit entity.

For-profit EMOs are most dominant in Florida, Michigan, and Ohio, while nonprofit EMOs are more dominant in California, New York, and Texas.

Number of Students in Schools Managed by EMOs

In this section we describe student enrollment in schools operated by EMOs in 2018-19 as well as trends over the past two decades. In 2018-19, just under 1.95 million students were

enrolled in schools operated by private EMOs. This total marks a rapid and steady expansion (see Figure 5).

For-profit EMOs have larger enrollments per school and their average school size continues to outpace nonprofits' growth, but the for-profit share of students has declined to 29.2%. In contrast, nonprofits continue to expand their market share and now enroll 70.8 of students in managed schools. The rapidly increasing numbers of nonprofit EMOs and the number of schools they manage account for this growth in share of students.

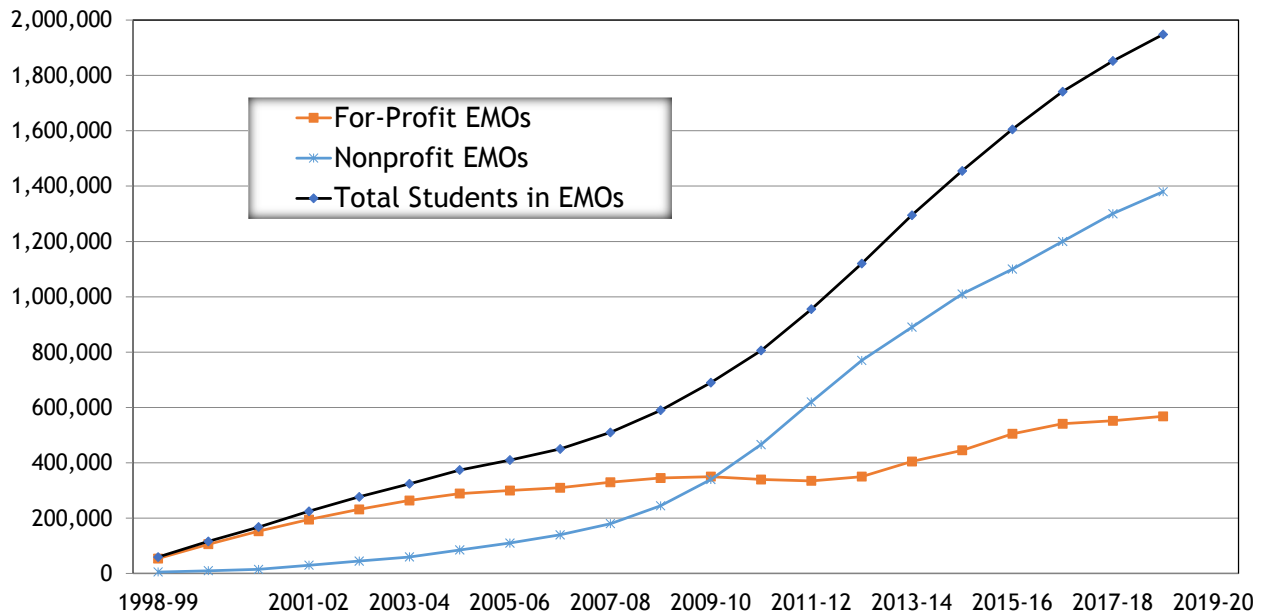


Figure 5. Number of Students Enrolled in Schools Operated by For-Profit and Nonprofit EMOs

Overall, average enrollments per school have increased steadily over time, as new schools open with larger average enrollments and existing schools tend to increase enrollment annually. As mentioned, for-profit EMO schools have larger average enrollments per school than nonprofits: specifically, for-profit enrollment averages 631 students, and nonprofit enrollment averages 488 students. The theory of “economy of scale” postulates that as a business grows in size (average enrollment), the units (schools) become more cost effective to operate.

Both for-profit schools and nonprofit schools have more schools serving primary and middle school students (see Table 3). Overall, the distribution of students by grade is rather similar between for-profit and nonprofit EMOs, although for-profit schools are slightly more skewed toward the primary level than are nonprofit schools.

Table 3. Enrollment by Grade Level in Schools Operated by For-Profit and Nonprofit EMOs

	For-Profit EMO Schools	Enroll- ment	Percent (Enroll- ment)		Nonprofit EMO Schools	Enroll- ment	Percent (Enroll- ment)
PreK	769	2,110	0.37%	PreK	2,491	27,039	1.96%
Kinder- garten	874	42,515	7.48%	Kinder- garten	2,639	104,942	7.61%
1	873	41,228	7.26%	1	2,631	101,554	7.36%
2	877	41,528	7.31%	2	2,627	99,373	7.20%
3	874	41,866	7.37%	3	2,616	96,636	7.00%
4	870	41,532	7.31%	4	2,601	96,402	6.99%
5	868	42,499	7.48%	5	2,578	96,685	7.01%
6	860	47,611	8.38%	6	2,601	118,784	8.61%
7	848	48,874	8.60%	7	2,578	114,103	8.27%
8	838	48,259	8.49%	8	2,561	114,970	8.33%
9	847	42,899	7.55%	9	2,618	114,089	8.27%
10	840	43,177	7.42%	10	2,644	110,702	8.02%
11	839	42,028	7.40%	11	2,635	97,891	7.09%
12	837	42,100	7.41%	12	2,611	91,629	6.64%
Total		568,199		Total		1,379,775	

Note: It was not possible to obtain grade-level enrollment for all schools, which explains why the total enrollment is lower than noted earlier in the report.

Large and Extra Large EMOs generally have larger enrollments in their schools. Accounting for 54.2% of EMO-managed schools, they enroll over 60.3% of students. And, across all categories, for-profit schools have much larger enrollments per school.

Charter schools account for just over 90% of EMO-managed schools, with virtual charters constituting the fastest growing subgroup. Predominately operated by for-profits, in 2018-19 virtual charters enrolled close to 9.2% of all students in EMO-operated schools. Given the impact of the pandemic, this sector’s enrollment is likely to have grown substantially since.

EMOs, Privatization, and Public Charter Schools

Over the past two decades, private EMOs have increasingly served as a vehicle for growth in the charter school sector. Figure 6 illustrates the rate of growth in terms of percent of charter schools privately operated and—in many cases—owned. As demonstrated earlier, nonprofit EMOs have expanded more rapidly in the past decade and now account for three-quarters of all EMO-managed charter schools. In 2018-19, 48% of all public charter schools were operated by EMOs.

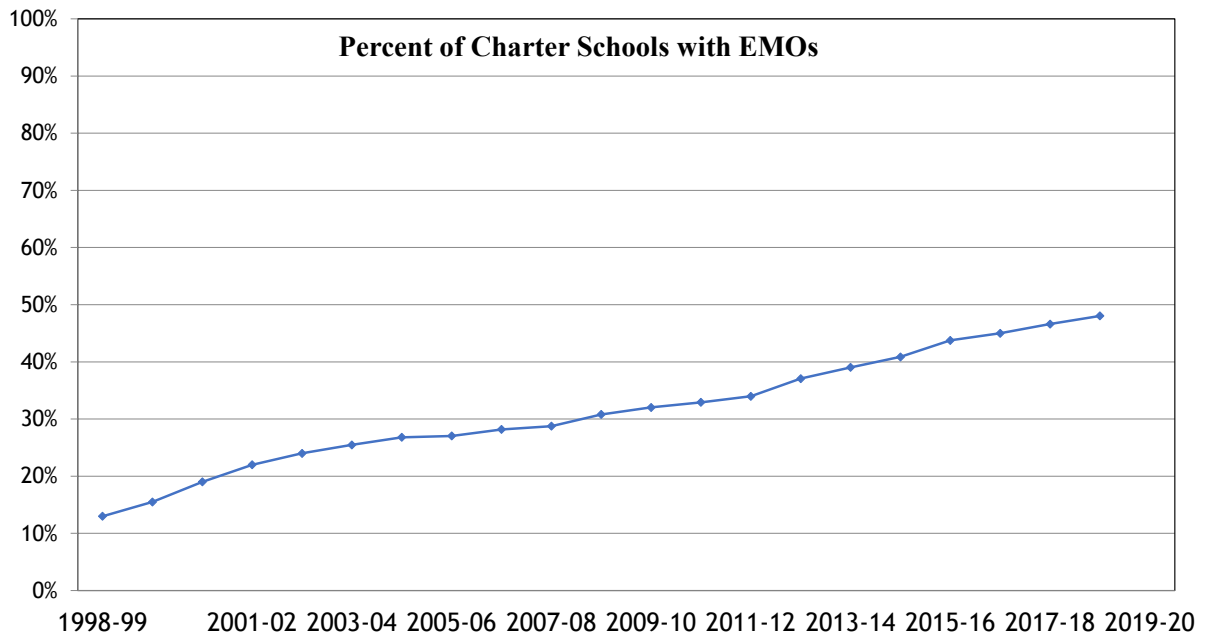


Figure 6. EMO Expansion in the Charter School Sector: Percent Charter Schools with EMOs, 1998-99 to 2018-19

On average, EMO-operated charter schools tend to be larger than independent charter schools. For this reason, the percent of students in EMOs is consistently higher than the percent of schools that are EMO-operated (see Figure 7). The 2017-18 school year marked a turning point, when a majority of public charter school students were actually enrolled in privately managed schools. The trend continued upward in 2018-19 when just over 53% of all charter students were in schools operated by private EMOs.

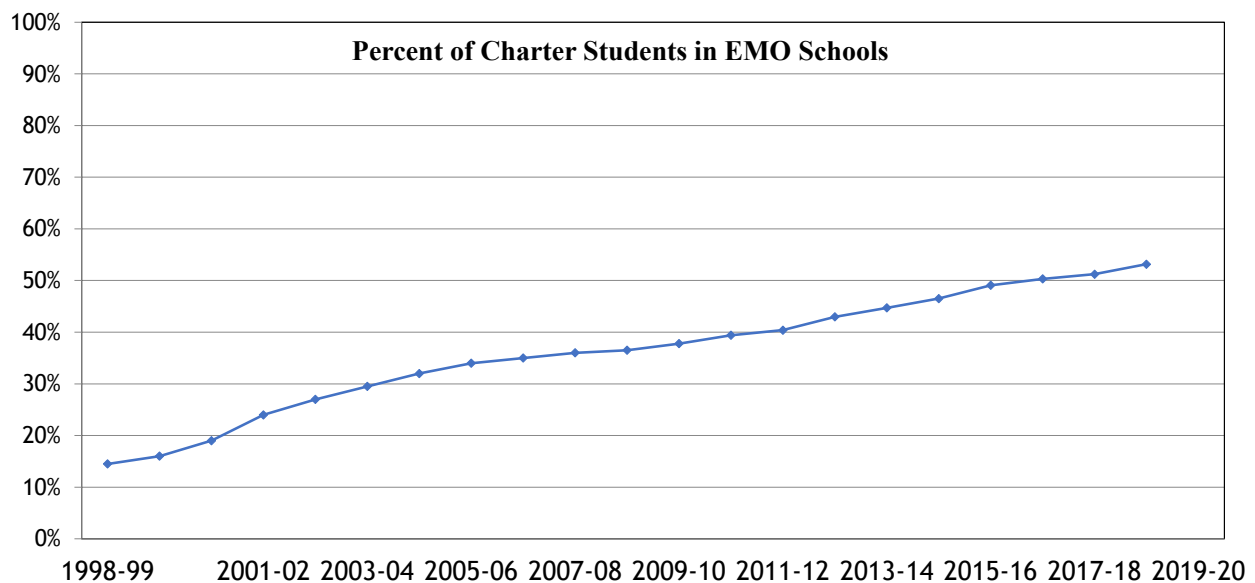


Figure 7. EMO Expansion in the Charter School Sector: Percent of Public Charter School Students Enrolled in Private EMOs, 1998-99 to 2018-19

The charter school ideal, as articulated in legislation from the 1990s, noted that charter schools would be *locally run, innovative, autonomous, and highly accountable*. Charter school reforms had widespread support because charter schools were going to *be a new form of public school*. When reviewing these policy objectives for charter schools, it is apparent that charter schools have evolved into a very different reform concept.

Locally run. Arguments for charter schools maintained that districts were centralized, bureaucratic, and resistant to change. As locally run schools, charter schools would be able to respond to local needs, flexibly adapting to local conditions. But today, decisions on when and where to open new schools are made not at the local level but at EMO headquarters—often across the state, across the country, or in some cases overseas. Fewer and fewer new charter schools are independent and started by local groups.

Innovative. Contracts between EMOs and charter school boards dictate the school model and all details. EMOs often choose “back to basics” models that enhance cost efficiency and profit. These are not innovative. And, despite arguments that charter school governance would be innovative, the tight control of EMOs over their schools means that in reality, charter school boards have limited insight into the operation of the schools as well as limited power. Our review of management contracts—necessary to determine whether private entities had vendor or EMO relationships with charter schools—revealed that increasingly, management contracts make it difficult or impossible for a charter school board to fire or distance a school from its EMO without completely closing the school. Some charter school boards have done just that.

Autonomous. The key feature of the charter school idea was *autonomy in exchange for accountability*. While charter schools have had many regulations waived relative to traditional public schools, EMOs have imposed uniform, rigid operating systems requiring school administrators and personnel to report to regional and central EMO representatives. Unfortunately, the EMO-managed schools have lost autonomy and the flexibility to adapt to local needs.

Charter school reforms had widespread support because charter schools were going to be a new form of public school...it is apparent that charter schools have evolved into a very different reform concept.

Highly accountable. By design, charter schools were intended to be highly accountable for their unique missions and for outcomes. Performance issues lie outside the scope of this report, although they have been the focus of many studies and evaluations. However, the data collection for this report does allow us to note that

those EMOs with websites commonly make sweeping claims for their “research-based” models and practices. They also commonly refer to their work as “award winning.” Interestingly, such claims are typically not substantiated with evidence; when they are, the claims appear to hang on a specific or “cherry-picked” artifact. Scholars and oversight agencies should continue prioritizing investigations into outcomes and hold EMOs accountable when their claims prove unfounded.

One aspect of accountability is transparency. Our difficulties in data collection and the resistance to our Freedom of Information Act requests make it clear that EMOs insist that as

private entities, they are not obliged to be transparent. Management agreements and the increasing use of “sweep contracts”—which simply funnel all revenue to an EMO, with promise of a small year-end balance— also makes it clear that the public charter school boards have limited insight into the budgets and operations of the charter schools they represent.

Charters as a new form of public school. From our data collection and from the evidence presented in the overall trends in the charter school sector, it is becoming clear that charter schools are a vehicle for privatization. Currently more than half of all public charter school students are enrolled in privately operated, and often privately owned, schools. In light of current trends and the surge of new EMOs over the past eight years, we can expect that by 2025, some 66% of all public school students will be in privately operated charter schools; by 2030, close to 80% of all public charter school students will be in privately operated schools.

Summary

Although charter advocates may concede that the charter school ideal has been altered, it is important to recognize that they have always promoted expansion. EMOs are clearly the key vehicles for growth, both in the number of new school size and also in their quest to increase the size of existing schools. Without EMOs, there would likely be a limited number of new charter schools opening each year.

The extensive research and analysis invested in this profile yields the following general observations:

- The process of identifying and profiling EMOs is becoming increasingly challenging. Interconnected webs of nonprofit and for-profit organizations and trusts, corporate or organizational owners with distant headquarters, affiliated entities—sometimes distributed geographically—engaging in services and property ownership, and various fundraising entities make it challenging to accurately portray the existing EMO landscape.
- The number of EMOs and the number of schools they manage have more than doubled in the past decade. Similarly, the enrollment of students in EMO-operated schools has grown from 600,000 in 2008-09 to 1.95 million in 2018-19.
- Growth of nonprofit EMOs has outpaced growth of for-profits, while growth of the virtual school sector is also increasing—likely even more significantly in recent months and years because of the pandemic.
- Small EMOs are rapidly increasing, and they show a pattern of steady expansion as they open or purchase an increasing number of schools.
- Charter school growth has largely been fueled by EMOs, which have opened an increasing number of charters each year. Independent charter schools also continue to create their own EMOs and expand by opening additional schools.
- The increased buying and selling of charter schools—which offers the strongest evi-

dence of privatization of a reform originally intended as a public good—is one of the most striking trends observed.

- EMOs have diversified by adding such services as tutoring, afterschool programs, summer school programs, alternative school programs, virtual schools, and improvement programs for turnaround schools. Some have also packaged and sought to sell or lease their curricula, accountability, and in-service training systems.
- Despite considerable differences across schools and in their relationships with EMOs, differences between nonprofit and for-profit EMOs are decreasing.
- Relationships evolve over time, but it appears that it is more likely for shifting relationships to involve vendors evolving into EMOs than the reverse.
- A number of EMOs are expanding to other countries and tout plans for increased expansion globally.

Recommendations

Given the trends and the ways in which EMOs have developed, we make the following recommendations:

- To ensure genuine accountability, a charter school board should be in place before an application for charter status is submitted. Such boards should have control and oversight of budget.
- Authorizers should not permit charter applications from EMOs.
- If charter school boards contract with an EMO, the authorizer should be required to approve both the management agreement and leases or other agreements related to facilities and property.
- Charter school boards should be required to receive training relative to their legal and fiscal responsibilities, ensuring they function as intended as responsible representatives of public charter schools and the taxpayers supporting them.
- When contemplating a relationship with an EMO, a school board should require three or more bids from potential contractors.
- School boards should refuse “sweep contracts,” which allow an EMO to secure all revenues with a guarantee to leave a small year-end balance. Sweep contracts mask the actual budget and limit transparency by the governing boards and the public.
- EMO contracts should have stringent requirements for transparent reporting.
- States should not exempt nonprofit EMOs from restrictions placed on for-profit EMOs.
- Federal and state agencies should award start-up grants and financial support only to independent charter schools.