Corporate-Style Charter Schools in Connecticut
Financial Data: FY 2011 and FY 2016

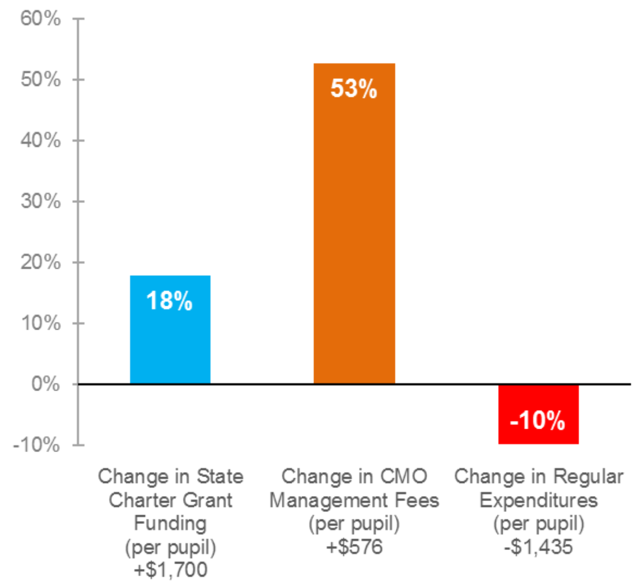
Executive Summary

Charter school **M**anagement **O**rganizations (CMOs) are defined in the Connecticut General Statutes as non-profit companies that contract with charter schools to provide whole-school management (C.G.S. 10-66aa). Charter schools and CMOs are considered non-profits because of their tax-free IRS status and legal structures. Yet, some CMOs receive more in revenues than they spend, which creates a surplus similar to a "profit." In addition, CMOs receive publicly-funded grant monies (i.e. Connecticut State Charter Grant) with no transparency on how the state's grant monies are spent. All revenues go into one pot and are expended without regard to the source of the revenue.

Questions surface from this review of financial data for the two CMOs (Achievement First, Inc. and Domus Kids, Inc.) that were paid management fees in both FY 2011 and FY 2016 (other CMOs and schools in this analysis do not have FY 2011 data).[1,2] The most striking finding is a per-pupil increase in management fees but a per-pupil decrease in student expenditures.

As shown in Figure 1, from FY 2011 to FY 2016, the State Charter Grant increased by 18 percent per pupil (an increase of $1,700, raising the grant from $9,300 in FY 2011 to $11,000 in FY 2016); however, per-pupil **regular expenditures**[3] **declined by 10 percent** ($1,435) while per-pupil **management fees**[4] **increased by 53 percent** ($576).

Figure 1: Change in Expenditures & Management Fees Per Pupil FY 2011 to FY 2016: Achievement First & Domus



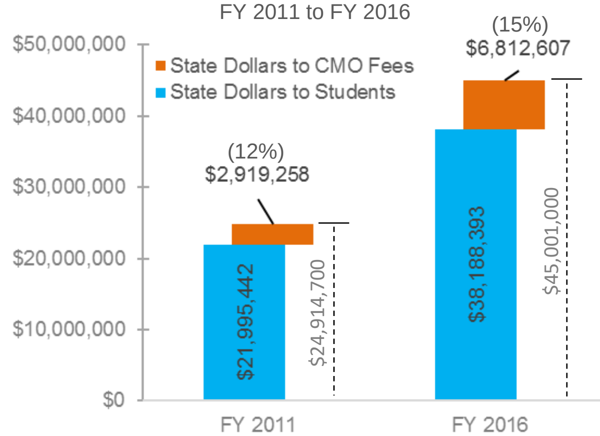
Per-pupil state grant funding increased, which should result in higher per-pupil expenditures but this did not happen. It is possible that increasing enrollments (from 2,679 to 4,091) for these charter schools led to greater economies of scale; however, this was not the case for management fees.[5] Per-pupil management fees increased dramatically at all the corporate-style charter schools managed by Achievement First, Inc. and Domus Kids, Inc. Trailblazers Academy and Stamford Academy had the largest increase – more than doubling their management fees. Increasing economies of scale should result in both lower per-pupil expenditures and lower per-pupil management fees; however, only per-pupil expenditures declined.

[1] ED001 data obtained from the Connecticut State Dept. of Education on 12oct2016. Data for FY 2016 is unaudited.
[2] Comparison is limited to those six charter schools that were paid management fees and were open in FY 2011 and FY 2016; other CMOs and schools in this analysis had not yet been established in FY2011.
[3] ED001 line 214. Regular expenditures are defined as, "… activities that provide pupils with learning experiences to prepare them for activities as citizens, family members and vocational workers. These activities contrast with those designed to improve or overcome physical, mental, social and/or emotional handicaps." Regular expenditures include basic education services provided by both charters and non-charters such as instruction, support services, administration, facilities maintenance, etc. In addition, line 214 includes special education services and home-school-home transportation services.
[4] ED001 line 407
[5] Only Trailblazers had a decline in enrollment going from 162 to 125.

Total state grant funding for Achievement First and Domus increased from nearly $25 million in FY 2011, to $45 million in FY 2016. If the increase in management fees had been proportionate to the increase in state grant funding, then management fees in FY 2016 would have been about $5.3 million. Instead, Achievement First and Domus collected a combined $6.8 million – a disproportionately higher $1.5 million in management fees.

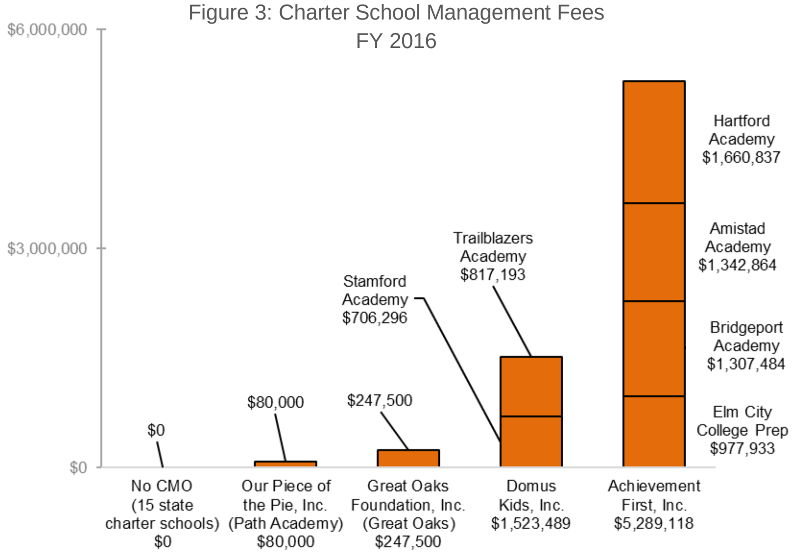
Figure 2 shows the disproportionate increase in management fees as a percentage of the State Charter Grant. In FY 2011, total management fees for Achievement First and Domus were **12** percent ($2,919,258) of their combined State Charter Grant ($24,914,700) and by FY 2016 this increased to **15** percent ($6,812,607) of their combined State Charter Grant ($45,001,000). While the total dollar amount of their State Charter Grant increased by 81 percent, total management fees increased by **133** percent – more than double.

Figure 2: Change in State Charter Grant Dollars Given to Achievement First & Domus FY 2011 to FY 2016



In FY 2016, there were four CMOs operating in Connecticut: Achievement First, Inc., Domus Kids, Inc., Great Oaks Foundation, Inc., and Our Piece of the Pie, Inc. As Figure 3 shows in FY 2016, there was a dramatic difference in management fees charged by CMOs ranging from 5 percent of Path Academy's State Charter Grant to **59** percent of Trailblazers Academy's State Charter Grant. In total, management fees at Domus equaled 51% of its State Charter Grant and 13% at Achievement First. Note that there are 15 state charter schools that do not have a management fee.

Figure 3: Charter School Management Fees FY 2016



In summary, findings from this brief review of finances for corporate-style charter schools call for state government and stakeholders to take a closer look at revenue sources and expenditures of corporate-style charter schools. This would be prudent in good economic times and is especially important now as the state estimates a budget deficit of $1.5 billion for FY 2018 starting July 1st, 2017.[6]

Follow Up Questions

1. Why have per-pupil management fees skyrocketed while per-pupil regular expenditures declined?
2. Why is there such a large variation in management fees among corporate-style charter schools?
3. Why does the state continue to pay charter schools to add more classrooms when there is a statewide decline in K-12 enrollment resulting in school closures and excess capacity?

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[6] The Connecticut Mirror, 04jan2017, at http://ctmirror.org/2017/01/04/malloy-upbeat-yet-warns-of-labor-concessions-smaller-government/