GROWING PAINS:
Scaling Up the Nation’s Best Charter Schools

Education Sector
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ABOUT EDUCATION SECTOR

Education Sector is an independent think tank that challenges conventional thinking in education policy. We are a nonprofit, nonpartisan organization committed to achieving measurable impact in education, both by improving existing reform initiatives and by developing new, innovative solutions to our nation’s most pressing education problems.
Amistad Academy is a bright shining star in public school reform. Founded in 1999 in a renovated warehouse in a blighted New Haven, Connecticut, neighborhood by a group of Yale law school students, the 289-student charter school has won the praise of the last two federal education secretaries. Educators throughout the country have traveled to the middle school to study its success with students who have endured the ravages of urban poverty—arguably the nation’s toughest educational challenge. And Amistad’s strong academic performance has led the school’s founders to create a nonprofit organization called Achievement First that is attempting to build a network of 30 charter schools like Amistad in three Connecticut cities and Brooklyn, New York.

Achieving this success has been difficult—and expensive. Over a quarter of the school’s annual revenue—nearly $1.4 million, or $4,200 per student in 2008–09—comes from private donations rather than public funding.1 To generate this additional revenue Amistad relies on an ambitious fundraising network led by two well-connected New Havenites who have served on the board of trustees of elite local private schools like Hopkins Grammar and Choate Rosemary Hall, and who have helped ensure that Amistad’s many visitors include a steady stream of well-heeled donors from Greenwich, New Canaan, Westport, and other affluent Connecticut enclaves.

Amistad and Achievement First are part of an ambitious movement in American education to educate large numbers of impoverished students to higher standards than public schools traditionally have sought for them. Over the past decade, nearly four dozen new nonprofit enterprises known as charter management organizations, or CMOs, have set to work alongside Achievement First to replicate the nation’s best urban charter schools, the publicly funded but independently operated schools that emerged on the reform landscape in the early 1990s. There are an estimated 4,600 charter schools serving some 1.4 million students in 40 states and the District of Columbia today.2

Most charter schools haven’t performed as well as Amistad, and there is a lively ongoing debate about quality and effectiveness in the charter school sector.3 But the most well-known of the new nonprofit charter school networks, organizations with names like Aspire Public Schools, Uncommon Schools, and the Knowledge Is Power Program (KIPP) have produced compelling results, attracting hundreds of millions of dollars in philanthropy and congratulatory coverage in the national media—on “60 Minutes” and the “Oprah Winfrey Show,” in the New York Times Magazine and Esquire, in nearly every major daily newspaper, and in a spate of new books.4

As a result, state and national leaders increasingly see leading CMOs as an important part of their larger plans for educational reform in the toughest educational environments. KIPP stepped in to build new schools in hurricane-ravaged New Orleans. Public officials in Los Angeles recently voted to allow CMOs and other organizations to bid to run 50 newly created schools. U.S. Secretary of Education Arne Duncan has explicitly cited a number of leading CMOs in describing his plans to fix the 5,000 worst schools in America and has made CMOs eligible for unprecedented access to federal dollars.

Many CMO leaders have similarly large ambitions for the movement, building charter school networks in pursuit of a solution to the slow pace of improvement in traditional public schools and in response to the uninspired performance of many of the nation’s individual charter schools. They’ve sought to create “proof points,” evidence that large numbers of disadvantaged students can achieve at sharply higher levels than most do now.

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They also want to put enough competitive pressure on traditional public school systems to cause them to embrace transformative reforms.

But in the decade since they first emerged, CMOs have expanded more slowly and required more resources than they had hoped. The extraordinary demands of educating disadvantaged students to higher standards, the challenges of attracting the talent required to do that work, the burden of finding and financing facilities, and often-aggressive opposition from the traditional public education system have made the trifecta of scale, quality, and financial sustainability hard to hit.

This report traces the history of a number of leading CMOs, showing how they have grown, how they have succeeded, and where they have fallen short. It documents a host of budgetary and regulatory barriers that local, state, and national policymakers will need to address if CMOs are to fulfill the expectations that are increasingly being thrust upon them. It also suggests that achieving the core mission that unites all leading CMOs—providing a great education to the most disadvantaged students—requires extraordinary levels of organizational, financial, and human resources. This lesson has important implications not just for the charter school movement, but for public education as a whole.

**Djembe Drums and Polo Shirts**

At 8 a.m. on Mondays and Fridays, a team of students start pounding out a surging beat on djembe drums in the Amistad gymnasium. Others hurry to roll portable dining tables into storage and half the Amistad student body, most of which is clad in khaki pants and blue polo shirts and fortified with a federally subsidized breakfast, takes up places with teachers around the perimeter of a basketball court that fills the gym.

“Good morning,” says Director Matt Taylor, as he strides toward the court’s center circle. “GOOD MORNING,” students roar back, and for the next 25 minutes Taylor and Amistad’s teachers move through a ritual designed to promote pride, hard work, and discipline among students who have known mostly deprivation in their lives. Teachers step forward to recognize individual students for “reading eight books by October 15th” or “memorizing multiplication facts through 12.” The rest of Amistad’s students respond with a variety of synchronized claps.

“Let’s give him a Fourth of July,” Taylor or a teacher says, or “they deserve a clap-and-a-half on three.” The middle schoolers’ enthusiasm is palpable. They smile widely when Taylor admonishes guests, “Stand up straight, heads erect.” At the end of the meeting the djembe drums come back to life. “Who Are We, Proud to Be?” ask several students over the driving rhythm. “AMISTAD ACADEMY,” students, teachers, and administrators thunder in reply.

Amistad’s morning admixture of pep rally and military parade-ground performance is one of the ways that Achievement First, KIPP, and a number of other leading charter networks have sought to teach their students “learned optimism,” a sense that they are part of an exciting enterprise that will pay them big dividends if they work hard. Creating up-beat, can-do school cultures where kids care because they feel cared about is critical, CMO leaders say, to generating the energy and discipline that severely disadvantaged students require if they are to make it through the demanding programs that schools like Amistad have established to put impoverished students on a much higher academic trajectory. This commitment to school culture isn’t universally shared among charter networks, and some have achieved strong results with a less-intensive environment. But many of the highest-profile networks have embraced school culture as a key lever of success.

It is the driving beat of the djembe drums, they suggest, that propels the school’s African American and Latino 10-, 11-, 12-, and 13-year-olds through school days that routinely run from 7:30 a.m. to 5:00 p.m., three hours longer than traditional public schools. It is hallways filled with college banners and posters declaring “No Excuses” and “Whatever It Takes” that keep students at Amistad and many other CMO-run schools in class on Saturdays and for two or three weeks during the summer.

With students performing far below their middle-class peers when they arrive, Achievement First and other leading charter networks carve out large blocks of their longer school days for catching up students in core subjects—there’s an hour and five minutes of math a day at Amistad; three and one half hours of reading, writing, and literature; and tutoring during and after school as well as on Saturdays. Each course in the Amistad curriculum is broken into daily lessons that Achievement
At Amistad, where nearly every student is African American or Latino, 82 percent of students met the state’s standards in reading, 94 percent in math, and 97 percent in writing …. First has aligned with state standards and tests. Teachers all use the same instructional routines in their classrooms. The day’s goal, for example, must be written on the blackboard. Classes start with a series of questions for students, and it’s expected that 80 percent of students have their hands raised, ready to answer. A behavior system borrowed from KIPP called SLANT requires students to Sit up, Listen, Ask (and answer questions), Nod (your head so people know you are listening), and Track (speakers with your eyes). The model is combined with chanting and rhythmic clapping in classes and with reward systems that permit students to earn t-shirts and other items for strong grades and good citizenship.

Such strategies, says Dacia Toll, Achievement First’s co-chief executive and Amistad’s first director, further strengthen the self-discipline of students who often lack structure in their home lives. For the same reason, Amistad and Achievement First “sweat the small stuff,” says Toll, who is a Rhodes Scholar. Silence is required in hallways. Homework has to be completed. And no shirt is left un-tucked. Author David Whitman has coined this approach, which pervades the high-performing charter school networks, as the “new paternalism.”

Amistad relies on a cadre of idealistic, mostly young teachers to deliver its tough-love discipline and non-stop instruction. A number of them, like their counterparts at other leading CMO-run schools, are the products of Teach for America, the public-service program that places recent top-college graduates in difficult-to-staff public schools for two-year stints. Non-unionized, many report that they routinely work 10- and 11-hour days, and 12-hour days aren’t unusual. Every new Amistad and Achievement First teacher is assigned a “coach,” a school leader or master teacher who observes them weekly, and the organization plans to extend the program to all teachers next year. New Achievement First teachers spend every Friday afternoon and three weeks during the summer honing their craft. Students throughout the organization’s schools are tested every six weeks, and their scores are posted on online “data dashboards” and reviewed by teachers and principals one-on-one during “data days,” when students are not in school.

Amistad’s strategies have paid substantial academic dividends. Of Connecticut’s middle-school graduates last year, 57 percent of Latino students, 59 percent of African American students, and 89 percent of white students met the state’s proficiency standards in math, reading, and writing. At Amistad, where nearly every student is African American or Latino, 82 percent of students met the state’s standards in reading, 94 percent in math, and 97 percent in writing—making Amistad one of several schools run by charter networks with African American and Latino students who have completely closed the achievement gap with their white counterparts on statewide tests of core skills.6

Silicon Valley Start-Up

The campaign to replicate schools like Amistad began over a decade ago, with a San Francisco-based organization called the NewSchools Venture Fund.

In 1997, John Doerr, a partner in the prominent Silicon Valley venture capital firm of Kleiner, Perkins, Caulfield and Byers, and an early investor in Netscape, Amazon, and later Google, heard a pitch by then Vice-president Al Gore urging the private sector to get involved in school reform. Doerr discussed Gore’s plea with partner Brook Byers and other colleagues and eventually hired a second-year Stanford business school student, Kim Smith, who was a founding team member of Teach for America, to explore ways to apply the principles of venture capital investing to education reform.7

Doerr, Byers, and Smith launched the NewSchools Venture Fund a year later as a nonprofit “venture philanthropy” that would raise money from wealthy individuals and invest in “scalable ventures” seeking to create networks of new, high-performing public charter schools for disadvantaged students.8 “One-of-a-kind charter schools were never going to be able to provide low-income kids the specialized services they needed,” says Smith, who served as NewSchools’ chief executive from 1998 to 2005. “And charter schools needed scale to be taken seriously.”9
At first, NewSchools backed both for-profit and nonprofit organizations. In 1999, it gave $1 million to Aspire Public Schools. The nation’s first nonprofit charter management company, Aspire had been founded the year before by Don Shalvey, a Silicon Valley public school superintendent who opened California’s first charter school in 1992, and entrepreneur Reed Hastings, the founder of Netflix and president of the California State Board of Education from 2001 to 2004.10

The next year, NewSchools invested in LearnNow, a for-profit CMO co-founded by two young entrepreneurs who wanted to change the educational calculus for urban kids—Eugene Wade, a graduate of University of Pennsylvania’s Wharton School, and James Shelton III a Stanford Business School graduate. But LearnNow struggled and after covering the company’s payroll for six months, NewSchools in mid-2001 brokered the sale of the company and its soon-to-be 11 schools for $31 million to Edison Schools, Inc., the largest of some three dozen education management companies that had emerged since the early 1990s to run charter schools and turn around struggling traditional public schools for profit.11

Founded by media entrepreneur Christopher Whittle, Edison became a publicly traded company in November 1999, and by February of 2001, at the height of the dot-com stock market bubble, its market value had risen to nearly $2 billion. But within 18 months, following weak earnings, mounting political opposition, and other public relations problems, Edison’s stock plummeted from nearly $37 a share to 14 cents a share, and it dragged the emerging for-profit schooling industry down with it.12

Investment money dried up, and companies with names like Education Alternatives and Advantage Schools were shut down or sold off. While companies like National Heritage Academies have shown success in expanding in recent years and new ventures are beginning to emerge, the sector as a whole has been slow to recover. For-profit companies today manage some 500 traditional public and charter public schools enrolling about 250,000 of the nation’s 50 million students.13

Its troubled investment in LearnNow and the collapse of Edison and other companies led NewSchools to abandon the for-profit side of its schools strategy. “Our experience with LearnNow was bruising,” says Ted Mitchell, an early NewSchools board member who replaced Smith as CEO in 2005, and who now chairs the California State Board of Education. “[LearnNow’s private investors] were more interested in growth and profits than what was best for students. And there was tremendous opposition to companies running publicly funded schools for profit. We thought, ‘Why absorb that punishment when you can create nonprofits?’” In 2001, Smith called the new nonprofits charter management organizations—CMOs—to distinguish them from their troubled for-profit cousins, which had become known as education management organizations—EMOs.14

NewSchools was ambitious. The nonprofit organizations would drive the expansion of the charter school movement, Smith told a charter school conference, creating thousands of new schools.15 But by 2001, the Internet business bubble had burst, and NewSchools’ funding lagged. Fortunately for the organization, new foundations sympathetic to entrepreneurial school reforms were entering education. The Bill & Melinda Gates Foundation embraced CMOs in its pursuit of alternatives to dysfunctional urban secondary schools. The Walton Family Foundation, a creation of the Wal-Mart empire, saw charter networks as a way of expanding its commitment to school choice. Walton and Gates were joined by three other emerging foundations established by wealthy entrepreneurs: The Doris and Donald Fisher Fund, named for the founders of clothing giant Gap, Inc.; the Eli and Edythe Broad Foundation, established with money that Eli Broad made from founding homebuilder KB Home and financial giant SunAmerica; and the Michael & Susan Dell Foundation, funded by Dell’s computer fortune.16

The foundations funded NewSchools (and, later, charter networks directly), and within five years the organization had raised over $65 million to launch networks in Chicago, the San Francisco Bay Area, New York, and other cities and support other entrepreneurial ventures in education.17

In 2005, Walton, Fisher, and other foundations launched a second organization to support CMOs, the Denver-based Charter School Growth Fund. Led until 2009 by John Lock, a former investment banker and charter school principal, the Growth Fund pledged to create 100,000 seats in high-quality charter schools by 2015 through $150 million in grants and loans.18

Today, NewSchools is funding Achievement First and 16 other charter management organizations enrolling 54,000 students, the vast majority of whom are African American or Latino and over three quarters of whom qualify for federally subsidized school meals. The Charter School Growth Fund is supporting 19 networks, including...
But the school networks have faced a host of challenges that have slowed their expansion. The difficulty of building networks of schools that achieved high levels of academic quality “was highly underestimated by all of us,” Mitchell told a symposium on charter management organizations sponsored by the University of Washington’s Center on Reinventing Public Education in 2006. A number of leading CMOs have been forced to work in an environment where regulations impose unnecessary costs, funding levels lag behind regular public schools, facility space is unnecessarily scarce, and laws supported by interest groups antagonistic to charter schools artificially limit the ability of the most successful charter schools to expand.

A Hostile Landscape

Many leading charter networks have to work in unfriendly political environments. School boards, teachers unions, and other representatives of traditional public schools often don’t like charter schools competing for their students. It’s not by accident that school boards make up 90 percent of the organizations permitted under state laws to approve the creation of charter schools, but have authorized only 50 percent of the nation’s 4,600 charter schools. The other 10 percent of charter schools authorizers—universities and other institutions that aren’t threatened by the independent public schools—have approved the other half.

Representatives of traditional public schools frequently have sought the caps on charter school growth that exist in 27 of the 40 states that allow charter schools. But competitive pressures on charter school networks come from within the charter school community as well as without: “Existing charters sometimes aren’t the most enthusiastic supporters of lifting caps [on charter growth],” Todd Ziebarth, vice-president for policy at the National Alliance for Public Charter Schools, an advocacy group, told an audience at a national charter school conference in New Orleans last summer. Some “mom and pop” or single-site charter leaders resent the reach and resources available to the CMOs and worry that they will become the dominant method of charter schooling in many states. Others, many of whom came from the alternative schools movement, are leery of the instructional methods and emphasis on size, scale, and homogeneity that characterizes many of the networks.

An early argument for charter schools was that they would replace the bureaucratic culture of traditional public schools with a more enterprising ethos because they’d be free from teacher contracts and many state and local education regulations. But many charter schools haven’t ended up with as much independence as expected or have run into other hurdles. Already-wary state regulators have cracked down even harder following high-profile cases of academic failure and financial malfeasance in charter schools in several states. The California teacher retirement system goes so far as to require charter networks to operate separate teacher pension plans in every county in which they have schools. In addition, most states require CMOs to have a separate board of directors for every school, a tremendous recruiting and management burden for many charter network executives.

Many CMOs also have to survive on relatively meager public funding. Some of the states where many charters operate, most notably California, substantially underfund all of their public schools. In addition, often at the urging of charter school opponents and skeptical state officials, many state charter school laws exclude funding for transportation and other subsidies given to traditional school systems. “We made some bad bargains to get the laws on the books,” says Nelson Smith, the chief executive of the National Alliance for Public Charter Schools. Financial experts within charter networks and without say it is difficult to produce reliable apples-to-apples spending comparisons between charter schools and traditional public schools because of the multiple revenue sources for schools in each sector. In one of the few comparative studies that accounted for all the spending sources at the school level, the Thomas B. Fordham Institute, a Washington, D.C., policy organization that advocates charter schooling, reported that in 2002–
03 charter schools in 16 states received an average of 78 percent of the funding of traditional public schools.\(^2\)

A more recent analysis by the U.S. Department of Education of district-level spending estimates that charter schools receive an average of 94 percent of the funding of regular public schools.\(^2\) The discrepancy likely stems from the different ways charter schools are treated in state policies. In some states they are considered school districts and consequently do not have to deal with local bureaucracies to obtain federal and state funding, while in others charters are a subsidiary of often hostile school districts. A major reason why Amistad requires philanthropy to cover its annual operations, for example, is that, according to Achievement First, the school receives only about 75 percent of the funding of Connecticut’s traditional public schools—$9,300 per student versus $12,300.\(^2\)

Some CMO’s, for instance KIPP, do not view fiscal sustainability with public resources as a core priority. Instead, they choose to rely on philanthropic support and focus on the impact they can have by building proof points to change the debate about school performance. Others are trying to grow to a point where economies of scale allow them to operate with public funds alone. But in both cases, the challenge created by public funding disparities is increased by the fact that many leading CMOs have chosen to pursue expensive strategies to educate the most disadvantaged students.

### The Facilities Dilemma

Most CMOs, like most charter schools, must find and finance their own buildings. Yet only 10 states and the District of Columbia give charter schools per-pupil funding annually for facilities, and only three provide them with more than $1,100 per student.\(^2\) In 2008–09, the District of Columbia gave charter schools $3,109 per pupil in facilities funding, and the money—no less than the city’s many dismal public schools—helps explain why Washington’s supply of charter schools is large enough to enroll more than a third of the city’s students.\(^2\) But that amount was reduced to $2,800 for 2009–10, and a task force is now considering revamping the facilities funding system.

California voters in 2000 required public school systems to provide buildings to charter schools—making California the only state to do so.\(^2\) But charter schools have been in California’s courts at least eight times to get districts to comply with the law.\(^3\) For example, Leadership Public Schools, a Bay Area charter network, opened a high school in Campbell, just south of San Jose, in 2006 and faced three moves in three years. The school started in a church basement. Local officials then put it in trailers behind a regular public school. The next year, Campbell officials proposed moving the school into a different set of trailers at a school seven miles away. Lacking transportation, many of the school’s impoverished Latino students enrolled elsewhere. Without enough students and struggling academically, the school closed. In other states and the District of Columbia, public school officials routinely refuse to let charter schools use empty school buildings, leaving them to waste rather than help their competitors find space.

As a result, CMOs spend immense amounts of time and money finding places to teach their students. They’ve launched schools in Boys and Girls Clubs, strip malls, retrofitted groceries, and many church basements and former Catholic schools. “There are periods when I spend 90 percent of my day on facilities,” says Allison Fansler, the president of KIPP DC, a network of four schools in the District of Columbia that is hoping to open three more schools in 2009–10. In addition to Fansler, KIPP DC employs a director of real estate and a director of growth and new initiatives, and the latter spends 75 percent of her time on real estate financing. The organization has raised $33 million for a new 920-student elementary-middle school complex and is scheduled to spend another $26 million renovating a leased District of Columbia school building.\(^3\) Achievement First is building a new, $31-million home for Amistad middle and an elementary school (with $24 million in state money), and it is teaming up with the New York City school system and a second charter management organization called Uncommon Schools to create a $140-million campus to house two high schools of 800 students each in Brooklyn.

For many CMOs, these costs are exacerbated by the fact that most charter schools can’t use the bricks-and-mortar funding strategies available to traditional public schools—handing the bill to taxpayers or borrowing by issuing bonds. (Only Michigan allows charter schools to issue government-backed, tax-exempt bonds, which permit traditional school systems to borrow for construction at lower rates.\(^3\)) Because they are start-ups, are often small and located in marginal or unstable neighborhoods,
and are subject to political uncertainty, banks often rate charter schools as high-risk enterprises and have charged them higher interest rates.

An ad hoc network of nonprofit organizations has evolved to help solve these problems, through grants, loans, and by enhancing the creditworthiness of charter schools. About a dozen national, state, and regional community development organizations, including New Jersey Community Capital and the Illinois Facilities Fund, have added charter schools to their traditional focus on building new housing and other infrastructure in impoverished neighborhoods. They’ve been joined by national foundations like Broad, Walton, and Annie E. Casey, NewSchools and the Charter School Growth Fund, and about a dozen new, nonprofit enterprises focused exclusively on charter school facilities.

The federal government has also provided funds. Since 2003, the U.S. Department of Education has supplied states and nonprofit organizations with about $160 million for loan guarantees and other charter school credit enhancement, and has given charter funding incentive grants worth about $50 million to a handful of states—monies that have leveraged $400 million in charter facilities financing. Federal backing has helped pave the way for several major banks to become charter lenders; among them, Citigroup, Prudential Financial, and Bank of America—each have lent charter schools over $100 million over the years. Some states have established grants, loans, and loan-guarantees for charter schools, under the federal programs and their own. And though only a single state lets charter schools issue bonds, many states permit other public agencies to sponsor them on behalf of charter schools as “conduit issuers.” Michigan, Colorado, Massachusetts, Texas, and the District of Columbia have been the most active, sponsoring $1.2 billion in bonds on behalf of charter schools since 1995 (another reason for the proliferation of charter schools in the nation’s capital).

But charter schools continue to need large amounts of money for facilities, and the recent tightening of credit standards has made borrowing more difficult. Only in a handful of places, including New York City, have the charter school facility stars fully aligned. Since pledging in 2003 to make New York “the most charter-friendly city,” Mayor Michael Bloomberg and Schools Chancellor Joel Klein have provided leading CMOs like Achievement First, Uncommon Schools, and KIPP (as well as many individual charter schools) heavily subsidized space in under-enrolled city schools; subsidized custodial, maintenance, and security services; and independence over staffing, budgets, and instruction. Civic Builders, a nonprofit real estate developer established in 2002, bundles money from the city’s school system, philanthropies, commercial lenders, and various state and federal construction programs to buy real estate and rent it to charter schools at below-market rates. The organization has spent $227 million developing nine schools, including the retrofitting of a Brooklyn ice cream factory to house an Achievement First elementary and middle school.

With the annual funding that they get in New York City (some $12,440 per student, plus additional local and federal monies, a sum that Achievement First estimates to be between 80 percent and 95 percent of the funding that the city’s traditional schools receive), Achievement First’s New York schools are able to operate without philanthropic subsidies once they are fully enrolled, says chief financial officer Max Polaner—in sharp contrast to Amistad in New Haven. Says CEO Toll: “We expanded into New York because of Klein and because the dollars are doable.” But such partnerships have been rare, because school districts are wary of losing students and revenue to CMOs, and charter networks have wanted to preserve their independence. And while New York City is relatively charter-friendly, the state as a whole has been less so, imposing strict caps on the number of charter schools that have only recently been increased after years of bitter political struggle.

Expensive Features

Even if more cities follow New York City’s lead and the various regulatory burdens and funding shortfalls hampering charter schools are resolved, CMOs are still likely to have difficulty expanding rapidly while continuing to provide a high-quality education to the most difficult-to-educate students. That’s because leading CMOs are trapped in an educational vicious cycle: Many of the most effective educational strategies are also the most resource-intensive.

For example, many schools run by the most high-profile CMOs are significantly smaller than traditional public schools. Smaller schools, the organizations’ leaders say, make it easier to promote the tight bonds between...
students and teachers and the strong sense of community that they believe are critical to creating school cultures powerful enough to propel underprivileged students to success. “I know every kid’s name,” says David Ling, principal of the 255-student KIPP Bridge Academy in West Oakland, Calif. “That’s something you can’t put a dollar figure on.” In surveys, CMOs report that their elementary, middle, and high schools average 300 students. That compares to 443 students in traditional public elementary schools, and 751 students in public secondary schools, with some urban high schools enrolling several thousand students. 39

You can, however, put a dollar value on small schools, and it’s significant. They are less efficient to operate because they have fewer tuitions with which to cover fixed costs that range from principal salaries to office equipment. Bridgespan, a nonprofit consulting firm, recently calculated that Aspire Public Schools, which was struggling to operate with California’s low per-student subsidies, could increase net revenue by $650,000, or 40 percent, in its elementary schools by adding a third class of students per grade, a step that would increase total enrollment from 392 to 588. But Aspire’s leaders, believing that the small size of their schools was critical to their success, instead increased the size of existing classes from 28 to 29 students, adding only $70,000 to each school’s net operating income. 40

Some leading CMOs make their small schools even more expensive to operate in their early years by building them out one grade at a time. KIPP middle schools, for example, typically open with fifth-graders, and as they move up the schools add new fifth-graders, until the schools are full, when the original students become eighth-graders. CMO leaders say the phase-in practice is critical to establishing a strong culture of discipline and achievement in their schools. And it allows schools to start-up in church basements and other economical spaces. But taking four years to fully enroll schools of only two or three hundred students requires charter networks to subsidize their schools’ operating budgets heavily while diminishing the schools’ attractiveness to mortgage lenders and bond underwriters. Financial modeling by the Bridgespan consulting group has found that a California charter network with 10 high schools of 440 students each and balanced annual budgets would need to raise nearly 50 percent more money to open its schools one grade per year rather than filling them on opening day—$27 million versus $16 million. 41

More of Everything

As Achievement First has done at Amistad, many CMOs have expanded the traditional public school schedule substantially out of a strong belief that successfully educating disadvantaged students requires more time than most public schools provide. KIPP, founded in Houston in the mid-1990s by two Teach for America members and now the nation’s largest charter school network with around 20,000 students in 82 schools, typically has students in school nine and a half hours a day, on Saturdays, and two or three weeks during the summer—60 percent more time per year than traditional public schools provide. 42

For many, the extra time is critical. “It’s not a nice-to-have, it’s a need-to-have,” says Toll of Achievement First. But it also puts CMOs in the position of having to either pay staff more money to work more hours—difficult given tight budgets and the need to fund other priorities, like facilities—or not pay staff more money to work more hours, increasing the risk of burnout and staff turnover.

Travel can be another significant—and pricey—part of building the “cultural capital” of students from disadvantaged backgrounds. KIPP students in the Bay Area camp in Yosemite National Park, study marine biology in Monterey, and take end-of-year trips to Washington, D.C. Mike Wright of the KIPP Foundation, a San Francisco-based organization established in 2000 to build the national network of KIPP schools, says KIPP schools spend about $500 per student per year on such trips. To signal to its students the importance of going to college, Achievement First’s Elm City College Prep Middle School in New Haven sent groups of students on visits to top colleges in Maine, Georgia, and California in 2008.

A number of leading CMOs support their students after they graduate. KIPP Bridge in Oakland, like many KIPP schools, has a high school placement director, who works to get graduates into the best possible public, private, and parochial high schools. The KIPP regional organization in New York has established a nonprofit called “KIPP to College” to provide summer internships, mentoring, tutoring, tuition to private

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— David Ling, principal of KIPP Bridge Academy
high schools, and assistance in college admissions to the city’s KIPP middle-school graduates. Amistad is spending over $300,000 this year on scholarships and mentoring for its middle-school alumni in an attempt to sustain its students’ progress.43

The financial challenges of educating disadvantaged students are toughest in high schools, which are commonly believed to be more expensive to operate than elementary and middle schools because they have to teach a wider range of subjects and hire more specialized teachers, and because many students have fallen far behind by the time they reach high school.

“High schools are very hard economically,” says Toll. Achievement First’s New Haven high school is expected to operate permanently in the red. “The high school never gets there,” says CFO Polaner. “As is the case in traditional public school systems, it is subsidized by the [Achievement First] elementary school” in the city. But Toll argues that CMOs have no choice but to run high schools to give their students the help they need and promote reform. “The only way we can force the public school system to respond [with reforms] is if our results are truly compelling.”

Another challenge is high student attrition. Rigorous standards, struggling students, grueling schedules along with transient families and the other attendant problems of poverty often lead to significant numbers of students leaving leading CMO schools. The cumulative effect can be substantial. For instance, a 2008 study by SRI International, an independent research organization, found that an average of 60 percent of the entering fifth-graders at four Bay Area KIPP middle schools left before graduating at the end of the eighth grade, and that the students who left tended to be lower achievers (by law, charter schools must be open to all students and use a lottery if over-subscribed).44

Figure 1. The Path to Prosperity: CMOs’ Strategy for Becoming Financially Sustainable*
“The only way we can force the public school system to respond [with reforms] is if our results are truly compelling.”

— Dacia Toll, co-chief executive of Achievement First

Attrition creates a dilemma: Losing students is financially difficult, but if their schools try to replace students lost in upper grades, they pay a heavy price by introducing new students who are not only lagging academically but un-socialized to the schools’ unique cultures. As a measure of the scale of the problem, a third of 2007–08 enrollees in the DC Prep network, which was founded in the District of Columbia in 2003, were what’s called in the industry “backfill students,” those taking seats left empty by attrition.

Trying to help new students make up academic ground is so difficult and represents such a substantial threat to schools’ academic results that a number of charter management organizations try to avoid taking backfill students, despite the financial consequences. Achievement First, for example, includes each of its elementary, middle, and high schools in a single, K–12 charter that permits the organization to give admissions preference to Achievement First middle school graduates at its high schools. “Frankly, the dream was to bring in kindergartners only,” says CFO Polaner, who notes that working with new students who are far behind academically and unfamiliar with a school’s rituals and routines is a daunting teaching challenge.

To compensate for the cost of catching up struggling students, and to try to make ends meet with the revenue they receive, many leading CMOs have adopted the same strategy as Achievement First and pared back their course offerings and their extracurricular activities. “We go very cheap on facilities, athletics, art, foreign languages,” says a former KIPP administrator who asked to remain anonymous.

Some schools have bridged these gaps through partnerships with universities, Boys and Girls Clubs, and other organizations. But that’s not always enough. Aspire’s Lionel Wilson College Preparatory Academy, a combined middle-high school in an East Oakland neighborhood, cut back its art and sports programs and doubled the size of its middle school in an effort to stay solvent. Former principal Adrian Kirk called Wilson’s high school program “bare bones” during a conversation in his office at the school.

Tough Hires

Staff is the single largest expense in all schools, accounting for as much as 80 percent of spending. This is one area where CMOs save money, because their teachers tend to be considerably less experienced than their traditional public school counterparts. The U.S. Department of Education’s National Center on Education Statistics reports that 43 percent of charter school teachers have three or fewer years of experience, compared to 11 percent of urban teachers in traditional public schools. The American Federation of Teachers reports that the average teacher salary was $41,000 in charter schools in 2006, compared to $51,000 in traditional public schools. A study by the Massachusetts Department of Education found an even larger disparity there. (On the other hand, some charter schools, including Green Dot Public Schools in Los Angeles, pay their teachers more than the scale in the standard teacher contract in the cities they serve.)

But savings on salary create costs elsewhere. High teacher turnover forces CMOs to spend significant resources on recruitment and training. Turnover rates for young teachers are often high in general, and the workload in leading CMOs is especially intense. A study of Bay Area KIPP middle schools found that those teachers work an average of 65 hours a week, 25 percent longer than teachers in traditional public middle schools. Many CMO teachers work with classes of 25 students or more unless they are working in places with state-funded class size reductions. And teachers in leading CMOs routinely do extra work off the clock. Uncommon Schools found, for example, that its teachers each place an average of 924 phone calls to parents a year. The teacher turnover rate at Bay Area KIPP schools was 49 percent between the 2006–07 and 2007–08 school years. In the previous three years, beginning in 2003–04, it was 18 percent, 40 percent, and 31 percent. That compares to turnover rates of about 20 percent per year in traditional public schools serving impoverished students.

Teach for America, the nonprofit that recruits top college students for two-year teaching jobs in underserved public schools, is the source of many leading CMO recruits. The organization’s alumni, for example, supply 28 percent of KIPP teachers nationally and 45 percent of KIPP’s Washington, D.C., teachers. The Teach for America alumni magazine, One Day, is full of charter network help-wanted ads. But TFA teachers only commit to two-year
stints, and only slightly more than a third remain in the classroom after four years.

In a number of cities, the biggest competition for teachers is with other CMOs. Even in places like Boston, a city with one of the world’s largest concentrations of top colleges and universities, charter school leaders say that having to compete against each other for talented teachers is the biggest barrier to their schools’ growth.53

Other markets pose an even bigger problem: few young, talented teachers to compete for. “Everyone wants to be in Oakland; it’s the affordable, hip place for young educators to live,” says Eric Premack, director of the California-based Charter Schools Development Center. “But two or three districts south, in Freemont or Eastside, where there’s just as much need, you see very few charter schools.”

TFA is expanding—this year’s corps of 3,700 is the largest ever—but even continued growth would only partially address the expanded demand for talented teachers among leading charter networks with plans to grow in the coming years. “Collectively we want to get to thousands of high-performing charter schools,” KIPP Foundation chief executive Richard Barth told a Washington audience in early 2009. “At KIPP, on a scale of 1 to 10, we’re at 2 in our sophistication on recruiting and developing teachers. But absent that [sophistication], you can’t scale [the CMO movement].” Barth, who spent a decade at Teach for America, is married to its founder Wendy Kopp.

Some charter networks have sought to bridge the talent gap by training their own teachers. Norman Atkins, the founder and former chief executive of Uncommon Schools, left Uncommon Schools in 2008 to launch the Teacher U Training Institute at Hunter College in New York City, a project co-sponsored by Hunter, KIPP, Uncommon Schools, Achievement First, and the New York City school system. Established with city education funding and a $30 million grant from the Robin Hood Foundation, a New York philanthropy that Atkins co-directed earlier in his career, Teacher U hopes eventually to turn out 500 teachers a year for both charter networks and the New York City school system. The project, says James Peyser, a NewSchools executive, is helping the charter networks “turn the corner” on a problem that has slowed the organizations’ growth dramatically in the past: a lack of teachers trained to forcefully convey the high standards and character strengths that Teacher U’s sponsoring charter networks have concluded are key to teaching urban students. Similarly, with backing from NewSchools and other organizations supporting charter networks, the Academy for Urban School Leadership, a Chicago nonprofit, has trained 240 teachers in six Chicago school sites since 2001.

New Leaders

If teachers are a major challenge for charter networks, finding principals with the right mix of educational and entrepreneurial skills has proven even tougher. Charter network leaders say their schools are only as good as the principals who run them. But with long hours and demands that range from schooling to business-building, the work of charter school principals is suited for few resumes. “It was a point of perverse pride that [running a KIPP school] had to be a job only for Superman,” says John Kanberg, a senior official at the KIPP Foundation, of the KIPP principals who followed founders Dave Levin and Mike Feinberg.

KIPP, which has made school leadership a cornerstone of its successful school model, has struggled to recruit the right school leaders since its inception. The first initiative of the newly created KIPP Foundation in 2001 was to launch a training program for KIPP school leaders, and the organization signed up only a fraction of the trainees it sought because it “had a lot of trouble finding good people,” says Scott Hamilton, who drafted the blueprint for the foundation. KIPP has subsequently refined its leadership training and support programs to encompass department leaders within schools and individuals KIPP believes can found new schools for the network. It’s considered to be a state of the art training and talent management system for the education field, yet it cannot fully meet KIPP’s needs.54 In 2008, the KIPP Foundation polled its regional and local leaders on what they wanted most from the national organization. The response: “talent development.” KIPP continues to invest, spending $7 million on six different training programs in 2008–09.55

A study of Bay Area KIPP middle schools found that those teachers work an average of 65 hours a week, 25 percent longer than teachers in traditional public middle schools.
Because traditional principals often lack the range of skills required to run KIPP and other charter network schools, principals in schools run by prominent CMOs tend to be as young and nearly as inexperienced as their teachers. Aspire Public Schools hired four principals in 2006–07—ages 24, 25, 28, and 30. In contrast, the average public school principal is 49. CMO leaders are candid about the consequences of having to put such youthful educators in leadership roles. “We send youth to climb mountains; they learn on the job,” says Shalvey, who left Aspire in June 2009 to become a program officer at the Gates Foundation. Chris Barbic, founder and chief executive of YES Prep, a Houston-based CMO, uses a different metaphor: “We’re pulling a lot of bread out of the oven before it’s fully baked.”

Like their teachers, CMO principals turn over rapidly. In a recent report on charter school leaders, Working Without a Safety Net, the National Charter School Research Project at the University of Washington reports that 71 percent of charter school principals plan to leave their jobs within five years. And even if they don’t have plans to leave, principals who raise student achievement are quickly in demand for leadership positions in CMOs and traditional public school systems alike.

Some CMOs have been helped by a nonprofit organization called New Leaders for New Schools that has trained about 550 principals since its founding nine years ago, including 70 now working in charter schools. The organization combines nine weeks of seminars with a year working under practicing principals. But some charter networks in low-spending states say they can’t afford the popular New Leaders program. The organization noted on its Web site earlier this year that participants receive $70,000 worth of training and an average stipend of $80,000 during their residency year. To reduce costs, Aspire Public Schools, which has trained principals through the New Leaders program, is now cultivating its principals on its own, says Elise Darwish, the director of academic programs.

The Central Office

To free up money for teachers and programs, leading CMOs have tried to minimize administrative costs in order to push resources and authority down to their entrepreneurial school leaders. But that’s proven to be difficult. Leading CMO leaders say they’ve learned that they can’t expect their schools to be islands of excellence, and that they need to give schools more help than they predicted, especially in the schools’ early years. Mike Feinberg of KIPP said, “We’re finding that even great people need hand-holding.” “Almost everyone has struggled to maintain quality as they have expanded,” says Susan Colby, a founding partner of the Bridgespan Group. “It’s one thing to be as good as a failing district public school; it’s another to be much, much better.”

To reach those quality goals, leading CMOs are providing schools with a wide range of support. In the last three years, Achievement First has created a nine-member curriculum team to support its reading and math curriculum and testing regime. It has also hired administrators called “assistant superintendents” who are responsible for the operations of four to six schools each. When schools struggle, the organization moves quickly. Displeased with middle-school reading results in 2007–08, Achievement First hired the Haskins Laboratories at Yale to study the problem, sent staff to investigate charter schools with strong scores, and eventually changed the way it teaches reading network-wide.

Other leading CMOs have become increasingly centralized organizations as well. The network of 11 Uncommon Schools campuses in New Jersey, New York City, and upstate New York adhere to a nearly 300-page instructional guide written by Doug Lemov, an Uncommon Schools executive and Harvard MBA. It details a wide range of techniques that teachers should use in their classrooms, including six different types of questions they’re expected to ask their students. Even the KIPP Foundation, an organization committed to giving local school leaders ample autonomy (“the freedom to lead”), is supplying more resources and direction to its schools. When the foundation launched in 2000 it was much more of a Johnny Appleseed model,” says Kanberg. “We threw seeds in the woods [trained talented people to lead new KIPP schools], and if they took, fine.” “There’s a cultural aversion [at KIPP]
to anything that smells like a secret sauce,” he says. “It’s seen as anti-entrepreneurial.”

Between 2001 and 2005 KIPP launched 45 schools in 15 states and the District of Columbia. The far-flung network struggled to consistently deliver quality teaching. “We had a give-us-a-call, drop-us-a-line model, and it pretty quickly became clear that it wasn’t working,” says the former KIPP administrator. Apart from sharing common KIPP rituals and routines, the schools’ classrooms were frequently a menagerie of teaching styles and strategies: In the SRI study of the Bay Area KIPP schools, 96 percent of teachers reported that teaching materials and techniques varied as much within schools as between schools. KIPP leaders concluded they had to intervene to protect the organization’s brand.

Beginning in 2003, the KIPP Foundation started playing a much more active role in the lives of its schools—hiring a contractor to conduct school inspections; green-lighting growth only after vetting schools’ financials, leadership, and boards of directors; producing an inventory of instructional “tool kits”; and sponsoring national meetings of school leaders and curriculum specialists. In response to the number of young, inexperienced teachers in KIPP classrooms, the foundation has begun building a Web-based network that will enable teachers to share instructional strategies, lesson plans, and homework assignments that KIPP has hired consultants to help develop. “To grow with quality, we need to help our new teachers get better faster, and the national office is taking a bigger role in making that happen,” says CEO Barth, who was an executive at Edison Schools, Inc. before joining KIPP.

To build wider bridges to its expanding network—17 new KIPP schools opened this summer—the headquarters staff has increased to 70 and its next operating budget is expected to be $22 million. The foundation has also concluded that even with its expanding resources it can’t support its national schools network sufficiently from its San Francisco headquarters. That strategy became “unsustainable,” says the former KIPP administrator. “You live your life at O’Hare Airport, and schools aren’t happy because they aren’t getting much support.” So in 2005, the foundation began organizing regional school networks, independent tax-exempt organizations with their own boards of directors. Today, 18 regional organizations provide clusters of KIPP schools with everything from fundraising to professional development and procurement. “This is a service business, and you can’t do it from 2,000 miles away,” says Barth. The risk of increased centralization isn’t lost on Barth. “We have to do this without killing the entrepreneurial spirit that’s behind [charter schools],” he says. “If we don’t do this right we’ll lose the talented people we’ve attracted.”

Spending money on the central office to ensure quality while simultaneously moving aggressively to expand also creates significant financial challenges. Many leading charter networks support their central offices through fees that they charge their schools—typically about 7 percent of a school’s revenues, say the organizations’ officials and financial consultants. But such fees currently cover only a fraction of the cost of CMO central offices. The more home-office help that schools need to be successful, the more schools charter networks need to open to cover the costs. “Central office,” says Mitchell of NewSchools, “requires more kids.”

Consider Aspire. Largely to cover the cost of its expanding central office in a low-spending state like California, it has had to ratchet up the number of schools it would need to run without philanthropic subsidies. Its original business plan, written in 2000, predicted that the organization would operate in the black with 35 schools in 2012. Its second plan, written in 2004, predicted self-sufficiency with 52 schools in 2014. And its current plan, drafted in 2007, put the target at 65 schools in 2016. Aspire currently runs 21 schools.

Similarly, Achievement First has to double to 30 schools and central office spending has to drop from 16 percent of total revenue to 8 percent by 2013–14 for the organization to operate with only public support. Growing to scale while maintaining quality is a difficult balancing act for leading CMOs. Says Toll of Achievement First, “We expand as fast as we can, as slow as we must.”

Filling the Gap

Leading CMOs have found meeting their ambitious goals for helping disadvantaged students to be an expensive proposition. Small schools, new facilities, regulatory burdens, grade-by-grade build-out, great teachers and principals, central office support—all of these things cost a lot of money, more money than leading CMOs tend to receive from the government. The need for extra money is particularly acute in the early years, when CMOs need
To show results in order to attract more students and support. And in low-revenue states like California, even the financial advantages of size aren’t enough. “We’re not in business to prove that we can deliver our model with the money that’s available in any market,” says Barth, KIPP’s chief executive. “There are staggering differences in funding in the places we work. It’s not possible to [run the KIPP program on public funding] everywhere we want to be.”

To fill the gap, leading CMOs have turned to philanthropy. It has taken over half a billion dollars in philanthropy to sustain the CMO movement over the past decade. Some funds come from high-profile events—in 2006, before the financial markets crashed, the New York City–based Robin Hood Foundation raised $48 million, including nearly $20 million for the KIPP/Achievement First/Uncommon Schools high school, in a single night from Wall Street moguls at a 4,000-guest gala featuring entertainers Jay-Z and Beyoncé and celebrities like Tom Brokaw and Jon Stewart of “The Daily Show.” But the bulk of the philanthropic funding behind charter school networks comes from five foundations—Broad, Dell, Fisher, Gates, and Walton. These new foundations have largely eclipsed the educational giving of Ford, Rockefeller, and other of their industrial-era counterparts. Most of them have had living benefactors who are committed to tackling the educational consequences of poverty, frustrated with public education’s performance, and partial to entrepreneurs and free enterprise.

Gates alone has given charter management organizations at least $136 million (about 10 percent to 12 percent of the foundation’s annual spending on education a couple of years ago), including $52 million through NewSchools. The Walton Foundation has funded scores of independent charter schools as well as charter networks, and it has contributed to the Charter School Growth Fund and the Raza Development Fund, a community lending arm of the National Council of La Raza. Walton and Gates have led a group of donors that have pledged $65 million toward a $100-million plan by KIPP co-founder Mike Feinberg to create a network of 42 KIPP schools in Houston over the next decade. The Fisher Fund, headquartered in San Francisco, has been the primary funder behind the expansion of the KIPP network. The Austin, Texas–based Dell Foundation has distributed $56 million to CMOs and related organizations since it began funding charter networks in 2005. And the Broad Foundation, headquartered in Los Angeles, has made nearly $95 million in grants to charter networks as part of a decade-long campaign to improve urban education.

The leading foundations also have provided substantial funding to Teach for America, New Leaders, and other organizations that supply key resources to charter networks, including the advocacy and technical support of groups like the California Charter Schools Association. Philanthropy made up $91 million of Teach for America’s $110 million 2008 budget, while Broad, Dell, and Fisher have contributed $10 million each to TFA’s impending expansion. Many public school systems also receive philanthropic support. But funding from foundations is so important to the rise of charter management organizations over the past decade that executives like Marco Petruzzi of Green Dot say flatly that the CMO movement “would stop in its tracks” without philanthropic support.

Ultimately, the reliance on foundation funding could become a serious barrier to the growth and scaling goals of many CMOs. As big as they are, even the largest foundations are dwarfed by the $600 billion annual cost of the American elementary and secondary education...
system. And there aren’t 10 or 15 more foundations of similar size waiting in the wings to provide exponentially more support to subsidize the growth goals of existing CMOs or create a host of new, similarly high-performing organizations.

For that reason, leading CMOs have been pushing hard to eliminate costly regulatory barriers and to make state and local funding schemes more generous and fair. They’ve also begun discussing a long-term strategy that has gained momentum in recent months: new support from the federal government itself.

**Federal Funds**


The Obama administration appears to have taken these ideas to heart. In a video link to several hundred education entrepreneurs gathered at a NewSchools conference in California in May 2009, Secretary of Education Arne Duncan vowed to combine “your ideas with our dollars.” His department, he declared, plans to make “big bets” on organizations that have “moved the needle” on student achievement.

Some of the money for those bets will likely come from the $650 million Investing in Innovation or “I3” fund included in the 2009 American Recovery and Reinvestment Act passed by Congress in an effort to stimulate the economy. Jim Shelton, who had moved to NewSchools and later to the Gates Foundation after co-founding LearnNow, is leading the I3 initiative. CMOs are eligible to compete for grants under the program. CMOs are also eligible to participate in other parts of the Recovery Act including the “Race to the Top” competition for states and a $3 billion effort to turn around failing schools.

Secretary Duncan has also hired Joanne Weiss, formerly the chief operating officer at NewSchools and a former technology executive to administer the $4.35-billion “Race to the Top Fund,” which encourages states to undertake ambitious reforms. A funding priority is being given to states that eliminate arbitrary limits, or “caps,” on the number of charter schools that can operate within a state.

In the past, outside the federal Public Charter Schools Program, federal funding of CMOs has been limited to far smaller sums, such as the $7 million in congressional earmarks that have gone to the KIPP Foundation and a handful of KIPP schools since fiscal year 2005. Duncan, by contrast, clearly sees CMOs as an important component of education reform. (“One-offs [individual charter schools] aren’t going to get where we want to be,” he told a charter school conference in June.)

The secretary’s enthusiasm for CMOs isn’t surprising—Chicago Public Schools, where he was superintendent from 2001 to 2008, has taken steps in this direction. Chicago became one of few urban school systems to sponsor charter schools under Duncan’s predecessor, Paul Vallas. Duncan himself closed some two dozen underperforming schools during his tenure and enlisted the charter networks that have emerged in the city to help launch some 60 replacement schools, aided by an external catalyst called the Renaissance School Fund, an organization sponsored by the Chicago business community that has invested $28 million in the initiative.

But it will take more than just a new infusion of federal funds to help CMOs play a major role in helping large numbers of disadvantaged students. There are limits to how fast even the most successful CMOs can grow while maintaining high levels of service. And there are a
limited number of existing organizations poised to take on
the challenge. The Charter School Growth Fund reports
that less than 10 percent of the over 250 organizations
that have sought its support have met the organization’s
academic and financial standards for funding.73 “There just
aren’t that many charter school operators that are well-
positioned to expand with quality and efficiency,” says
Ben Lindquist, an executive at the fund. “The risk right
now is that we will drastically over-estimate the capacity
of the national charter sector to deliver new, high-quality
seats for underserved families at a sustainable cost to the
taxpayer.” “At this juncture,” Lindquist cautions, “it is very
important not to open the flood gates too wide. If we’re
not careful, we will get a large market segment that is
littered with mediocrity.”

Many of today’s education entrepreneurs didn’t think
their work would be so difficult. “There was some hubris
among the entrepreneurs,” says Mitchell of NewSchools.
“There was some, ‘I have an MBA from Wharton; I can
do this.’” But the new education entrepreneurs also have
brought a tremendous amount of talent and energy to the
daunting work of urban school reform. Some years ago,
when Barth was in charge of Edison Schools’ Philadelphia
operation, he was interviewed by Fortune. “I have a chart
I stare at in bed at night,” he told the magazine’s writer.
“There’s an elementary school in the city with 1,200
students, where only 3.5 percent are proficient in math. I
will change this, or die trying.” With KIPP, Barth has taken
his crusade nationwide.74
RECOMMENDATIONS

Realizing the full potential of CMOs will require a comprehensive strategy at all levels of government, along with the cooperation of regular public school districts that have too often been hostile to charters of all kinds.

Many states and municipalities have limited the ability of charter schools to expand and excel. Requirements that CMOs maintain separate boards of directors for each school add unnecessary administrative burden. Artificial caps on the number of charter schools that can operate make it difficult for CMOs to build networks of mutually supporting charters in a defined geographic area.

There is much room for improvement when it comes to charter facilities. Some districts are sitting on millions of square feet of vacant school space while high-performing charters are forced to subsist in hand-me-down facilities or raise millions of extra dollars in a tight credit environment for new construction. Districts should follow New York City Chancellor Joel Klein's lead and give charter networks with strong track records the use of public school buildings.\(^75\) The National Alliance for Public Charter Schools recently released a model state law that suggests a number of specific solutions, including per-pupil facility allowances for charter schools; a charter school bonding authority; and the right of first refusal to purchase or lease at or below fair market value a closed or unused public school facility or property.\(^76\)

Operating funding is paramount. The best charter networks have demonstrated that disadvantaged students can achieve at significantly higher levels than most do now. They have shown that the gaps in achievement on state standardized tests between students living in poverty and other students can be narrowed and, at places like Amistad, even closed. But to get those strong results they have had to spend more money than they expected, and more money than has been available to them in many parts of the country. Under the education models of the leading charter networks, it takes more to do more. Public schools that deliver results—charter or otherwise—shouldn't just get equal public funding; they should get additional funding to reflect their additional costs.

Meanwhile, the federal government can play a direct and indirect role in helping CMOs achieve their ambitious goals. Indirectly the federal government can encourage better charter school laws by creating funding priorities for states that provide an equitable fiscal playing field for charter schools. It's not a coincidence that CMOs find it easier to operate in New York City, for instance, than other municipalities.

The federal government can also support efforts to increase charter school quality at the state level through initiatives large and small. For instance, standardizing data collection requirements for charter schools could better integrate them into state data systems and facilitate better research on successful CMOs.

More generally, the federal government can help increase quality and expand good charter schools by requiring states to have in place accountability systems for charter school authorizers and incorporating ideas like smart charter school caps that allow proven models to replicate.\(^77\) It can provide support for intermediary organizations like the New York Center for Charter School Excellence, New Schools for New Orleans, and national organizations like NewSchools Venture Fund and the Charter School Growth Fund that are focusing on quality. An environment in which quality signals are clear and are enforced is a more favorable policy environment for CMOs, and obviously a better one for students.

Federal policymakers can also continue to make charters and charter networks eligible for various federal funding opportunities and efforts to scale successful educational ventures. While the I3 fund is an important start, the federal government could at once foster innovation and help expand high-quality CMOs if it relieved foundations of some of the burden for funding the basic operations of CMOs. This can be done through ongoing efforts aimed at scaling high-quality ventures including CMOs. Federal leadership can also help address the problem of school facilities. Expanding existing federal support for facilities (and allowing schools to use start-up grants to finance new facilities) are obvious steps. But the federal government could also include successful charter schools in other infrastructure efforts and could develop new initiatives through the tax code and Treasury Department to help high-performing networks expand.

Federal leaders can also help knock down other barriers facing CMOs and charter schools in general. The challenge of recruiting and retaining high-quality teachers,
for example, is often made more difficult by regulatory barriers embedded in state certification and teacher education regulations. Finding great teachers to serve disadvantaged students is a hard enough challenge without laws that limit the ability of CMOs and charters to hire, pay, and promote teachers in a way that fits their organizational philosophy and mission.

Finally, despite their understandable enthusiasm, federal leaders must be careful not to overburden charter management organizations. CMOs are being asked to simultaneously deliver a high level of service to challenging students, grow to scale, and participate in other efforts such as turning around low-performing schools. In some cases this could prove to be too many ambitious goals at once. Federal initiatives for CMOs should be ambitious but are overwhelming given where most CMOs are in their growth cycles.
ENDNOTES

1 Amistad Academy Site Budget (New Haven, CT: Amistad Academy, 2008).


9 Kim Smith is a member of Education Sector’s board of directors. NewSchools served as Education Sector’s fiscal agent in 2005 and 2006. Andrew Rotherham, Education Sector’s co-founder and publisher, was a 2008 participant in the Aspen Institute-NewSchools Entrepreneurial Leaders for Public Education Fellows program.


11 Stacey Childress and Caroline King, NewSchools Venture Fund in 2004, p. 4-5.


13 See Alex Moinar, Gary Miron, and Jessica Urschel, Profiles of For-Profit Educational Management Organizations, Tenth Annual Report (Boulder, CO: Education and the Public Interest Center and Tempe, AZ: Education Policy Research Unit, 2008).


16 The Gates Foundation currently provides funding to support Education Sector. The Fisher and Broad foundations have supported Education Sector’s work.


28 The facilities funding has made banks much more willing to lend money to charter schools in D.C. See also, David S. Fallis and April Witt, “Public Role, Private Gain: Board Chairman, a Banker, Took Actions That Stood to Benefit His Employer and Customers,” Washington Post, December 14, 2008; Page A1.

Improvement, 2008), pp. 41-42. Some 26 states permit use of district facilities for charter schools, but districts have been reluctant to extend the opportunities to charter schools and few charters are in district buildings.

30 On charter school legal challenges over facilities, personal correspondence with Caprice Young, former chief executive of the California Charter Schools Association.

31 KIPP DC construction costs, personal correspondence with Allison Fansler, president of KIPP DC.


34 The Annie E. Casey Foundation currently provides funding to support Education Sector. Bruno V. Manno, chair of Education Sector’s board of directors, is a senior program associate for education at the Casey Foundation.

35 The U.S. Department of Education provides grant funds through two programs administered by the Office of Innovation and Improvement: the Credit Enhancement for Charter School Facilities Program and the State Charter School Facilities Incentive Grants Program. The department has made credit enhancement grant awards totaling $160 million that have helped attract private capital to the charter sector and state incentive grant awards totaling $50 million to spur states to share in the public funding of charter school facilities. In addition, there are four other federal programs administered by diverse federal agencies that charter schools can access for their facilities needs, including the Public Assistance Grant Program administered by the Federal Emergency Management Agency, the New Markets Tax Credit Program and the Qualified Zone Academy Bond (QZAB) Program administered by the Department of the Treasury, and Community Programs administered by the Department of Agriculture.


37 See http://schools.nyc.gov/community/planning/charters/ResourcesforSchools/Facilities.htm

38 Personal correspondence with Christina Brown, Civic Builders.

39 Data on average size of CMO-run schools from Gary Miron and Jessica Urschel, Profiles of Nonprofit Education Management Organizations: 2007–08 (Boulder, CO: Education and the Public Interest Center, December 2008), p. 7-8. For average size of traditional public schools, see U.S. Department of Education at http://nces.ed.gov/pubs2002/overview/table5.asp. See also the 2008 Achievement First business plan: “Having greater than three sections per grade creates schools that are too large to build a strong culture that AF has determined is critical to high achievement,” p. 19.


41 See Kimberly Wicoff, Don Howard, and Jon Huggett, Replicating High-Performing Public Schools: Lessons From the Field.


43 Amistad Academy Site Budget, 2008-09, p. 2 and correspondence with Max Polaner, CFO.


45 On the percentage of school spending on staff, personal correspondence with Karen Hawley Miles, president, Education Resource Strategies.


51 K.R. Woodworth, J.L. David, R. Guha, H. Wang, and A. Lopez-Torkos, San Francisco Bay Area KIPP Schools, p. x and 33, for the KIPP Bay Area schools and the attrition rates at traditional inner-city public schools.

52 KIPP national percentages from Michele McLaughlin, Teach for America; KIPP DC numbers from Susan Schaefller, chief executive.


55 Personal correspondence with Richard Barth, KIPP Foundation CEO.


Ibid.

Achievement First 2008 business plan, p 49.

Katrina R. Woodworth, Jane L. David, Roneeta Guha, Haiwen Wang, and Alejandra Lopez-Tork, San Francisco Bay Area KIPP Schools, p. 64.


Correspondence with Richard Barth, KIPP Foundation CEO.

For the contribution of school fees to central administration costs, see James Peyser, “Building Successful CMOs,” Powerpoint presentation at NACSA Annual Conference, Oct. 27, 2008. Slide 11.

Aspire business plans. Information confirmed by Don Shalvey, Aspire’s founder.

Achievement First 2008 business plan and correspondence with Max Polaner, CFO.

The Fisher family philanthropies had also committed $20 million to cover the start-up costs of Edison schools in California. But they ended the initiative in the face of Edison’s growing internal and external troubles, say former Edison officials.

Michele McLaughlin, vice president for federal and state policy, Teach for America.


Source of KIPP earmarks is Steve Mancini, KIPP Foundation.

The stimulus legislation also empowers the U.S. Department of the Treasury to issue $25 billion in real estate tax credits, and the Treasury Department’s recently released guidance on the program notes that charter networks are eligible for the funding.

Renaissance School Fund investment amounts provided by Phyllis Lockett, the fund’s president.

Ben Lindquist, Charter School Growth Fund, personal correspondence.


See Andrew Rotherham, Fair Trade: Five Deals to Expand and Improve Charter Schooling (Washington, DC: Education Sector, January 2008).