

## Toch in Ed Week

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Commentary

By Thomas Toch

In the decade since they emerged on the education landscape, nonprofit networks of charter schools called charter-management organizations, or CMOs, have built some of the biggest brands in education—the Knowledge Is Power Program, Aspire, Green Dot Public Schools, Uncommon Schools—and won plaudits from the likes of Oprah Winfrey, *The New York Times Magazine*, and “60 Minutes.”

U.S. Secretary of Education Arne Duncan is now poised to give them a central role in the federal government’s multibillion-dollar school reform campaign. He has named leaders of the CMO movement to key posts in his department and has pledged to make “big bets” on the highest-performing charter networks with the expectation that they’ll produce large numbers of outstanding new schools for disadvantaged students.

But the research for a report on CMOs that I’ve produced for the think tank Education Sector reveals that many of these organizations are going to be hard-pressed to deliver the many schools that Duncan wants from them. Discussions with dozens of CMO executives and other experts, an examination of CMO business plans, consultant reports, and other documents, and visits to over a dozen schools run by prominent CMOs in different parts of the country make clear that a host of challenges—the need to find and finance school buildings, the expense of educating impoverished students successfully, the difficulty of recruiting high-performing teachers and principals, and, in many instances, strong opposition from traditional public educators—has left many CMOs working hard to sustain themselves academically and financially.

Since their inception in the late 1990s as more politically palatable alternatives to for-profit education-management companies like Edison Schools Inc., CMOs have required substantial subsidies from foundations and other sources of philanthropy, and, more recently, have suffered heavily at the hands of a recession that has battered state and local education budgets. The bulk of the philanthropy has come from national foundations—Walton, Gates, Broad, Fisher, and Dell—and has resulted in some four dozen charter networks’ opening about 350 schools with some 100,000 seats over the past decade. This is a long ways from the 5,000 failing public schools that Secretary Duncan hopes to fix or replace.

Even with an infusion of federal funding, it would be difficult for CMOs to expand much more rapidly without compromising the quality of their schools. The risk, charter school finance experts warn, is that the Obama administration’s ambitious initiatives could end up leading to the opening of many marginal schools by overextended charter networks.

The best CMOs have produced outstanding results in some of the nation’s toughest neighborhoods, educating their students to sharply higher levels than traditional urban public schools. But the record of leading CMOs over the past decade suggests that absent changes in the evolution of charter networks, it’s likely to be difficult to sustain and replicate the strong results some CMOs have produced.

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It would, of course, be much less difficult for CMOs to open more high-quality and financially sustainable schools if they received as much public funding as traditional public schools and didn’t have to find and

finance their own facilities. And it would be easier to balance their budgets if they weren't trying to expand.

But several key features of successful CMO-run schools themselves contribute to the financial difficulties these charters face, because they are expensive. To promote strong relationships between students and teachers, most of the schools, for example, are smaller than traditional public schools, and thus more costly to run per pupil. Many of them have longer school days and years. And many build out their schools a single grade at a time, a costly strategy that CMO leaders say is necessary to create a strong sense of community and a culture of achievement for the schools' disadvantaged students.

Getting good results also has required CMOs to spend more heavily than they had expected to support their schools. They had hoped to follow the lean-central-administration model of parochial school systems, relying on talented school leaders with ample autonomy to get results. But that has proved difficult to do.

The pressure CMOs feel to make a compelling case for charter schools in a difficult political climate also has led to spending more on both external help and extra staff members in schools. The result has been larger and more expensive CMO central offices. Spending on central administration averaged 18 percent of revenue among the 17 major CMOs funded by the [NewSchools Venture Fund](#) in the 2007-08 school year, even though a number of the organizations' business plans require them to reduce central spending to between 6 percent and 8 percent of revenue to become financially self-sustaining. Edison Schools struggled unsuccessfully with the same challenge for nearly a decade before the company's value plunged.

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Having lots of young teachers has helped. The 17 CMOs in the NewSchools portfolio reported last year that 40 percent of their teachers had been in the profession for two years or less, and only 13 percent had more than seven years of experience; in contrast, teachers in traditional public schools average 14 years of experience. The impact on CMOs' bottom line is dramatic. A recent study by Massachusetts education officials found that the state's charter schools spend an average of 25 percent less per teacher than traditional public schools in the state, a substantial savings given the prominence of salaries and benefits in school budgets.

But CMOs increasingly face the challenge of either paying their teachers more as they gain seniority, or churning through teachers and making it tougher to sustain their schools' powerful cultures—a choice that puts the schools' dual bottom lines of quality instruction and fiscal sustainability in conflict.

That conflict is playing out in another important way. Student attrition is high in CMO schools, fueled by higher standards, long hours, and transient families. A study of four San Francisco Bay Area KIPP middle schools found that 60 percent of entering students departed before graduating. The loss of revenue from so many departing students is devastating, but the price of bringing in replacement students is also high: They are typically behind academically and make it tougher for the organizations to post strong academic results.

To help manage their finances, many CMOs have limited programs in art, music, athletics, and foreign languages. Yet it has still taken more than half a billion dollars in philanthropy over the past decade to get the CMO movement to where it is today. And that money has been concentrated in the nation's largest metropolitan areas. It's not likely that enough philanthropy is going to flow to CMOs in the coming years to permit them to expand at a substantially faster rate. To the contrary, some major funders have signaled that they plan to focus more on quality than quantity. And a number of leading CMOs have struggled to prove that they can run on public funding alone, as many of them hope to do to demonstrate the scalability of their school designs.

Some, however, would require subsidies in many places even if they had full public funding and didn't have to pay for buildings. States and school systems in many parts of the country simply don't spend enough to pay for KIPP and other intensive school designs. CMOs also struggle to make ends meet in higher-spending jurisdictions. In the District of Columbia, the highly regarded DC Prep network has resorted to hiring a collection agency to track down nearly \$40,000 a year in unpaid lunch monies. As much as anything, the labor-intensive work of the best CMOs over the past decade makes a strong case for increasing funding for disadvantaged students.

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The best charter-management organizations have attracted many talented people to the cause of public school improvement. They have demonstrated that disadvantaged students can be educated to higher levels. And they have served as laboratories of reform. But a burst of federal stimulus funding isn't going to guarantee large numbers of high-performing, financially sustainable CMO schools. That would require a restructuring of school finance and closer working relationships between public school systems and charter networks than either has been willing to embrace. But with strong financial incentives from the U.S. Department of Education to do so, school systems might be willing to grant partner CMOs full funding, buildings, and the school design and staffing autonomy that have contributed to high-performing CMOs' success.

Ultimately, urban school systems will lose an important catalyst for reform, and charter networks won't be able to sustain themselves into the future, unless the two sides collaborate rather than compete.