

**SECTOR COMMENT**

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Charter Schools – US

**Management partnerships provide financial, operating know-how, but pose various risks**

Charter schools often work with Charter Management Organizations (CMO) or Education Management Organizations (EMO) to manage their operations. While these collaborations generally provide schools with financial and operational expertise, they introduce a variety of risks, including budgetary costs, loss of a school's autonomy, and transition risk if a partnership with a management organization dissolves.

Management organizations provide a wide variety of services, from startup support and strategic planning to bookkeeping and janitorial services, often in exchange for a fee or a percentage of the school's per-pupil revenue. Typically charter schools and management organizations collaborate closely on strategic decisions, share responsibilities and risks, and have a mutual interest in the success of the school. A management organization can enhance a school's operational capacity and financial stability, providing the business and operational support that allow the school to focus on achieving its academic goals, and to meet its obligations under the charter agreement with its authorizer.

The expertise that management organizations can provide has resulted in growing frequency of these collaborations: nearly half of all charter school students are enrolled in schools affiliated with a management organization, according to the National Association of Charter Schools (see Exhibit 1). Among Moody's rated charters, about 70% of students are enrolled with a charter school affiliated with a management organization.

Exhibit 1

**More than 40% of schools are managed by either a Charter Management Organization or an Education Management Organization**  
**Management organization share 2020-21**

	2020-21 Schools and Campuses	School Share	Enrollment (000)	Enrollment Share
CMO	2,531	32%	1,205	33%
EMO	874	11%	608	17%
Managed Organization	3,405	43%	1,813	49%
Stand-alone	4,591	57%	1,870	51%
<b>Total</b>	<b>7,996</b>	<b>100%</b>	<b>3,683</b>	<b>100%</b>

Source: National Alliance for Public Charter Schools

**Management organizations offer experience and expertise**

An affiliation with a management organization offers charter schools a variety of benefits, though the advantages largely hinge on the specific needs and circumstances of each school. They bring significant expertise and experience to the management of the school, offering guidance on best practices in areas such as curriculum development, teacher training, and administrative procedures.

These organizations, by managing multiple schools, can leverage economies of scale, leading to cost savings through better rates for supplies, insurance and other services. They also manage noninstructional tasks, including payroll, benefits administration, recruitment and compliance reporting, allowing school leaders to focus more on academic leadership.

Some management organizations may assist with fundraising efforts and grant writing, which provide additional financial resources for the school. Being part of a larger network through these organizations can foster collaboration and resource-sharing among schools, and a sense of community and shared learning. The systems and procedures that management organizations provide, as well as established performance measures, can be particularly beneficial for new charter schools.

[DSST Public Schools \(Baa1 Stable\)](#), a network of 16 schools in the Denver and Aurora metro regions, illustrates the benefits of affiliation with a management organization. The management team partnered with the schools to boost academic performance, which had been lagging behind the local school district and state medians. This effort resulted in DSST academic outperforming in 2023, as measured by Grade 11 SAT scores. The improvement reflected the management organization's ability to leverage a favorable funding environment and the network's strong cash position to make strategic investments aimed at enhancing academic results. The improvement helped to stimulate demand and bolster enrollment, as well as aligning with the charter authorizer's goals, increasing the likelihood of charter renewal.

While a strong management organization partnership can significantly enhance a charter school's ability to deliver quality education and maintain operating and financial stability, it is crucial for each school to closely evaluate a potential partner to ensure alignment with their mission and goals.

### Partnerships with management organizations also present risks

Despite benefits such as increased enrollment and enhanced financial stability from their affiliations with management organizations, charter schools also face risks in entering into these collaborations. While many of these risks are also faced by standalone charters, some are unique to schools affiliated with management organizations.

Financial risk is a key consideration, since management organizations typically charge a management fee which can strain the school's budget if it is too high and even affect the quality of the school's educational offerings. Affiliation can also compromise a school's operational autonomy, resulting in key decisions about curriculum, staffing and budgeting being left to the management organization.

Other risks relate to quality and performance. A management organization that consistently underperforms or has a poor track record could hurt the school's reputation and lead to its failure as a result of financial mismanagement or lack of oversight.

Compliance risk presents a further potential issue for schools. Schools are required to adhere to state and federal regulations. Failure by a management organization to provide assistance in meeting such requirements could put the school's charter at risk, if the organization's operating strategy conflicts with the charter agreement between the school and the authorizer.

Partnering with a management organization also presents transition risk. If the management organization is dissolved, either because a school decides to switch partners or self-manage, the transition period can introduce instability and uncertainty, potentially disrupting the school's operations. In 2019-20, [Nuasin Next Generation Charter School](#) (Ba1 positive) in New York City state opted to end its affiliation with Lighthouse charter schools. The school's decision was driven by differences between the goals of the management organization and the strategic direction of the school and its authorizer. The school's net revenue and cash declined as it established control over its own operations, although the school's financial health recovered relatively quickly. The school was able to manage its separation from Lighthouse in part because of the retention of many Lighthouse staff, which preserved continuity, knowledge and experience.

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Exhibit 2

**Certain benefits and risks of school affiliation with a management organization**

Benefits of affiliation with a management organization	Risks of affiliation with a management organization
Higher enrollment: management organizations can help increase student enrollment through marketing and recruitment efforts.	Financial risk: management organizations charge a management fee which, if too high, can strain the school's budget and impact the quality of education.
Greater operational stability: management organizations provide support in managing daily operations, ensuring smooth functioning.	Loss of autonomy: Affiliation can lead to ceding control over key decisions (curriculum, staffing, budgeting) to the management organization.
Financial stability: management organizations can grant access to better financial resources and management, aiding in the school's financial health.	Quality and performance risk: A poor track record or underperformance by the management organization can negatively affect the school's reputation and lead to failure.
	Compliance risk: Schools must adhere to state and federal regulations, and failure by the management organization to assist with this can risk the school losing its charter.

Source: *Moody's Ratings*

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