

Paycheck Protection Program loans to charter schools in California

Like all public schools in California, charter schools are currently receiving full public funding. Federal CARES Act funding was also provided to eligible charter schools in the same manner as all other public schools. At the same time, charter organizations have received funding as private entities through the federal Paycheck Protection Program (PPP), leaving the public to cover what appears to be the same bill twice. Based on analysis of Small Business Administration (SBA) data, **California charter organizations have received between \$240.7 million and \$565.6 million in PPP loans, in addition to full funding as public schools.**

Funding for public schools during the pandemic

In March, California Governor Gavin Newsom ordered maintaining full funding for all public schools, including charter schools, through the end of the 2019-2020 school year. The order makes clear that the intended use of the continued funding includes paying school employees. In addition, CARES Act funding has been granted to California to be distributed to all Local Education Agencies (LEAs) that apply and qualify. Also, the California State Legislature allocated \$100 million to all LEAs (including charter schools) for emergency measures needed to deal with the immediate crisis. Finally, for the 2020-2021 school year, the governor and State Legislature have negotiated a budget that will maintain the same level of funding for K-12 public schools.

Funding for small businesses

Separate from state and federal aid for public education, the CARES Act established the PPP to allow small businesses (as opposed to public entities) to maintain employment. The SBA: “The Paycheck Protection Program is a (forgivable) loan designed to provide a direct incentive for small businesses to keep their workers on the payroll.”

The intent of the program is clear: “With the COVID-19 emergency, many small businesses nationwide are experiencing economic hardship as a direct result of the Federal, State, and local public health measures that are being taken to minimize the public’s exposure to the virus. These measures, some of which are government-mandated, are being implemented nationwide and include the closures of restaurants, bars, and gyms. In addition, based on the advice of public health officials, other measures, such as keeping a safe distance from others or even stay-at-home orders, are being implemented, resulting in a dramatic decrease in economic activity as the public avoids malls, retail stores, and other businesses.”¹

When the program began, many small businesses struggled to access funds, and it was “first come, first serve.” Subsequent analysis has found that there is significant evidence of bias in who received the loans. A study conducted by the National Community Reinvestment Coalition found that Black-owned businesses faced significant discrimination in accessing the program.²

Charter organizations double dipping?

In contrast, charter organizations, who were already funded to meet the needs the program was intended to fill, were able to use their highly connected industry to support them in accessing these funds. In other words,

¹ Business Loan Program Temporary Changes; Paycheck Protection Program, Small Business Administration. <https://www.federalregister.gov/documents/2020/04/15/2020-07672/business-loan-program-temporary-changes-paycheck-protection-program>

² “Black Business Owners Had a Harder Time Getting Federal Aid, a Study Finds,” The New York Times, July 15, 2020. <https://www.nytimes.com/2020/07/15/business/paycheck-protection-program-bias.html>

charter schools are receiving full funding to pay their employees as public schools while also seeking PPP funds to pay those same employees as private businesses. How is this possible? While charter schools are considered public schools under California law, they are also incorporated as nonprofit entities. This has allowed them to access COVID-19 employment aid both for public schools and private small businesses and nonprofits.

Paycheck protection loan data from SBA and board documents

The SBA has released limited data on PPP loan recipients of \$150,000 and over. This indicated each loan's dollar range. Based on the California data, In the Public Interest and Parents United for Public Schools have identified charter entities receiving between \$240.7 million and \$565.6 million.³

Similar to what has been found in other charter funding programs, the lion's share of these funds are going disproportionately to schools connected to charter management organizations (CMOs). Sixty-six percent of schools that received loans are affiliated with a CMO. In a review of charter board documents and recordings, it is apparent that for some schools there is not a financial need for these funds. Some schools are reporting a better financial position in the middle of this pandemic than before. For example, board members and the director of Oakland's Aurum Prep discussed their stable financial position resulting from "increased revenue and savings due to COVID."⁴

Sky Mountain Charter School, in their April 21st board meeting recording, asserted that the school did not need the funds for ongoing operations, but that they should apply for them to take advantage of the pandemic to pay for a boost in their enrollment of 10-20 percent.⁵ According to their director, "We are in a very good position right now with our cash reserves to weather cash deferrals and still manage growth but without this borrowing, it would be a lot more difficult to run our program the way we want to and accommodate growth at the same time."

Some charter school chains have accessed funds in a similar manner to Shake Shack and other corporations that provoked outrage early in the program—too big to actually qualify but applying school by school and amassing very large sums. California's Learn4Life chain has accessed up to \$51 million through 12 PPP loans. The scandal-plagued Inspire Charter chain was just found to have provided its outgoing executive director with over \$1 million in retroactively authorized pay advances and is currently the subject of a Fiscal Crisis and Management Assistance Team (FCMAT) extraordinary audit based on a joint complaint from six county superintendents. Inspire accessed up to \$29 million dollars by applying individually for each school, then also for their parent organization.

Paycheck protection loan data from SBA and board documents

The SBA does not intend to audit loans that are \$2 million or less. Given that California schools were funded with the express intent of maintaining employees, these loans may have been entered into fraudulently and should be audited by authorizers or other state entities since the federal government does not intend to do so. Additionally, state leaders may want to consider accounting for this additional relief provided to some schools and not others as other streams of funding are rolled out to ensure equitable distribution of COVID-19 relief to public schools.

³ "The California charter schools that have received coronavirus aid meant for small businesses," In the Public Interest, June 24, 2020. <https://www.inthepublicinterest.org/the-california-charter-schools-that-have-received-coronavirus-aid-meant-for-small-businesses/>

⁴ Aurum Preparatory Academy April 22, 2020 meeting minutes: <https://drive.google.com/file/d/11wXGptLsp4iWWxN1iPICG4B4FHgTu41/view?usp=sharing> (page 2)

⁵ Sky Mountain Charter School April 21, 2020 meeting minutes: https://skymountaincs.org/files/skymountain/governance/governing_board/audios/SMGB_20200421_audio_only.m4a