A Union of Professionals

A VIRTUAL FAILURE

K12 Inc. Puts Cash over Kids

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Our Mission

The **American Federation of Teachers** is a union of professionals that champions fairness; democracy; economic opportunity; and high-quality public education, healthcare and public services for our students, their families and our communities. We are committed to advancing these principles through community engagement, organizing, collective bargaining and political activism, and especially through the work our members do.

K12 Inc., the largest for-profit charter school operator in the U.S.,[1] and a leading operator of "virtual schools," claims to provide students with a "high-quality education to help them thrive in school" and prepare for a career.[2] The company says that its more than 2,000 schools and virtual classrooms "transform the educational experience" and provide parents with "school choice." K12 Inc. has the support of some of the biggest proponents of school privatization, like Education Secretary Betsy DeVos and the American Legislative Exchange Council, and spends millions of dollars on lobbying conservative lawmakers while shielding this information from investors and the public.[3] Sadly, the rhetoric from K12 Inc. and its supporters does not match the reality.

An in-depth review of K12 Inc.'s business practices, a string of recent investigations and shareholder actions reveal that rather than provide excellent educational services,[4] K12 Inc.'s real goal is to hijack funds meant for public brick-and-mortar schools to:

- Pay top executives multimillion dollar salaries and pad the company's bottom line;
- Lobby for the expansion of its failing virtual schools, allowing Betsy DeVos' vision of privatized education to flourish; and
- Provide the bare minimum of services to its students, resulting in abysmal education outcomes.

By putting cash over kids, K12 Inc. harms not only its students but the entire K-12 education sector. This report documents the variety of ways that K12 Inc.'s "greed is good" business model shortchanges students, parents, shareholders and taxpayers alike.

The American Federation of Teachers and our community allies **are calling on K12 Inc. to put student learning first, not executive pay**. K12 Inc. should spend the taxpayer dollars it receives on ensuring that students enrolled in its online schools perform as well as students enrolled in brick-and-mortar schools, rather than lining executives' pockets.

The AFT also is calling on K12 Inc. to demonstrate accountability to all of its stakeholders—students, parents, investors and taxpayers—by fully disclosing how it spends the public dollars it receives, including lobbying and political spending, along with accurate measures of student attendance and performance.

K12 Inc.'s Report Card of Failure

With teacher-student ratios commonly exceeding 1:100 and even 1:200, and a drive to amass profits at the expense of students, teachers and taxpayers, it is no surprise that K12 Inc. students fare far worse than students who attend traditional schools. The company's abysmal academic outcomes include:

- **Not preparing students for graduation—or college.** A 2016 investigation by the San Jose Mercury News found that "fewer than half of the students who enroll in [K12 Inc.'s] online high schools earn diplomas, and almost none of them are qualified to attend the state's public universities."[5]
- **Students falling behind in math and reading.** A study by CREDO at Stanford University found that K12 Inc. students lagged behind traditional public school students by 125 days of learning in math and 63 days of learning in reading.[6]

- **Sky-high dropout rates.** According to a lawsuit filed by K12 Inc. shareholders in 2011, in some cases over half of the students at a K12 Inc. school drop out during a school year. The lawsuit alleged that the company was able to obscure this staggering dropout rate by aggressively enrolling new students.[7] This has been supported in state-level reports, for example with K12 Inc.-run Hoosier Academies Virtual School reporting that 60 percent of seniors dropped out before graduation during the 2015-16 school year.[8]
- **Prioritizing enrollment over academic achievement.** Some teachers report feeling pressured by the company to pass students who fail to do adequate work, provide unlimited retakes for assessments, or give a "50" for unsubmitted assignments rather than a "zero,"[9] to keep students enrolled and thus maintain funding.

Background—The K12 Inc. Mission: Cash, Not Kids

K12 Inc. is the largest for-profit charter operator in the country, with operations in 33 states and Washington, D.C. About 85 percent of K12 Inc.'s revenue comes from providing online educational programming to school districts and independent charters through long-term service agreements.[10] In other words, the majority of the company's income is derived from funds allocated to public K-12 education budgets—and K-12 Inc. spends an alarming amount of this money on overpaying executives, lobbying and advertising, instead of educating kids.

According to a 2011 profile by the New York Times, the growth of K12 Inc. "is rooted in the theory that corporate efficiencies combined with the internet can revolutionize public education, offering high quality at reduced cost. … [But upon further examination,] a portrait emerges of a company that tries to squeeze profits from public school dollars by raising enrollment, increasing teacher workload and lowering standards."[11]

Since its founding in 2000, K12 Inc. has demonstrated a clear pattern of putting its bottom line ahead of student outcomes, including:

- **Overpaying executives for poor performance.** In 2016, the advisory firm Glass, Lewis & Co. recommended that shareholders vote against the company's executive compensation proposal, giving K12 Inc. an F for how it paid its executives compared with peers;[12] shareholders took the uncommon step of voting down the say-on-pay proposals in 2015 and 2016.[13]
- **Lavish compensation for executives and board members.** K12 Inc.'s named executive officers each took home more than $1 million in compensation in fiscal year 2017, with CEO Stuart Udell paid over $4 million and Executive Chairman Nathaniel A. Davis paid over $3 million in total compensation.[14] The majority of board of directors members, who perform only a few hours of work per year, received compensation packages of between $127,000 and $187,500.[15]
- **Using funding meant for brick-and-mortar schools to provide bare-bones "virtual" education.** Costs for providing online learning are much lower than for traditional schools because cyberschool operators like K12 Inc. don't have to maintain classrooms or pay to heat and cool buildings. However, some states—such as Pennsylvania[16]—pay K12 Inc. about as much per student as brick-and-mortal schools.
- **Paying teachers less for higher student loads.** According to Glassdoor, the typical K12 Inc. instructor makes about $38,000 annually,[17] but can be expected to manage classes of more than 250 students.[18]

- **Claiming taxpayer dollars for questionable student attendance.** K12 Inc. appears to prioritize enrolling students in order to secure per-student funding, with little regard for whether the students remain enrolled for any significant period of time.[19]
- **Spending money on advertising—not teaching.** A USA Today analysis found that K12 Inc. reportedly spent at least $21.5 million on ads in 2012, or an estimated $340 per student, although the company does not disclose advertising spending in its annual reports. The same report found that K12 Inc. targets some of its advertising to children, placing commercials on Nickelodeon and the Cartoon Network.[20]

It is clear that K12 Inc. employs a variety of tactics to ensure that it collects the maximum amount of taxpayer dollars per student while paying teachers as little as possible and providing the bare minimum of educational supports.

The combination of K12 Inc.'s profit-driven business model and its dismal education outcomes has caught the attention of regulators and investors in recent years, some of whom have accused the company of misleading parents, taxpayers and shareholders as to the nature of its business and the quality of education it provides.

K12 Inc.: Too cozy with Betsy DeVos and ALEC

Despite its many failings, K12 Inc. has managed to expand steadily over the last decade. It achieved this growth in large part due to its relationship with conservative education "reformers" like Secretary of Education Betsy DeVos and the American Legislative Exchange Council (ALEC), and has come under fire recently for being less than transparent about its lobbying activities:

- **Betsy DeVos is a champion of K12 Inc.** In her Senate confirmation hearing, DeVos quoted data provided by K12 Inc. regarding graduation rates—data that have been shown to be misleading.[21] DeVos named seven K12 Inc. virtual schools that K12 Inc. reported as having graduation rates of 90 percent or above, when in reality the group of schools had graduation rates ranging from 33 to 67 percent.[22]
- **DeVos was an initial investor in K12 Inc.,** formerly holding shares in the company, and K12 Inc. is listed on the website of the nonprofit organization she ran, the American Federation for Children, as an organization that supports school choice.[23]
- **K12 Inc. board member John Engler has close ties to Betsy DeVos.** DeVos was a major backer of Engler during his 12 years as Republican governor of Michigan from 1991-2002.[24] During his tenure, Engler passed "the nation's most far-reaching charter-school legislation," the disastrous consequences of which were profiled in a recent New York Times Magazine investigation.[25]
- **Partnering with ALEC to expand operations.** In 2005, K12 Inc. worked with ALEC to draft "model" legislation that became known as the "Virtual Public Schools Act," [26] which opens up public schools to online companies like K12 Inc. and calls for these cyberschools to receive the same per-pupil funding as brick-and-mortar schools.[27]

- **Lobbying legislators to make online classes mandatory.** At least five states have passed legislation requiring that students complete at least one virtual class in order to obtain a high school diploma.[28] Slate reports that in 2011, Republican legislators in Florida passed legislation making the completion of at least one virtual class a graduation requirement—and that at least 32 of the state lawmakers who supported the law had received donations from K12 the prior year.[29]
- **Spending millions on lobbying—but leaving investors and taxpayers in the dark.** While K12 Inc. does not disclose details of its lobbying efforts, Education Week estimates that the company spent over $10 million on lobbying efforts in 21 states.[30] At its 2016 annual meeting, K12 Inc. rejected a shareholder-led transparency proposal that would have required the company's board of directors to produce a yearly report on K12 Inc.'s direct and indirect lobbying of policymakers.[31] The proposal, which won support from major analysts,[32] also received significant support from shareholders.

The AFT is calling for strong regulatory oversight of for-profit charter schools like K12 Inc.

Although K12 Inc. claims to have "an unwavering commitment to our students' academic achievement,"[33] its track record is one of taking public education dollars in order to pay its executives and pad its bottom line, failing the thousands of students who enroll in its virtual classrooms.

K12 Inc. also has the support of some of the worst proponents of school privatization, like Betsy DeVos and ALEC, and spends millions of dollars on lobbying conservative lawmakers while shielding this information from investors and the public.

For these reasons, the AFT **is calling on K12 Inc. to put students, not executives, first**. K12 Inc. must spend the taxpayer dollars it receives on making sure that the children it serves do just as well in its online schools as those enrolled in brick-and-mortar schools—and make company executives take a significant pay cut until they can clearly demonstrate that K12 Inc. schools are providing high-quality educational services. Putting kids ahead of executives will ultimately benefit K12 Inc. shareholders, whose investment is currently at risk due to the company's failure to ensure that its students are learning.

The AFT also is calling on K12 Inc. to demonstrate accountability to all of its stakeholders— students, parents, investors and taxpayers—by fully disclosing how it spends the public dollars it receives, including lobbying and political spending, along with accurate measures of student attendance and performance. Adopting full transparency standards will make the company a better investment for shareholders, and will help families and school districts better assess whether K12 Inc. is reliably providing students with the education they deserve.

Endnotes

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Notes

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