

Nonprofit or For -Profit?

*What education advocates
need to know about fake
conversions*

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The Problem

For-profit operators are laying claim to the “nonprofit” label to capitalize on the positive consumer reputation of nonprofit colleges, and to escape regulations.

Federal policing of conversions has been inadequate.



“nonprofit”

Profit-taking is prohibited (the “non-distribution constraint”)

Trusteeship control

Nonprofit does NOT necessarily mean the entity:

—loses money on everything it does

—is good



Classifications of nonprofit entities

State corporations law

Federal corporate income tax law

- Charitable, educational, religious
- Social welfare
- Political
- Business associations
- Fraternal organizations

Property tax definitions

U.S. Department of Education, Higher Education Act



Why nonprofit? *Consumer protection.*

The “restriction on the right of managers and directors to share in their organization’s profits blunts their incentive to seek profits, which decreases their incentives to take advantage of underinformed consumers.”

—Burton A. Weisbrod, *The Nonprofit Economy*, 1988, Harvard University Press, Cambridge, MA, 1988, 158-9.



Observable differences in the way nonprofit, public, and for-profit colleges tend to behave

Advertising & recruitment

Advising and admissions

Spending on instruction

Deference to faculty

Use of forced arbitration



IRS enforcement has collapsed over the past decade



A Tea Party protest of the Internal Revenue Service's scrutiny of conservative groups outside the United States Capitol in 2013. Saul Loeb/Agence France-Presse — Getty Images





United States Government Accountability Office
Report to Congressional Requesters

December 2020

HIGHER EDUCATION

IRS And Education Could Better Address Risks Associated with Some For-Profit College Conversions

GAO-21-89



How for-profit colleges “convert”

GAO identified 59 colleges that sought to convert between 2011 and 2020, through 20 transactions of four basic types:

1. For-profit college acquired by a pre-existing nonprofit entity that was not a college.
2. For-profit college acquired by a newly-created nonprofit organization (not a college).
3. For-profit college acquired by a pre-existing nonprofit college.
4. For-profit corporation reincorporated as a nonprofit corporation.



GAO Findings

- One-third of college conversions involved “insiders,” which may pose risk of improper benefit. “Colleges converting with insiders involved generally had stronger performance before the conversion, but weaker performance in the year after their sale, whereas the opposite was true for most colleges converting without insiders involved.”
- IRS oversight has been inconsistent, with information gaps, and examiners sometimes failing to follow IRS procedures. Education Department review of proposed conversions has improved, but post-conversion monitoring is inadequate.



Acquired by a pre-existing nonprofit org (not a college)

Center for Excellence in Higher Education (nonprofit) purchased a group of four colleges (2012).

For-profit **Herzing University** purchased by its scholarship affiliate, the nonprofit Herzing Educational Foundation Ltd. (2015).

For-profit **Ultimate Medical Academy** purchased by nonprofit Clinical and Patient Educators Association (which became UMA Education Inc.) (2015).

ECMC (nonprofit student loan guarantor) purchased numerous of for-profit Corinthian's **Everest and Wyotech** colleges (2015).

For-profit **Sunstate Academy** purchased by Compass-Rose Foundation (2017).

Dream Center (DC Educational Holdings) purchased Argosy University and Art Institutes (2017).



Acquired by a newly-created nonprofit organization

New nonprofit **Remington Colleges**, Inc., purchased several for-profit colleges owned by Education America, Inc. (2011).

Community Care College (and two affiliates) purchased by new nonprofit Community Higher Education Institute (2015).

Pittsburgh Technical Institute acquired by Center for Excellence in Education, Inc. (not CEHE), 2017.

For-profit **Grand Canyon University** purchased by new nonprofit Gazelle (2018).



Acquired by a pre-existing nonprofit college

For-profit **Keiser Univesity** purchased by nonprofit Everglades College (2011).

For-profit **Tribeca Flashpoint College** purchased by nonprofit Columbia College Hollywood (2017).

For-profit **Kendall College** purchased by nonprofit National Louis University (2018).

For-profit **Northcentral University** purchased by nonprofit National University (2019).



Danger sign: Big debts owed to former owners

GAO (p. 29-30):

- “four of the five case study colleges purchased mostly intangible assets. . . from the for-profit college sellers, and two bought intangible assets almost exclusively” [more than 90%].
- “intangible assets are ... inherently difficult to value.”
- “all five case study colleges financed their conversion transaction entirely with debt . . . from the colleges’ former owners.”



Danger: Contracts with former owners

The purchasing nonprofit contracts with the former owner to run major components of the college over the long term, paying the for-profit a large proportion of the tuition revenue. Examples:

- Grand Canyon University & GCE, Inc.
- University of Arizona Global Campus & Zovio (Ashford).
- Purdue Global & Kaplan.



Policy developments

- ED heightened review of conversions.
- Current rulemaking (“neg-reg”)
- State action:
 - Maryland triggers
 - California review



TCF Resources on Nonprofit Conversions

[Dubious Conversions of For-Profit Colleges: Decoding the GAO Report](#) (2021)

[How For-Profits Masquerade as Nonprofit Colleges](#) (2020)

[These Colleges Say They're Nonprofit—But Are They?](#) (updated occasionally)

[The Covert For-Profit](#) (2015)



Our mission:

The Century Foundation (TCF) is a progressive, nonpartisan think tank that seeks to foster opportunity, reduce inequality, and promote security at home and abroad.

In 2015 TCF published *The Covert For-Profit*, detailing conversions of for-profit colleges to nonprofit. The report revealed ongoing insider deals that replicated for-profit dynamics, threatening to undermine the integrity of legitimate nonprofit status. The report contributed to policy maker attention to the problem.

