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Conflicts of Interest Seen as For-Profit Schools Eye Nonprofit Status

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Emily Wilkins

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Several for-profit universities attempting to convert to nonprofit status appear to have plans with potential conflicts of interest that could allow the heads of newly created nonprofit institutions to reap financial benefits, accrediting agencies and analysts say.

Among the examples flagged are:

> Grand Canyon University's plan to convert to a nonprofit that would allow the school's president to serve also as head of a for-profit servicing company that would work with the school.

> The sale of Education Management Corp. colleges to the nonprofit Dream Center Foundation, through a loan partially financed by the CEO of the nonprofit's subsidiary overseeing the schools.

> The chairman of the nonprofit Center for Excellence in Higher Education's plan to structure the sale of his for-profit schools to receive more than $400 million from the resulting nonprofit school.

The cases highlight the shifting commercial and regulatory landscape for the for-profit universities industry, which the Obama administration targeted with stricter regulation and penalties for bad actors. The Trump administration has shown more of a willingness to work with the schools.

Proposals for colleges to transition to nonprofits require approvals from the Education Department, as well as the Internal Revenue Service and an accreditation agency, which determines whether the school qualifies for federal funding. Some accreditation agencies have flagged cases where the heads of the nonprofits could remain entangled with the schools' financial outcomes.

That could lead to the head of a nonprofit school prioritizing the institution's income over a student's academic success, said Robert Shireman, a former Education Department deputy undersecretary during the Obama administration.

"It is simply not possible for the CEO to play the balancing role that is required at a nonprofit, while also satisfying the much more clear profit motive of the for-profit corporation," said Shireman, who now is a fellow at The Century Foundation, a think tank. "It would be like the CEO of Girl Scouts also being the CEO of the cookie baking company. It's not allowed, it's not appropriate."

For-Profit School Regulation Evolves

President Barack Obama's administration regulated for-profit schools differently than President Donald Trump's administration. Two major regulations reflect that—the "gainful employment" and "borrower defense" rules.

Obama

Oct. 31, 2014: Finalized "gainful employment" rules, blocking federal funding for vocational programs where a graduate's annual loan payment exceeds 8 percent of earnings.

Nov. 1, 2016: Finalized "borrower defense" rule, which allowed student loans to be discharged if a college significantly misled them. Required colleges to set funding aside if they appeared to be at risk.

Trump

June 14, 2017: Said both rules would be rewritten with feedback from students, colleges and the public .

July 5, 2017: Delays until July 1, 2018, certain reporting requirements in gainful employment rule.

Feb. 14, 2018: Delays borrower defense rule until July 1, 2019.

May 2018: Estimated date for draft of new borrower defense rule.

June 2018: Estimated date for draft of new gainful employment rule.

Sources: Department of Education, Federal Register, Office of Management and Budget

Under the law, an education nonprofit is defined as one where none of the net earnings benefit private shareholders or individuals. Nonprofits can have deals with insiders that ultimately benefit the institution, but the key is fully disclosing any conflict and ensuring independent members are making decisions—something that doesn't always happen, said Lloyd Mayer, an associate dean and law professor at the University of Notre Dame Law School who studies nonprofits.

"The question is whether the nonprofit has done its due diligence to make sure those conflicts have been appropriately resolved," he said. "That sort of vetting is not being done very vigorously."

Change in Perspective

The image of the for-profit school has been badly battered in recent years, thanks to the bankruptcies of major chains Corinthian Colleges and ITT Technical Institute and Obama administration regulations that denied funding to for-profit programs that left students with degrees that some employers viewed as worthless deeply in debt.

John B. King Jr., education secretary in the Obama administration, cracked down on for-profit schools seeking to become nonprofits to escape increased scrutiny. King rejected a request by the nonprofit Center for Excellence in Higher Education to approve the transition of its for-profit schools as nonprofits. Under the group's plan, the owner of the schools, Carl Barney, would make millions of dollars from loaning money for the sale and collecting lease payments from the schools for the use of property he owned, King said in an August 2016 letter.

"To anyone who thinks converting to nonprofit status is a way to avoid oversight while hanging onto the financial benefits: Don't waste your time," King said in a statement when the decision was made public.

The Trump administration has taken a different path, praising workforce development programs and giving for-profits more leniency. Education Secretary Betsy DeVos has delayed and begun to rewrite regulations that would have established more oversight over the industry.

Under DeVos's tenure, the department has approved several mergers of for-profit and nonprofit schools, including the sale of 62 schools from the Education Management Corp. to the nonprofit Dream Center Foundation.

DeVos also has taken a new approach with the Center for Excellence in Higher Education. The nonprofit sued the department in August 2016 over the rejection of its deal. In January 2018, the department and the nonprofit asked the judge to delay the proceedings as "both parties agree that the possibility of resolving this case outside the context of litigation is significant."

'Completely Destroyed'

Although official numbers are hard to come by, there are at least a half-dozen cases in which for-profit colleges have attempted to convert to nonprofits. Experts are expecting more in the coming years as schools abandon the now-toxic for-profit status.

"The for-profit brand, the for-profit sector, is completely destroyed," said Trace Urdan, an independent financial analyst studying the for-profit education market. "For-profit has come to mean bad and not in the student's best interest and nonprofit has come to mean good."

Although the current administration has relaxed the pressure on for-profit schools, Urdan said investors don't want to bet on an industry that is only profitable when Republicans are in charge.

Urdan and Neil Lefkowitz, a Washington lawyer at Loeb & Loeb who specializes in transactions involving education companies, told Bloomberg Government in separate interviews that they knew of other for-profit schools planning to make the switch, although they could not name the schools because the plans had yet to be announced.

Lefkowitz said a number of schools are waiting to see whether a merger of Purdue University and the for-profit Kaplan University System is approved.

"If that transaction get approved, I think there will be other transactions," he said.

Accreditation Oversight

While the current Education Department has shown a willingness to work with for-profit schools seeking nonprofit status, schools also need the blessing of their accrediting agencies, groups that evaluate colleges to determine whether they qualify for federal funding through the Education Department.

The accrediting agency Higher Learning Commission initially blocked the for-profit Grand Canyon University from making the switch in 2016. The school planned to split into a nonprofit school and a separate servicing company called Grand Canyon Education, which would operate the nonprofit's technological, administrative, promotional and marketing services.

While servicers are not uncommon among for-profit and nonprofit schools, Grand Canyon's plan called for Brian Mueller to head both the nonprofit college and the for-profit company, Grand Canyon Education, according to a plan the school submitted to the Internal Revenue Service in October 2015. Grand Canyon Education could also act as a servicer for other schools, Mueller told investors during a February earnings call.

In a letter rejecting the school's switch to a nonprofit, the accrediting agency said the school "did not allow for the separate school corporation and service corporation model."

However, the Higher Learning Commission adopted new guidelines about agreements between schools and their servicers last year, and Grand Canyon University renewed its application.

Whether Mueller will play a dual role remains to be seen. Two separate independent governing boards overseeing the nonprofit university and for-profit servicer company would each be responsible for choosing who leads the organization, Bob Romantic, a spokesman for the university, said in an email to Bloomberg Government. He said there is no policy in place that could prevent Mueller from being chosen to lead both.

Peter Appert, a financial analyst who has been following Grand Canyon, he would assume that if Mueller served in both roles, other board members would oversee financial arrangements between the nonprofit and the servicer.

The Higher Learning Commission still needs to sign off on the university's plan, and is expected to do so in the next several weeks. The IRS and Education Department would also need to approve the plan.

Loaning Limits

Another accrediting agency raised concerns about a potential conflict of interest related to the sale of for-profit schools owned by the Education Management Corp. (EDMC) to the nonprofit Dream Center Foundation, a transaction approved by the Education Department.

The WASC Senior College and University Commission did conditionally approve the sale of EDMC's Argosy University System, but it also noted a number of concerns. Among them was a potential conflict of interest involving Brent Richardson, the CEO and co-chairman of the Dream Center Foundation's subsidiary, Dream Center Education. Richardson had the opportunity to help finance the purchase of the schools through a loan, something that could "present potential legal, regulatory compliance, and conflict of interest issues," according to a July 2017 letter from the accrediting agency.

Richardson's family did help with 10 percent of the loan to purchase the schools, said Randall K. Barton, co-chairman of the Dream Center Education board. However, he said there was no conflict because Richardson did not participate in the negotiation of the loan between the EDMC and the Dream Center Foundation, of which Richard is not a member.

"I could think of no transaction that more clearly meets the rigorous tests for dealing with conflicts," Barton said in an email to Bloomberg Government.

A loan from Richardson could indicate his commitment to the schools, but would also give him a personal financial incentive to ensure the school could repay the loan. That could create an incentive to prioritize the school's profit over the needs of the students, said Shireman, the fellow at The Century Foundation.

"If aggressive recruitment of students is necessary to repay the loan, the lender should not be making the decision about whether to be more aggressive," he said.

WASC is currently reviewing the sale of the school and whether the sale created a conflict of interest, said Christopher Oberg, the group's vice president and chief operating officer. If a significant conflict of interest was identified, the accrediting agency would have several options for responding.

For the most egregious examples of conflict of interest, a school would have up to a year to prove there was no conflict of interest or have its accreditation revoked.

The accrediting agency's report on the sale is expected to be public around the end of July.

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EDUCATION

Keiser: Not-for-profit but still lucrative

BY MICHAEL VASQUEZ
mrvasquez@MiamiHerald.com

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For many years, Arthur Keiser was the face of for-profit colleges — both in Florida and in Washington, D.C. Keiser chaired the for-profit industry's D.C.-based lobbying group, the Association of Private Sector Colleges and Universities (APSCU), and presided over the Florida Association of Postsecondary Schools and Colleges, whose members are mostly for-profits.

off taxpayer funding for "career training" programs where students struggled to pay back their student loans. The regulation is set to take effect in July.

Nonprofits are still affected by some parts of the rule, but not as severely. Being a nonprofit also means schools can get 100 percent of their revenues from taxpayer-funded federal financial aid. For-profit colleges, by law, are capped at getting 90 percent of their money from taxpayers.

Keiser is one of several for-profit colleges that switched to nonprofit in the past few years. An Orlando-area for-profit school, Remington College, also did so.

At a 2012 convention of APSCU, industry lawyers made a presentation that noted the "regulatory advantages" of going nonprofit — along with other potential perks, such as being exempt from property taxes and sales taxes. Arthur Keiser was chairman of APSCU at the time.

There's also a public-perception benefit: With the for-profit college industry beset by lawsuits and prosecutions, being nonprofit allows Keiser to distance itself from that — though Arthur Keiser told The Chronicle of Higher Education in 2011 that "it's operating in the same way, with the same people, the only difference is that it's owned by a nonprofit."

The Keiser family now operates two schools that are nonprofit — Everglades University and Keiser University — and one that is still for-profit, Southeastern College, which has its main campus in Palm Beach County.

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“We are in the not-for-profit sector,” Keiser said. “We made a very significant commitment to that.”

That same month, Keiser University, which had 20,000 students spread across 17 campuses in Florida, added another, buying the 100-acre West Palm Beach campus of Northwood University, a struggling nonprofit based in Michigan. The move added a new element to the Keiser network: a traditional college campus with dorms and sports teams.

One prominent critic of the for-profit industry is skeptical of Keiser University’s new identity and filed a complaint with the IRS.

Robert Shireman, the former deputy undersecretary at the Department of Education, cited information from Keiser’s 2012 nonprofit tax filings. Shireman alleged that Arthur Keiser and other school leaders are “using income/assets for personal gain.”

Those tax filings, which are public record, show that Keiser’s nonprofit conversion was achieved by Arthur Keiser selling the for-profit Keiser University to a smaller nonprofit controlled by the Keiser family, Everglades College Inc. Essentially, Keiser sold the left hand of his empire to the right hand.

To pay for it all, Keiser made a $300 million loan to himself, and he’s now paying it back with college revenue — with interest.

Records show that Keiser’s 2012 compensation as college president for the combined Everglades/Keiser schools was $855,842.

The records also show that 10 of the nonprofit’s campuses are paying rent to companies in which Arthur Keiser has an ownership interest.

The combined rent for those properties: about $14.6 million.

Keiser said suspicions about his conversion to nonprofit are “totally unfair” and that Shireman has misconstrued some of the numbers in the nonprofit tax filings.

“I don’t own 100 percent of the buildings,” Keiser said. The school did not respond to a later question about what percentage he does own.

$841,523 that year. Outgoing University of Miami President Donna Shalala made $1.26 million.

Arthur Keiser said Shireman has a conflict of interest on the for-profits issue. A group called Citizens for Responsibility and Ethics in Washington (CREW) accused the U.S. Department of Education of being cozy with Wall Street short sellers — investors who profit when a stock price goes down — when Shireman was with the department.

The group also questioned Shireman's ties with the Institute for College Access & Success, a nonprofit he helped found before joining the government. Although its agenda is broader, the institute has criticized for-profit colleges.

Republican Sens. Tom Coburn of Oklahoma and Richard Burr of North Carolina called for an inspector general investigation into Shireman — an investigation that is pending.

"He has a motive," Keiser said of Shireman. "And he certainly has his own problems."

Two conservative news outlets, the Washington Examiner and the Daily Caller, have raised questions about CREW, pointing out that the organization received $150,000 in funding from the Civic Duty Foundation, which is heavily funded by the Sperling family.

John Sperling founded the for-profit University of Phoenix, and Peter Sperling, his son, is chairman of the board for the college's parent company.

A 2012 U.S. Senate Health, Education, Labor and Pensions Committee report that was highly critical of the for-profit college industry noted the advantages inherent in Keiser's conversion and said it should be "more closely scrutinized."

Laura Kalick, a tax director for BDO, one of the country's largest accounting firms, reviewed Keiser's nonprofit tax filings at the Herald's request. She said there is nothing to suggest Keiser broke any rules.

How The For-Profit College Art Institutes Found A Savior With Christian Roots

The Dream Center Foundation, a nonprofit with many ties to communities of faith, is seeking to buy the for-profit EDMC — parent company of the Art Institutes.

Posted on August 4, 2017, at 8:01 a.m.

Molly Hensley-Clancy
BuzzFeed News Reporter

The Art Institute of Philadelphia
Matt Rourke / AP

Last year, with one of the country's largest college chains on the verge of collapse, a tiny nonprofit with roots in the Pentecostal Church came to the Obama Education Department with an idea. The Dream Center Foundation wanted to buy ITT Tech, a massive for-profit college with some 35,000 students, and convert it into a nonprofit. The Education Department would not give its support, and the deal fell apart.

But now, under the Trump administration's education secretary, Betsy DeVos, there's a new hope that schemes like this one could go forward. More struggling for-profit colleges will likely try converting to nonprofits, a practice that had been curbed by the Obama administration — opening up a new wrinkle in the attempt to oversee and regulate career colleges.

Earlier this year, one high-profile for-profit conversion grabbed headlines: Purdue University's plan to buy Kaplan University, a for-profit college, for $1, a sale that even got the blessing of Barack Obama's longtime education secretary, Arne Duncan.

But it is another, bigger for-profit conversion, carried out with almost no fanfare, that may be a better sign of what is to come under the DeVos administration.

In an industry beleaguered by financial and regulatory problems, the conversions — though they wipe the now toxic “for-profit” label from colleges’ doors — are likely to be murky, fraught with profit motives and conflicts of interest. And many argue there is little evidence that that the conversions will actually benefit students — especially as DeVos loosens rules meant to keep the worst actors in the industry at bay.

It was that kind of concern that nixed the Dream Center Foundation–ITT deal. “We would have rejected it,” said a former senior official at the Education Department. “We weren’t going to let somebody who had never run a school come in and run ITT.”

EDMC's schools enroll 60,000 students, employ some 15,000 people, and bring in hundreds of millions in revenue a year.

The foundation, which calls itself secular but was created to finance a nationwide network of Christian missionary centers, had no experience in higher education and, in 2014, had zero full-time employees listed on its tax filings. ITT Tech had 8,000 workers, $550 million in annual revenue, and a long and troubled history of government lawsuits and investigations looming over everything it did. Its executives were, at the time, awaiting trial for securities fraud.

The Education Department, the official said, wanted assurances from the Dream Center that it would voluntarily cut the worst-performing programs, cut tuition, and put in place protections for students. The Center, said the official, “wasn’t interested” in implementing those reforms. The deal fizzled, and ITT was eventually forced to close.

A year later, under a new administration, the Dream Center Foundation is trying again. This time, it is on the verge of buying three other enormous for-profit college chains: the Art Institutes, South University, and Argosy University, all owned by the now-bankrupt Education Management Corporation. Together, EDMC’s schools enroll 60,000 students, employ some 15,000 people, and bring in hundreds of millions in revenue a year.

The schools are some of the worst performing in the industry: A staggering number of EDMC’s programs, more than at any other college chain, fail a government metric meant to judge the quality of for-profit colleges. And the school has paid out hundreds of millions in settlements as part of government lawsuits.

The sale is being orchestrated by some of the for-profit college industry's biggest players.

Yet once it flips the Art Institutes' and Argosy's tax statuses, the tiny Dream Center seemingly plans to change almost nothing. The employees, programs, and vision will remain largely the same, the organization has said to college watchdogs.

And though the new schools will be nonprofits, the sale is being orchestrated by some of the for-profit college industry's biggest players, people who have spent decades developing ways to extract money from for-profit and religious colleges. The arrangement is financially murky, documents show, backed by an outside investor and fraught with a potential conflict of interest.

But under DeVos, the Dream Center's purchase is much more likely to be approved.

"All indications are that they're going to have a very laissez-faire attitude," said Trace Urdan, an independent education analyst, of the Trump administration and for-profit conversions.

More and more schools, Urdan said, are going to look to become nonprofits. But many of those deals are likely to look more like EDMC's than Purdue's, which had the glint of a well-respected university.

“There’s a list of schools that — like EDMC — are going to be too hairy for a public institution like Purdue to buy,” Urdan said. “They’re going to have to explore other avenues. What the Trump administration gives is a window to get the deals done.”

The Dream Center Foundation has portrayed purchasing EDMC's schools as a way to further a mission of expanding access to education for low-income people. In a press release in March, its managing director, Randall Barton, said the deal "aligns perfectly with our mission which views education as a primary means of life transformation."

The Obama administration allowed several nonprofit conversions, including that of Keiser University, in 2011, whose founder lent a nonprofit $320 million in order for it to buy his university, earning money from interest payments in addition to drawing a salary of more than $800,000 a year. But after the murky profit motives of Keiser and other schools were brought to light, the administration moved to block some conversions.

Before it gets to the DeVos Education Department, the Dream Center sale must first go through a group of college watchdogs, called accreditors, who oversee different EDMC-owned campuses and have the power to kill the deal altogether. One accreditor initially rejected the purchase, but left the door open, telling the Dream Center to reapply with more information. The other, however, offered its preliminary approval — along with reservations about the Dream Center’s independence, academics, and attempts to obscure the organization’s Christian roots.

Rich Pedroncelli / AP

The Dream Center Foundation repeatedly declined to comment for this article, and did not respond to a detailed list of questions sent to a spokesperson.

The Dream Center Foundation has described itself as "secular," and promised that its schools will be too. But it was created by a religious group, and the nationwide network of Dream Centers that it helps fund includes a "statement of faith" that promotes Scripture and salvation.

On the Foundation's board, made-up in large part of married couples, are at least five pastors, two television evangelists, a Christian music producer, and a former special faith adviser to Ben Carson's presidential campaign.

"The Dream Center cannot possibly really know what they're getting into," said Bob Shireman, a former Education Department official under Obama and a critic of nonprofit conversions. Shireman, a senior fellow at the Century Foundation, has studied the EDMC deal closely, filing complaints with a state attorney general over its marketing as a nonprofit. "They're saying, 'Everything's great, we just need a little tweak here and there.' They're not recognizing that there were serious problems with these schools."

Like ITT Tech and other for-profit schools, EDMC has a long history of problems with aggressive recruitment and misleading students. It was forced by a group of state attorneys general to forgive the loans of 80,000 former students in 2015, and paid $95 million to settle a whistleblower lawsuit which said the company had used high-pressure sales tactics to enroll students at all costs.

An Obama-era regulation — called the "gainful employment" rule — cuts off funding to programs from which too many students graduate saddled in debt, but don't earn enough money to pay off their loans. At the Art Institutes, more than 100 programs failed this gainful employment test. Another 51 are teetering on the edge of failure, called "zone" programs. Just 49 actually passed. Argosy University only fared slightly better: Just half of its 52 programs would pass gainful employment.

"The Dream Center cannot possibly really know what they're getting into."

The failures at EDMC schools were so bad that, when they were made public early this year, the company was forced to knock down the sale price of its schools by 40% — from $100 million to just $60 million — documents from Argosy's accreditor show.

One college watchdog overseeing the deal found, however, that the tiny Dream Center plans to change almost nothing about Argosy. The staff, much of the curriculum, and the school's infrastructure will stay the same, the school told its accreditor. So will much of the school's leadership.

Months into the deal, in April, the Dream Center had "not created a post-acquisition plan," wrote the accreditor, the Western Association of Schools and Colleges. The groups had instead been focused on finances and regulations, WASC wrote — with almost no consideration for the "cultural and mission differences, size, and complexity of the two organizations."

The first high-profile for-profit college conversion, in 2015, was orchestrated by the Obama administration: a deal to sell more than 50 campuses of Everest College, a troubled for-profit, to Zenith Education, a subsidiary of a nonprofit student-loan agency.

Zenith agreed to the litany of student protections demanded by the administration that the Dream Center refused when it looked to buy ITT Tech. But even with those in place, the new, nonprofit Everest College has struggled. Some of its programs are still failing gainful employment rules, and its owner has been forced to shutter campuses as enrollment falls. An Associated Press investigation found that Zenith had left much of Everest's leadership, recruitment, and curriculum in place.

"We learned from watching [Everest] that these are going to be much harder to turn around than we'd previously thought," said the former Education Department official. "You need to know what the hell you're doing."

The Trump administration has eased up on regulations around for-profit colleges — meaning many of the Argosy and Art Institutes programs that would otherwise have been shuttered are able to remain open, taking federal money. (The Dream Center would not comment on whether it planned to keep those failing programs in place.)

But even with a friendly administration, the drive to convert to nonprofits is likely to remain strong, said Urdan.

When it comes to for-profits, "students' antennae is up, they're suspicious, they're aware," Urdan said. "Executives realize, if we aren't a for-profit school, we can [attract] students at much higher rates. That's the motivation."

Still, some of the biggest players in the for-profit college industry are circling the deal to turn EDMC's schools nonprofit. The proposed new CEO of the Dream Center Foundation, Brent Richardson, is a former for-profit college executive who helped transform a nonprofit Christian college, Grand Canyon University, into one of the country's largest for-profits, a corporation now worth $3.5 billion.

"I don't think there's much of a future in for-profit education."

Last year, Grand Canyon tried to convert back into a nonprofit, saying that despite its soaring stock price, it, too, was losing its competitive edge with students because of the stain of for-profit status. But it tried to pair a profit-making services company with the nonprofit school, which made accreditors balk. They blocked the sale, saying the profit-making venture was too intricately linked with the supposedly nonprofit college.

Richardson's partner at Grand Canyon was Michael Clifford, a former Dream Center board member who also founded the predecessor of Bridgepoint Education, another massive for-profit. Clifford was involved in the Dream Center's early attempts to buy ITT Tech, according to two people with knowledge of the situation. But he called himself an "observer" in the deal between EDMC and the Dream Center. "I'm just praying that they can do it," Clifford said.

For a time, Clifford was an evangelist for transforming struggling nonprofit colleges into for-profits, as he did with Grand Canyon in 2004. He orchestrated a 2009 deal to convert a Christian university, Crichton, into a for-profit, renaming it Victory University. The school closed in 2014, mired in financial problems.

But now, because of the climate surrounding for-profits, Clifford's philosophy has reversed. "I will only serve nonprofits," he told BuzzFeed News. "Even though Trump won, the damage has been done to the sector. I don't think there's much of a future in for-profit education."

"For years, I've had a dream of taking distressed, publicly traded education companies and matching them with charities," Clifford said. "I think you'll see many schools joining under that structure."

Among the biggest concerns about the sale are the financial agreements. Documents from the school's accreditor show unanswered questions about who is profiting from the conversion.

The money for the sale is coming not from the Dream Center Foundation, whose filings show it has little liquid cash, but from a private investment firm, the Najafi Companies. There is also the potential involvement of the Richardson Family Trust, a group "associated" with Brent Richardson, the company's CEO, according to accreditation documents. The Najafi Companies has its own history in the for-profit industry: It once entered into a $1.1 billion deal to buy a piece of the University of Phoenix, taking the company private, though they eventually pulled out. (The Najafi Companies did not respond to BuzzFeed News' requests for comment.)

The Richardson Trust, according to the Argosy accreditor's report, could kick in some $6 million. But the details of the Trust's involvement — and Brent Richardson's stake in it — are murky. Argosy's accreditor said it received "no documentation" about the potential CEO's involvement.

If Richardson's family is involved in the sale, said Shireman, it presents a potential conflict of interest.

"There's a lot of questions about what agreements exist behind the scenes," said Shireman. "You need to make sure that control of this entity isn't in the hands of people who are making money off of it."

Molly Hensley-Clancy is a politics reporter for BuzzFeed News and is based in Washington, DC.

Contact Molly Hensley-Clancy at molly.hensley-clancy@buzzfeed.com.

The New York Times

Some Owners of Private Colleges Turn a Tidy Profit by Going Nonprofit

By Patricia Cohen

March 2, 2015

After a recent government crackdown on the multibillion-dollar career-training industry, stricter limits on student aid and devastating publicity about students hobbled by debt and useless credentials, some for-profit schools simply shut down.

But a few others have moved to drop out of the for-profit business altogether, in favor of a more traditional approach to running a higher education institution.

And the nonprofit sector, it turns out, can still be quite profitable.

Consider Keiser University in Florida. In 2011, the Keiser family, the school's founder and owner, sold it to a tiny nonprofit called Everglades College, which it had created.

As president of Everglades, Arthur Keiser earned a salary of nearly $856,000, more than his counterpart at Harvard, according to the college's 2012 tax return, the most recent publicly available. He is receiving payments and interest on more than $321 million he lent the tax-exempt nonprofit so that it could buy his university.

And he has an ownership interest in properties that the college pays $14.6 million in rent for, as well as a stake in the charter airplane that the college's managers fly in and the Holiday Inn where its employees stay, the returns show. A family member also has an ownership interest in the computer company the college uses.

Keiser University, which has about 20,000 students spread over 15 campuses, is one of a handful of for-profit colleges that have switched to the nonprofit arena or are considering that move.

The shift means more restrictions on moneymaking ventures and loss of ownership. But nonprofit schools — defined as providing a public benefit — do not have to pay taxes, are eligible for certain state grants and can receive more money from the federal student loan program.

Consumer advocates and legal experts warn that some institutions might be shifting primarily to avoid stepped-up government scrutiny and regulation. Moreover, said Lloyd Mayer, an associate dean and law professor at Notre Dame Law School: “There is a concern that the now-nonprofit colleges may be providing an impermissible private benefit to their former owners. These sorts of arrangements raise yellow flags.”

Dr. Keiser, who started Keiser University in 1977 with his mother, Evelyn, now 91, scoffed at such criticism. “My goal has been to build a family legacy,” he said. Becoming a nonprofit “was a natural transition for us,” and “for our students, too,” he said, allowing the institution to expand into a residential college.

He said that the family had long planned the move to the nonprofit sector, laying the groundwork in 1998, when it first bought a small Florida college and later converted it to the nonprofit Everglades. Keiser now offers 100 degrees and certificates in subjects that include baking and pastry arts, nursing and political science.

As for any financial conflicts of interest, he said: “We disclosed everything. There’s nothing wrong with it.”

Dr. Keiser, who is the House Republicans’ appointee to the Education Department panel that oversees accreditation, formerly was chairman of the governing board of the Association of Private Sector Colleges and Universities, which filed a lawsuit in November challenging new federal regulations. These require for-profit colleges and trade schools to show that their students will eventually earn enough money to pay their student loans.

The rules are a result of longstanding complaints that the industry lures mostly poor and minority students with misleading information about the value of the schools’ degrees and costs, and then saddles them with onerous debt.

According to estimates from the Obama administration, about 1,400 programs that enroll 840,000 students would fail the new gainful employment rules. If they do, the government can impose sanctions that could eventually lead to a cutoff of federal student aid and loans, the schools’ lifeblood. For-profit colleges receive roughly $30 billion a year in taxpayer-funded student aid.

Some institutions are already struggling. The giant for-profit chain Corinthian Colleges, which once took in $1.4 billion a year in taxpayer funds, has virtually collapsed after a series of state and federal inquiries and lawsuits.

For-profit schools vigorously opposed the newest rules, arguing that they would ruin institutions that serve students who have few other educational options. Defenders point out that some have better graduation records than community colleges and are much better at responding to a changing job market.

The states have opened another line of attack, with at least 24 attorneys general investigating whether for-profit colleges under their jurisdiction have engaged in false advertising, illegal recruiting practices or predatory loan schemes.

Arthur Keiser
Willie J. Allen Jr./Tampa Bay Times

Keiser University was the subject of an investigation by the Florida attorney general before its sale to the family's nonprofit. In 2012, it reached a settlement and agreed to offer thousands of students free retraining, but did not admit any wrongdoing.

In November, Robert Shireman, a fierce industry critic and former Education Department official, filed a complaint with the Internal Revenue Service accusing Mr. Keiser and three board members of violating tax regulations and using the nonprofit "for personal gain."

According to Everglades's 2012 tax return, one of the university's nine board members owns a business that provided the college's paperless filing system. A family member of a second board member owns Cutting Edge Recruiting Solutions, which the college used. A third, who owns a pool maintenance company in Florida, received "a net share of income from the aquatic engineering program."

An emailed response from Keiser said that all the financial arrangements "are at fair market value terms and conditions," and that the college adheres to "generally accepted auditing and accounting principles," as defined by the I.R.S.

Keiser University was valued at $521 million, tax returns show. Dr. Keiser said the valuation was arrived at by two independent auditors.

He lent Everglades $321 million for the sale and donated much of the rest, a charitable gift that potentially shaved tens of millions of dollars off his tax bill. The Keiser family maintained an ownership interest in the land and property.

Other owners have followed a similar template of financing the purchase of their for-profit colleges through a combination of loans and tax-deductible donations to a closely affiliated nonprofit. The new tax-exempt entity subsequently leases the space from the original owners at multimillion-dollar annual rents. The before-and-after management team is often virtually the same.

The Education Department has final approval over the shift to nonprofit status, reviewing a school's financial obligations and administrative capabilities. None have yet been rejected.

"I don't think anyone with any rudimentary knowledge with how nonprofits are supposed to operate and the for-profit college industry could fail to conclude that the transaction is structured to benefit insiders and that the former owners are making a lot of money off the nonprofit," said David Halperin, a Washington lawyer and the author of "Stealing America's Future: How For-Profit Colleges Scam Taxpayers and Ruin Students' Lives."

Such a characterization unfairly smears the whole industry, said Neil Lefkowitz, a Washington lawyer who specializes in transactions involving education companies. "The concept of for-profit education has been quite demonized, and so many institutions are really feeling the pinch," he said.

In 2012, Carl B. Barney sold several for-profit colleges, including Stevens-Henager, CollegeAmerica and California College, to a small Denver-based nonprofit, the Center for Excellence in Higher Education, which, according to court documents, consists of a single member: Mr. Barney, its chairman.

Mr. Barney lent the nonprofit $431 million for the sale, and donated millions more, the center's tax returns and court records show. He also collected nearly $5.1 million in rent from the schools in 2013. The value of its "intangible assets" — such as its reputation and copyrighted trade secrets — was listed at $419 million.

A lawsuit joined by the Justice Department last year charged that the sale was, "at least in part, to evade certain regulatory requirements that apply to for-profit schools," and that "the schools continue to operate more or less as they did prior to the merger."

In December, the Colorado attorney general sued Mr. Barney and the schools over misleading and illegal practices. "These allegations are entirely false and they defame us," Mr. Barney said. "We are fighting back to the very end."

He derided the notion that he was making any money from the schools or the center, an organization devoted to libertarianism and the free-market philosophy of Ayn Rand. “You cannot profit from a nonprofit,” Mr. Barney said.

In 2011, Remington College, another Florida-based for-profit school, was sold to a nonprofit with the owners lending it $136 million for the sale, according to its 2013 tax return.

In January, Herzing University, based in Wisconsin with campuses in eight states, announced that it had completed its conversion to a tax-exempt nonprofit. And Grand Canyon University in Phoenix is trying to convert from a publicly traded company worth more than $2 billion to a nonprofit.

Because of the stigma now dogging for-profit colleges, nonprofit status has become a crucially important marketing tool.

“Some are truly not doing this to evade regulations,” Mr. Lefkowitz said. “They are really having trouble recruiting students.”

A version of this article appears in print on March 3, 2015, on Page A1 of the New York edition with the headline: Some Private Colleges Turn a Tidy Profit by Going Nonprofit