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