Former EDMC Campuses Bought by Private Investors

Private investment firm, through newly created nonprofit, buys several Art Institutes and South University campuses, raising concerns about transparency and the viability of former for-profit institutions.

By Ashley A. Smith

The breakup and possible collapse of some Art Institutes, South and Argosy Universities campuses, all chains owned previously by Education Management Corporation, have generated criticism about a lack of transparency and worries among students and staff members about whether the institutions will continue to operate.

Dream Center Education Holdings, the nonprofit owner of the campuses, is facing bankruptcy and says it is attempting to unload the institutions in order to keep them open. The organization, which had been struggling to maintain the campuses, filed for and was appointed a receiver in federal court last week.

When Dream Center purchased the campuses from the for-profit EDMC in 2017, their combined enrollment was about 65,000 students. Since then enrollment has fallen to 53,800 students, Dream Center said last year, and it's unclear when that figure was last updated.

Education Principle Foundation, a Delaware nonprofit with no annual budget and almost no internet presence, announced Friday it had acquired some of the campuses from the Dream Center. Yet it appears that a group of private investors are behind the deal to acquire the Art Institutes and South University campuses.

Until Dec. 31, the Education Principle Foundation was known as the Colbeck Foundation, according to records filed in Delaware.

Three of the four listed board members for the Colbeck Foundation are managing partners of New York-based Colbeck Capital Management, and the fourth is the firm's chief operating officer.

Representatives from Colbeck and Education Principle Foundation did not respond to requests for comment.

“The foundation, unlike DCEH, is not a servicing organization," the Education Principle Foundation said in a news release. "The foundation will not be involved in the operations of the Arts Institutes or South University. Each university system will be governed by a Board of Trustees comprised of a majority of independent members."

The Art Institutes previously were a well-known brand. The foundation now controls Art Institutes in Atlanta; Austin, Tex.; Dallas; Miami; Houston; San Antonio; Tampa, Fla.; and Virginia Beach. It also acquired South University campuses in Alabama, Georgia, Florida, South Carolina, Texas and Virginia.

Colbeck has had other connections to higher education.

The firm invests in Studio School Los Angeles, which is a branch campus of the for-profit Hussian College. Studio School was formerly known as Relativity School, but it rebranded itself in 2017 after the film production company Relativity Media went bankrupt. Relativity Media had an ownership stake in the school.

Colbeck also was a major lender to Relativity Media, according to court records.

Dream Center has negotiated a series of agreements with Studio Enterprise Manager, an affiliate of Colbeck, to operate nine of the Art Institutes campuses.

Studio Enterprise Manager provides services such as enrollment management and marketing to Studio School, according to court documents.

Accreditors and the U.S. Department of Education will have to approve the deal before it is final.

Nonprofit Conversions

Critics of for-profit institutions and nonprofit conversions by some for-profits said they were concerned about the ownership changes for the Art Institutes and its sister universities.

“It looks highly questionable,” said Robert Shireman, a senior fellow at the Century Foundation and a former Obama administration Education Department official. “It’s the type of very sketchy nonprofits that we have seen emerging recently.”

Shireman pointed to the recently changed structure of Grand Canyon University as an example. The for-profit company last year sold its campus and academic operations to a newly created nonprofit, which took on the Grand Canyon University name. Meanwhile, the company became Grand Canyon Education and entered into a 15-year contract with the university to provide outsourced support services in exchange for a percentage of revenue.

Shireman and other critics have disapproved of the new holding company's governance structure, which features a CEO who oversees both the corporate and university sides of Grand Canyon.

The 2017 deal between Kaplan University and Purdue University also drew attention for its resulting structure, in which Kaplan Inc. has a 30-year contract to run many nonacademic operations for its former university.

Shireman has criticized the relationships between some of these for-profit companies and new nonprofit universities. The nonprofits are free from some federal regulations they faced as for-profits, such as the 90-10 rule, which caps the proportion of federal financial aid for-profits can receive at 90 percent.

“Contracts are the way that some of the covert for-profits had maintained the flow of money to for-profit operations while pretending it is nonprofit,” Shireman said.

New owners could come in and restore the Art Institutes' good reputation, said David Halperin, an attorney and critic of for-profit institutions. But such a positive turnaround, he said, would require owners who are transparent about the deal.

“We don’t know anything about Education Principle Foundation,” Halperin said. “The Department of Education should be demanding more disclosure to the public or providing disclosure to the public about who owns these schools.”

Many for-profit campuses previously were owned by large, publicly traded companies that had to disclose information about the institutions and their ownership structures, Halperin said. But that isn't the case now for the former EDMC campuses.

“We don’t know who is getting millions of dollars in federal student aid,” he said.

Argosy University's Fate

Argosy campuses were not included in the deal between Education Principle Foundation and the Dream Center.

However, Dream Center has been in negotiations with Eastern Gateway Community College in Ohio over the university's online programs.

"We want Argosy so we can expand our programming," said Keith Murdock, executive director of marketing, alumni and public relations at the two-year college.

Eastern Gateway has seen rapid growth in the last few years, especially in the wake of the recent announced closure of a General Motors plant in Lordstown, Ohio, which is about 70 miles from the campus. The college's online enrollment has grown from more than 250 students in 2016 to more than 15,000 this year, Murdock said.

The college expects to see more growth if it can acquire the Argosy programs.

Eastern Gateway has partnered with local unions to offer a free community college program for members and their families. If the deal for Argosy is approved by state and federal regulators, the college would create a subsidiary that would provide four-year and graduate degrees using the new online programs, said Murdock.

As for current Argosy students, Murdock said the college would be involved in the teach-out of their programs.

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