

Public Good

vs.

Private Profit

Imagine Schools, Inc. in Ohio



A REPORT FROM

Policy Matters Ohio

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AUTHOR Piet van Lier is a senior researcher at Policy Matters Ohio. He has a master's degree in journalism from the University of Missouri at Columbia and a bachelor's in journalism and political science from Marquette University. Piet spent seven years covering education for *Catalyst* magazine before joining Policy Matters in 2007. He has done research on teacher training, school improvement, autism education, and job training for the green economy, among other issues.

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EXECUTIVE SUMMARY

Imagine Schools, Inc., is the nation's largest for-profit charter school management company, with 71 schools in 11 states and Washington, D.C. Since the 2005-06 school year, its 11 Ohio schools have received at least \$115.7 million in state and federal funds.

Called community schools in Ohio, charters are publicly funded, privately operated schools that are freed from certain rules governing traditional public schools. Long known as a state with lax charter oversight and rapid charter growth, Ohio has tightened its regulation in recent years. Charters now must meet certain academic standards to stay open, and operators like Imagine Schools, Inc., must show academic success with existing charters in order to contract with new schools.

By law, Ohio charters are granted only to non-profit organizations, but fully a third of the state's more than 300 non-profit charter schools are run by management companies, many from outside the state like Imagine Schools, Inc. These companies charge varying percentages of school revenue to run all or some of a school's operation. Records show that Imagine Schools, Inc., receives as much as 98 percent of its schools' funding to act as superintendent, central office, principal, workforce and landlord.

The management company has been under fire for its approach to education in other states, but has avoided censure in Ohio. Our research, however, shows that Imagine Schools, Inc., continues practices here for which it has been criticized elsewhere; in some cases authorities in other states have denied the company permission to open schools because of its record of poor school management. Because of its poor academic record in Ohio, a new state law disqualifies it from opening new schools here.

FINDINGS

For this study, we obtained documents through public records requests to the Ohio Department of Education, a law firm representing Imagine in Ohio, a charter school sponsor and a local building department. As a result, we were able to review operating agreements between Imagine Schools, Inc., and the schools it manages; lease agreements between individual schools and Schoolhouse Finance, the Imagine subsidiary that handles real estate; minutes from governing board meetings; school budgets and other documents. Other information used in this report was available online, including school academic and enrollment data, audits done by the State Auditor of Ohio, and property information.

Low academic performance: None of the schools managed by Imagine has been designated by the Ohio Department of Education above Academic Watch, the equivalent of a "D" in state ratings, since the 2005-06 school year. Five of the six rated schools received an "F" for the 2008-09 school year; five schools were too new to have received a rating. Because of this poor performance, a new law that took effect in October 2009 prohibits Imagine from opening new schools until it has at least one school rated by the state at Continuous Improvement, the equivalent of a "C." Imagine's rated schools fared substantially worse than nearby traditional public schools by this standard. Using a newer "value-added" approach to grading schools, which measures growth in student

achievement, these Imagine schools showed results largely similar to nearby district schools.

Weak oversight and conflicts of interest: The Ohio Department of Education delegates oversight of charter schools to sponsors, commonly referred to as authorizers in other states. These entities are supposed to: verify that a school complies with Ohio Revised Code; monitor and evaluate schools' academic and fiscal performance; and provide technical assistance in a number of areas. St. Aloysius, sponsor of seven Imagine schools, contracts its sponsorship duties to a private firm, Charter School Specialists. CSS provides fiscal services, including that of school treasurer, to all 11 Imagine schools in Ohio; among them are the seven schools for which CSS provides sponsor services. This represents a potential conflict of interest for CSS, headed by former ODE staffer Dave Cash.

Real estate deals require scrutiny: Imagine and its real estate subsidiary Schoolhouse Finance continue using in Ohio the kind of complex real estate deals for which they have been criticized in other states. The high facility costs that result undermine the ability of Imagine schools to meet students' educational needs, according to lender guidelines for charter school spending. For most of its Ohio school properties, Schoolhouse Finance has purchased, renovated and leased buildings to schools Imagine started. The Imagine subsidiary sold five of the properties to real estate investment trusts (REITs), then leased the properties back from the REITs and continued renting them to its schools, allowing opportunities for profit both at resale and as it collects rent. An analysis of lease costs shows these schools are likely paying a premium that increases with each passing year. Imagine officials have said the for-profit operates as a non-profit, funneling earnings back into its education venture; since Imagine is privately held, evidence of this approach is not publicly available. Members of at least one Imagine school board, in Franklin County, have raised concerns about high rent; its lease with Schoolhouse Finance required it to pay more than \$1.4 million in rent during 2009-10 for two buildings owned by REITs. Given that these related party transactions between Imagine and its subsidiary are using public dollars, further investigation is warranted.

Large schools and low salaries: Furthermore, even as many charter schools boast their smaller size as an educational advantage over traditional public schools, schools managed by Imagine Schools, Inc., clearly see larger enrollment as the path to financial viability, according to documents obtained for this research. Those documents are backed by data: median enrollment for schools Imagine manages in Ohio is more than double median non-digital charter enrollment in the state. Imagine's apparent focus on the bottom line also means significantly lower salaries for teachers – a salary gap seen in other states between schools managed by Imagine and other charters is evident in Ohio as well.

Imagine Schools, Inc., is privately owned by Dennis Bakke, a high-profile and outspoken supporter of education vouchers and charters. In 2004, Bakke bought an existing management company, renamed it Imagine and set out to expand. Bakke is former chairman of AES Corporation, a global energy generation and distribution company and author of the popular business book *Joy at Work*. He made news in 2009 when an internal

memo he wrote was published in news reports; in it, Bakke told Imagine managers and school leaders that Imagine-managed schools are “our schools” because the taxpayer money flowing to the schools is “our money.” He also encouraged his employees to disregard and minimize the power of appointed school boards.

In Ohio, Imagine school board members have resigned in frustration over what they describe as corporate disregard for the governance role, mandated by law, that charter school boards are to exercise over their schools. “We finally concluded that what was desired from the administration [of the school] was for the board to be a rubber stamp rather than a governing body,” said one former board member interviewed for this study.

RECOMMENDATIONS

Our findings document the need to further strengthen monitoring of charter schools by the Ohio Department of Education and the sponsors to which it delegates much oversight. Ohio has taken good steps in recent years, but policy makers must do more. Necessary steps include:

- Prohibiting for-profit management companies from running Ohio charter schools;
- Requiring charter operators to demonstrate a meaningful record of academic success before being allowed to open or contract with schools in Ohio;
- Strengthening the independence and proper role of charter school governing boards and ensuring that members are empowered and held accountable as stewards of public trust and monies;
- Forbidding sponsors from conducting business with companies that have ties to schools monitored by the sponsor;
- Requiring that the operations of charter sponsors be completely transparent and subject to full public disclosure.

Finally, policy makers, state regulators and the state attorney general should investigate the elaborate real estate transactions, management, development and other fees and mechanisms employed by Imagine Schools, Inc., and other management companies to assure that public monies are being appropriately spent on the education of children.

INTRODUCTION

Since the Ohio legislature passed the law allowing charter schools in 1997, the state has seen one of the fastest growth rates of charters in the U.S. The 332 Ohio charter schools operating during the 2008-09 school year enrolled more than 89,000 students as of June 2009.¹ The vast majority are in the state's urban centers. Of Ohio's 88 counties, only 35 have at least one charter; more than 80 percent of Ohio charters are located in nine counties with large central cities.

Long viewed as a state with lax charter oversight, Ohio has gradually tightened regulations through legislative action. Changes to charter oversight have accelerated since the 2006 election of Governor Ted Strickland. Most notably, Ohio law now requires that charter schools be closed if they don't meet academic performance standards over a period of three or four years, depending on the grade levels served by an individual school. Regulations also require that charter operators demonstrate academic success before opening new schools.

The debate around charters, known in Ohio as community schools, has been polarized. Supporters say the publicly funded, privately operated schools provide choice for parents who otherwise may not be able to afford an alternative to traditional public schools; charter critics say they siphon both higher-achieving children and much-needed resources away from urban public schools, while academic achievement at charters is generally no better, and often worse, than traditional public schools.

Many voices in the middle argue that the original vision behind charters – to create locally driven options that offer alternatives to traditional public schools – is valid, but that the involvement of for-profit charter operators has corrupted the movement.

In 2009, Governor Strickland proposed to ban for-profit education management organizations (EMOs) from operating charter schools for the nonprofit boards that act as school governing authorities. Republicans in the Ohio Senate blocked this effort.

Directing taxpayer dollars to private firms through publicly funded schools has long been a contentious issue, and the growth of for-profit management companies has exposed charters to increasing scrutiny and criticism in many states. Nevertheless, about a third of Ohio's charter schools are operated by for-profit EMOs, many of them national firms with headquarters outside the state. And the presence of for-profits is growing in Ohio.

Imagine Schools, Inc., based in Arlington, Virginia, is the largest for-profit charter operator in the country; in April 2010 the company website listed 71 schools in 11 states and the District of Columbia, up from 25 schools in 2004. It has been among the fastest growing EMOs in Ohio, and now has 11 schools in the state.²

¹ Annual Report, Ohio Community Schools, Ohio Department of Education, 2008-09.

² Current numbers retrieved from www.imagineschools.com on April 20, 2010; in March 2010, Imagine listed 72 schools, but a school in New York is no longer listed on the firm's website. 2004 data is from a St.

This paper examines the practices of Imagine Schools, Inc., both as a national player and as a manager of Ohio schools. Despite the controversy surrounding the for-profit company in many communities across the country, its Ohio operations have never been closely examined.

Over the past five school years, Imagine schools in Ohio have received at least \$115.7 million in state and federal funding, according to records available on the Ohio Department of Education website.³ During the 2008-09 school year alone, records show that Imagine schools took in about \$38.5 million. State audits available online show that, depending on the Imagine charter school, anywhere from 90 to 98 percent of those taxpayer funds were paid directly to Imagine Schools, Inc., by school governing authorities.⁴

Imagine Schools in Ohio	City
Romig Road Community School	Akron
Bella Academy of Excellence	Cleveland
Harvard Avenue Community School	Cleveland
Academy at Sullivant	Columbus
Academy of Columbus	Columbus
Harrisburg Pike Community School	Columbus
Great Western Academy	Columbus
Klepinger Community School	Dayton
Groveport Community School	Groveport
Clay Avenue Community School	Toledo
Madison Avenue School of Arts	Toledo

The management company's poor academic record in Ohio – its six Ohio schools that have been open long enough to be rated by the state are either in Academic Emergency or Academic Watch – means that it is no longer allowed, by law, to open new schools here. Operators with existing Ohio schools must have at least one school rated by the state at Continuous Improvement, the equivalent of a "C."⁵

Louis Post-Dispatch article by David Hunn, *Memo from schools CEO adds fuel to Imagine fire*, October 25, 2009.

³ The first two Imagine schools in Ohio signed management agreements in 2005 and 2006; the five years cited here start with the 2005-06 academic year and run through the 2009-10 academic year. The first four years are based on data available in annual reports of the Office of Community School at the Ohio Department of Education. Fiscal year 2010 state transfer figures are taken from Community School Settlement Reports for each school dated April 1, 2010, available on the ODE website; federal fund estimates are based on conservative assumptions that schools open in 2008-09 received the same amount of money in 2009-10 as they did the previous year, even though the state's per pupil funding formula increased and individual school enrollment likely increased as well. Federal estimates for a new Imagine charter that opened in fall 2009 were based on an estimate of the per pupil funds received by Imagine schools in 2008-09.

⁴ At the six Imagine schools in Ohio for which audits were available on the state auditor's website, the percentage of total revenue paid to Imagine Schools, Inc., ranged from 90 to 98 percent. Clay Avenue – 90 percent; Groveport – 91 percent; Harvard Avenue – 92 percent; Romig Road – 93 percent; Academy of Columbus – 95 percent; Great Western Academy – 98 percent.

⁵ Ohio Revised Code 3314.016 and *Out-of-state operator application instructions*, published by the Ohio Department of Education; document retrieved from education.ohio.gov/GD/Templates/Pages/ODE/ODEDetail.aspx?page=3&TopicRelationID=662&ContentID=1974&Content=84664

There is also reason to believe that related party transactions – between Imagine Schools, Inc., and its real estate subsidiary Schoolhouse Finance, as well as those involving Charter School Specialists as both a sponsor of Imagine-run schools and as a contractor providing non-sponsor fiscal services to the same schools – may have compromised the oversight of spending of taxpayer dollars.⁶

Finally and most importantly, our research shows that Imagine Schools, Inc., has not created the kind of innovative schools that can help improve education, as charters were originally conceived. In contrast, Imagine brings to education a record of poor management, low academic performance, and little local control of its schools.

PLAYER ROSTER

Charter school – a publicly funded, privately run school that is freed from some regulations governing traditional public schools. Known as community schools in Ohio.

Imagine Schools, Inc. – a private for-profit charter school management company based in Virginia that operates 71 charter schools in 11 states and the District of Columbia, including 11 in Ohio.

Schoolhouse Finance, LLC – a subsidiary of Imagine Schools, Inc., that handles real estate for the firm. For most of Imagine’s Ohio charters, Schoolhouse Finance buys and renovates commercial or industrial properties, leasing them to individual Imagine schools. Properties leased by four Ohio charters were sold by SHF to a Real Estate Investment Trust (see below) and then leased back to SHF, which continued leasing to the individual schools.

Real Estate Investment Trust – a corporation that owns and manages commercial properties and mortgages and is required to distribute 90 percent of income to investors; a REIT is similar in structure to mutual funds, which allow smaller investors to invest in stocks. REITs working with Imagine in Ohio include JERIT CS Fund I and Entertainment Properties Trust.

Charter school boards – a group comprised of at least five individuals with legal responsibility for the school. Typically, these are the people who have developed the school; in the case of Imagine, the company and its representatives in Ohio generally recruit members to serve on boards once plans for the school are underway.

Charter school sponsor – an entity authorized to create a charter school in Ohio. According to the Ohio Department of Education website, sponsors serve as the “central quality control agent for public charter schools and have three basic functions: technical assistance, monitoring, and intervention, when necessary.” Sponsoring Imagine-run schools in Ohio are St. Aloysius Orphanage, Ohio Council of Community Schools, and Lucas County Educational Service Center. What Ohio calls sponsors are typically called “authorizers” in other states.

Office of Community Schools – The division at the Ohio Department of Education that approves sponsors and oversees their work with charters. Early on, ODE served as a charter school sponsor, but in 2003 the legislature changed the law to no longer allow the agency to play that role.

⁶ St. Aloysius, which sponsors seven Imagine schools, contracts its sponsorship duties out to Charter School Specialists, Inc., a private for-profit firm headed by former ODE staffer Dave Cash.

ABOUT IMAGINE

Imagine Schools, Inc., is privately owned by Dennis Bakke, a high-profile and outspoken supporter of education vouchers and charter schools. In 2004, Bakke bought an existing EMO – Chancellor Beacon Academies – renamed it Imagine and, with his wife Eileen as vice president in charge of education, set out to expand.

Bakke is former chairman of AES Corporation, a global energy generation and distribution company, author of the popular business book *Joy at Work*, and a leader in the movement to promote a market-based approach to school reform that relies on the privatization of public schools.⁷ In 2008, the Bakkes gave \$500,000 to support litigation that

resulted in a Maryland Court of Appeals ruling that granted more generous funding to all charter schools in the state.⁸ He's politically active in Ohio too, having recently contributed \$10,000 to the gubernatorial campaign of Republican John Kasich.⁹ Bakke is also a member of "The Family," the controversial Christian group that includes high-profile business leaders and politicians; recent scandals put a spotlight on the Family and its "C Street Spiritual Haven" in Washington, D.C.¹⁰

Imagine in Other States

A 2008 memo from Imagine CEO Dennis Bakke to his employees reads in part that board members "believe they are the 'governing' Board even if that adjective to describe the board has never been used by an Imagine School person." Bakke also writes that the first significant role of board members is "to affirm (vote FOR if legally required) significant items like our selection of the Principal and the budget...."

More recently, Bakke has made news with the publication of an internal memo to Imagine managers and school leaders that expressed his position that schools run by the company are "our schools" because the taxpayer money flowing to the schools is "our money."¹¹ In the memo Bakke encourages his employees to disregard and minimize the power of appointed school boards. These boards are governing bodies with legal mandates to run charter schools the company manages, but Bakke suggests in the memo that board members be required to sign undated letters of resignation before joining the board.

The memo reads, in part, that board members "believe they are the 'governing' Board even if that adjective to describe the board has never been used by an Imagine School person." Bakke also writes that the first significant role of board members is "to affirm (vote FOR if legally required) significant items like our selection of the Principal and the budget...."

⁷ See <http://www.dailykos.com/storyonly/2010/1/14/825051/-Rachel-Maddow-meet-Dennis-Bakke-of-Imagine-Schools>; also <http://edumacationarchive.com/2009/11/26/imagine-schools-cash-in-on-education/>; on the Family see <http://jeffsharlet.com/content/excerpt-from-the-family/>

⁸ See <http://www.washingtonpost.com/wp-dyn/content/article/2008/05/11/AR2008051102049.html>

⁹ See http://www.cleveland.com/naymik/index.ssf/2010/04/john_kasich_and_ted_strickland.html

¹⁰ See among others, Roig-Franzia, Manuel, "The Political Enclave that Dare Not Speak Its Name," *The Washington Post*, June 28, 2009.

¹¹ See <http://www.stltoday.com/blogzone/the-grade/charter-schools/2009/10/dennis-bakke-to-imagine-schools-pick-your-board-members-carefully/>

Imagine school documents reviewed for this study, including operating agreements and school board minutes, as well as interviews with former Imagine school board members, indicate that Imagine continues its top-down approach to education in Ohio. Two board members interviewed painted a more positive picture of a management company that plays an appropriate role in running schools.

BOARD MEMBER CONCERNS OVER GOVERNANCE

Interviews with two former board members of Groveport Community School, near Columbus, reveal discontent with governance issues that echoes concerns raised in other states after the release of Dennis Bakke's memo to Imagine employees. Both members said they resigned because the board was not allowed a meaningful say in governance and policy issues.

"We finally concluded that what was desired from the administration [of the school] was for the board to be a rubber stamp rather than a governing body," said Dr. David Welch, who resigned from the school's board in August 2009 after about two years of service. Welch is a certified public accountant, certified fraud examiner and lead accounting faculty at Franklin University in Columbus. Welch was one of four people who resigned in a six-month period in 2009 because they were frustrated with the role of the board, he said.¹²

"I know that when board members started resigning, it was because of frustrations over feeling like we were just there for show, that we had no true voice in the actual happenings of the school, in policy developments," said another former member of the Groveport board who asked to remain anonymous in order to not "burn any bridges."¹³

Imagine in Other States

A February 2010 investigation into Imagine MASTER Academy in Indiana by the school's sponsor found that the school board was not providing sufficient oversight. The investigation began when it was discovered that Imagine had allowed two Texas schools to use the Indiana school's nonprofit status without governing board approval. The sponsor found that board members had not read the school's charter, bylaws or its contract with Imagine; board members were also found to lack knowledge of the board's role in running a school and how the board was supposed to interact with Imagine. The sponsor's corrective action plan for the school required the board to submit revised bylaws, replace board members whose terms had expired, stop making decisions outside public meetings and end the school's relationship with the Texas charters.

*Fort Wayne Journal Gazette,
Feb. 2, 2010*

Both former board members spoke positively about aspects of their time on the Groveport CS board. "It was a good experience overall," said Welch, "being able to add expertise, to give advice on issues that administrators and other board members were untrained in." His concerns focused on the administration's refusal to answer questions that should have been under board oversight. "It seemed like anything that the board had

¹² Phone interview, April 26, 2010.

¹³ Phone interview, May 3, 2010.

an opinion about, if we didn't agree 100 percent with what was proposed, there was resistance" from the school principal, business manager and treasurer, said Welch.¹⁴ "Red flags popped up. After a period of being stonewalled and being unable to prove or disprove anything, [I saw] the risk of fraud occurring," said Welch, who felt he would risk damage to his professional reputation if he did not resign.

"The school wanted yes men around the table, and most of us had grander ideals," explained the other Groveport board member. "The principal made decisions in concert with Imagine Schools. There were a lot of conversations going on between the principal and Imagine; the board would find out four, five, six months out," explained this board member, who decided to resign because the board's voice wasn't heard, rendering the substantial time commitment required to serve on the board unnecessary.

"We finally concluded that what was desired from the administration [of the school] was for the board to be a rubber stamp rather than a governing body," ~
Dr. David Welch, former board member of an Imagine school near Columbus

Another board member interviewed for this study reported no concerns with the board role at Imagine schools. Jeffrey Nischwitz, an attorney who runs a consulting firm, said he currently serves on two Imagine school boards in Cleveland, Bella Academy of Excellence and Harvard Avenue CS, and spoke only favorably about his experience.¹⁵

"Both schools have terrific principals" who are committed to running the schools well, said Nischwitz. Imagine Schools, Inc., is not over-involved, he explained: "Imagine is around, but I never feel like Imagine is touching the day-to-day stuff." The board is able to focus adequately on student achievement and fiscal issues, according to Nischwitz.

The former board president at Harvard Avenue CS also spoke positively about his experience with the Imagine charter school. "I thought it went really well," said William Proctor of his time on the board. The school succeeded in improving student outcomes even though many children came in below grade level, said Proctor, president of two Cleveland-area firms, Transfer Technologies, LLC, and Epicenter Development Group.

Imagine employees were very responsive to the board, said Proctor. "If we had questions, we would get information quickly. We put a lot of controls in place, especially around financials. I was really impressed with how things went" from start up to a functioning school, he explained.¹⁶

¹⁴ The principal and business manager are Imagine employees, the treasurer is hired through Charter School Specialists.

¹⁵ Phone interview, May 3, 2010.

¹⁶ Phone interview, May 4, 2010.

IMAGINE'S POOR ACADEMIC RECORD IN OHIO

All 10 Imagine schools open in Ohio during the 2008-09 school year missed adequate yearly progress goals, required under federal education law. Furthermore, none of the for-profit's Ohio schools has been designated above Academic Watch (the equivalent of a "D") since the 2005-06 school year.¹⁷ As Figure 1 shows, five of the six rated Imagine schools received an "F" for the 2008-09 school year, while the sixth got a "D."¹⁸ The remaining five Imagine schools opened in 2009 and 2010, and have not yet received a rating from the Ohio Department of Education.

Nationally, more than half of Imagine schools made adequate yearly progress for the 2007-08 school year; most of the operator's schools that did not meet AYP goals were in Ohio and Florida.¹⁹

Figure 1: Academic ratings of Imagine schools that have been open long enough to receive a designation from the Ohio Department of Education; five other schools opened in fall 2009 or 2010, and are not yet rated. Academic Emergency, the lowest rating, is the equivalent of an "F" grade; Academic Watch is the equivalent of a "D."

School	County	Opened (school year)	Designation 2008-09
Academy of Columbus	Franklin	2005-06	Academic Emergency
Clay Avenue CS	Lucas	2007-08	Academic Emergency
Great Western Academy	Franklin	2002-03	Academic Watch
Groveport CS	Franklin	2006-07	Academic Emergency
Harvard Avenue CS	Cuyahoga	2006-07	Academic Emergency
Romig Road CS	Summit	2007-08	Academic Emergency

Source: Ohio Department of Education

Imagine schools generally don't compare well with neighboring traditional public schools, either. An analysis of 21 demographically similar traditional public schools located near the six rated Imagine schools shows that, on average, the public schools posted much higher ratings.²⁰ Of these traditional publics, 38 percent were in emergency or watch, while the remaining 62 percent were rated in Continuous Improvement or better.²¹ (For a comparison of academic ratings for each rated Imagine school and the

¹⁷ For the 2005-06 school year, Imagine's Great Western Academy in Columbus was rated Effective, the equivalent of a "B".

¹⁸ Academic rating data from the Ohio Department of Education.

¹⁹ Adequate Yearly Progress, or AYP, is a measure mandated by the federal education law known as No Child Left Behind. Its meaning differs significantly from state to state, rendering comparisons difficult; the measure does provide some sense of how states measure their schools' academic success.

²⁰ In general, these traditional public schools enrolled a lower percentage of African-American students than did Imagine's rated schools, but a similar or substantially higher percentage of economically disadvantaged students and a substantially higher percentage of students with disabilities. In Akron, Cleveland, Columbus and Toledo, comparison public schools were all within a mile of the Imagine schools. In the smaller, less densely populated district of Groveport-Madison, the nearest schools with the same grade levels were included for comparison purposes; all were within 2.3 miles.

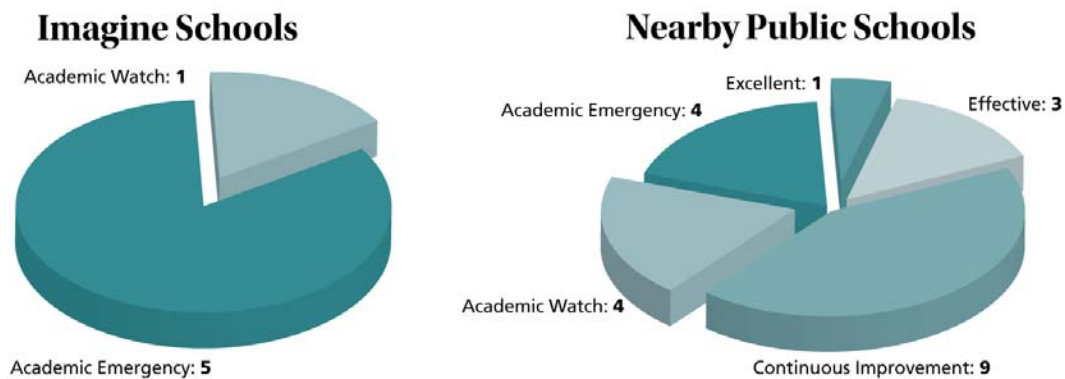
²¹ All ratings from the 2008-09 school year.

nearest traditional public schools, see appendix A; an appendix including demographic data is available online at www.policymattersohio.org/ImagineSchools.htm.)

Imagine's Academy of Columbus, for example, enrolls children in kindergarten through 8th grade and is in Academic Emergency. There are five district schools serving elementary and middle school grades within a mile of this Imagine school; two are rated Effective and three are at Continuous Improvement. The schools serve roughly similar populations, with the Academy of Columbus serving a higher percentage of economically disadvantaged children, but fewer students with disabilities in all but one school. The schools near Imagine's Harvard Avenue Community School on Cleveland's southeast side present a different picture -- all four district schools there, along with the Imagine school, were in Academic Emergency.

Imagine's Great Western Academy in Columbus had ratings most similar to neighboring schools. The three other rated Imagine schools in Akron, Groveport and Toledo all had ratings lower than surrounding traditional public schools. Figure 2 shows how Imagine schools in Ohio compare to nearby traditional public schools with similar populations.

Figure 2: Imagine and nearby public schools compared



Source: Ohio Department of Education

Value added measure shows similar outcomes

In the relatively new measure of growth in student learning over the course of a school year, Imagine's Ohio schools perform about the same as neighboring traditional public schools.

Five of the six rated Imagine schools in Ohio met or exceeded student-growth goals for the 2008-09 school year, an outcome similar to those of the 21 neighboring public schools, 17 of which met or exceeded value-added goals. (See appendix A.)

Imagine's Academy of Columbus again fares poorly in the comparison, falling below goals, while three of the Columbus district schools nearby exceeded goals and two met

them. In Cleveland, Imagine's Harvard CS exceeded goals, as did all but one of the nearby Cleveland district schools.²²

Value-added measures like the one used in Ohio are seen by many as a meaningful measure of a school's effectiveness, but it is not the measure Ohio depends on to determine school success when decisions are made to allow operators to open new schools. As a result, this section has focused primarily on the five-point rating system. The state's value-added system is a factor used to determine whether or not a charter school can remain open.

Visit to an Imagine school

Despite Imagine's academic troubles in Ohio, the school we visited – Bella Academy of Excellence, a first-year K-5 Imagine school in the North Collinwood neighborhood on Cleveland's far northeast side – was a pleasant, orderly school where children appeared engaged in their lessons.

The building, former medical offices converted to a school and leased to Schoolhouse Finance by the national nonprofit Charter Schools Development Corporation, had previously housed two other charters. It provided a well-lit environment and large classrooms.

According to principal Jennifer Woody, the school enrolled 207 students as of April 2010. Kindergarten had the highest enrollment, with 87 children in four classes, each with a teacher and an assistant. In the other grade levels, most classes had fewer than 20 children, the notable exception being third grade, with one class of 30 students staffed by two teachers.²³

Imagine in Other States

Parents at Imagine in the Valle were complaining about a lack of representation and local control in school governance. For fiscal year 2009, the Valle campus received \$1.3 million in state funding. Of that, \$706,000 — just over 54 percent — went to salary and benefits, \$170,583 was paid to Imagine for its management services, and \$214,000 went to the company's real estate affiliate, Schoolhouse Finance, LLC, for rent. Even with cuts to the school's funding, the school is moving to a more expensive facility, to be leased from Schoolhouse Finance. Schoolhouse Finance planned to lease school space for \$35,000 a month while charging \$42,000 monthly in rent to the school. Parents from the school said Imagine had not explained the \$7,000 difference.

Las Vegas Sun, April 2, 2010

The school uses a scripted, direct instruction approach to teach reading. During a visit to the school, some 20 3rd graders were reading with a teacher from *Charlotte's Web*, while other 3rd graders who couldn't read at that level were working in another room with the second teacher. The school offers physical education twice a week in a larger classroom, French once a week and computers once a week in a lab equipped with 24 computers.

²² Value-added data from Ohio Department of Education.

²³ About 75 percent of the children attending Bella live in the Cleveland school district, about 16 percent are from the nearby suburb of Euclid, with most of the rest coming from as far away as Cleveland Heights-University Heights, East Cleveland, Richmond Heights and South Euclid-Lyndhurst, according to an Ohio Department of Education financial settlement report dated April 1, 2010, which showed official enrollment at 183 children.

Ohio law prohibits expansion by poor-performing operators

In order to contract with new schools, charter operators have long been required by Ohio law to document minimal success with existing schools, either in Ohio or in other states. But Ohio Revised Code now requires operators with existing schools in Ohio to show that they have an Ohio school rated at Continuous Improvement or better as a precondition for opening new schools.²⁴ Imagine has not had an Ohio school rated at that level since the 2005-06 school year, when Great Western Academy in Columbus was rated Effective; the following year the school dropped to Academic Watch, the equivalent of a “D”. Because of its schools poor ratings, the management company is not eligible to open new schools for the 2010-11 school year. St. Aloysius Orphanage, sponsor of seven Imagine schools, rescinded a preliminary agreement in May 2010 that it had signed to oversee a new Imagine charter in Ohio.

If current law had been in place since 2007, when the state began to strengthen regulations on the opening of new charters, five schools Imagine established in 2008 and 2009 would not have been allowed to open.²⁵

ST. ALOYSIUS SPONSORS NEWEST IMAGINE SCHOOLS

The Imagine schools most recently established in Ohio are sponsored by St. Aloysius Orphanage, a private non-profit service agency in Cincinnati.²⁶ As a sponsor, St. Aloysius is supposed to: verify, prior to the school’s opening, that the school complies with all applicable ORC statutes; monitor and evaluate the academic and fiscal performance, as well as the overall operation, of each school at least once each fiscal year; provide technical assistance to help each school maintain compliance with all applicable laws and rules as well as the preliminary agreement and contract, and; have in place a written plan in the event a school experiences financial difficulties or closes before the end of the school year.²⁷

For its sponsorship, St. Aloysius Orphanage charges schools 3 percent of all funding the schools receive from the state. An effort to gain access to public records through St. Aloysius and Charter School Specialists was denied, so the percentage of each school’s state funding that flows through St. Aloysius to Charter School Specialists for work it does as a charter school sponsor could not be determined.

²⁴ House Bill 1, the biennial budget bill passed by the state legislature and signed into law in July 2010, included language that requires operators with existing schools in Ohio to show that at least one Ohio school they operate is rated at Continuous Improvement.

²⁵ ODE’s official guidance to charter school operators with both Ohio and non-Ohio schools (such as Imagine Schools, Inc.,) requires that they meet two criteria: 1) they must have at least one Ohio school at Continuous Improvement or better, and; 2) they must not establish more Ohio schools after June 30, 2007, than the number of charter schools they already operate in other states that perform at the equivalent of Continuous Improvement in Ohio.

²⁶ The agencies called “sponsors” in Ohio are typically called “authorizers” in other states.

²⁷ For a more complete description of sponsor responsibilities, see “Who can become an authorized sponsor?”, retrieved from the ODE website at the shortened link <http://bit.ly/aIERQs>.

Charter School Specialists: A conflict of interest

St. Aloysius contracts its sponsorship duties to Charter School Specialists, a private, for-profit firm headed by Dave Cash, former director of operations at the Ohio Council of Community Schools and a former education consultant at ODE's Office of Community Schools. In addition to its sponsorship work, Charter School Specialists also provides basic fiscal services and handles reporting to the Ohio Department of Education for 10 Imagine-run schools in Ohio; for the 11th, it provides only basic fiscal services, according to a review of contracts the firm has signed with the schools.²⁸

In the case of the seven schools sponsored by St. Aloysius, the dual role of Charter School Specialists – overseeing schools for which it is contracted to provide essential services, including the role of school treasurer – raises questions about a potential conflict of interest.²⁹

Documents obtained through records requests include contracts for the 2009-10 school year with each of these seven charters and Charter School Specialists. Six call for payments totaling \$32,668 over a 10-month period, the fifth is for \$26,802 over 12 months.³⁰ The firm provides these schools with the treasurer each is required to hire by law, other basic fiscal services and services to comply with ODE's comprehensive continuous improvement planning process.

Board member concerns at Groveport CS centered, in part, around the work of a school treasurer hired by and legally responsible to the board through a contract with Charter School Specialists. The treasurer “took the position that he’d been doing this work for a long time, and that in essence I didn’t know what I was talking about,” said former board member David Welch, the previously mentioned CPA and professor of accounting. The treasurer also didn’t seem to be fully aware of accounting procedures and transparent reporting practices, according to Welch.

The private firm’s treasurer “was frustrating,” said a former board member who asked to remain anonymous. The treasurer “clearly would ignore request after request [from the board], month after month, which would of course raise red flags,” said this member, explaining that it was never clear if delays were caused by an overwhelming workload or occurred for a different reason.

At the same time, this member spoke highly of CSS president Dave Cash, who came to board meetings representing St. Aloysius and CSS as Groveport’s sponsor: “He was such a good voice at the table. We had many conversations about the direction the school was going.” But Cash didn’t respond to the board’s concerns about the treasurer, according to

²⁸ The firm’s website list about 60 “partner schools” to which it provides services: www.charterschoolspec.com. CSS contracts available at www.policymattersohio.org/ImagineSchools.htm.

²⁹ Bella Academy of Excellence, Harrisburg Pike CS, Klepinger CS, Madison Avenue School of Arts and Sullivan Avenue CS.

³⁰ Contracts between Charter School Specialist and other Imagine schools were reviewed, and fiscal year 2008 audits documented the services CSS provided for several schools as well.

this board member, and the treasurer did not become more responsive. “I don’t know if there were conversations between Dave Cash and the treasurer.”³¹

Lack of transparency

Although all sponsors are funded by taxpayer dollars and paid by individual charter schools, the two sponsors approached with records requests under Ohio public records law responded differently.

The Ohio Council of Community Schools responded, albeit slowly, providing the first set of requested documents about six weeks after the initial request.³² A promised second set of documents was not sent in time to be used for this report.

In its sponsor role with St. Aloysius, Charter School Specialists maintained that it does not have to follow public records law. In an email received March 5, 2010, Tammie

“It is important to note that St. Aloysius Orphanage and Charter School Specialists are not public offices that are subject to the public records law.” ~ Tammie Osler, general counsel for Charter School Specialists

Osler, identified in the email as general counsel for Charter School Specialists, wrote: “It is important to note that St. Aloysius Orphanage and Charter School Specialists are not public offices that are subject to the public records law.”

Records requests needed to complete the study were then sent by Policy Matters Ohio to individual schools, at the suggestion of Charter School Specialists president Dave Cash. An Ohio-based charter school lawyer initially responded to the school-level requests.³³ Subsequently, a

Cleveland law firm that provides legal services to Imagine in Ohio contacted Policy Matters Ohio and eventually fulfilled the request, providing many documents used for this study.³⁴

³¹ Phone interview, May 3, 2010.

³² Initial request sent February 11, 2010, first set of documents sent March 26, 2010.

³³ Amy Borman.

³⁴ Nicola, Gudbranson & Cooper, LLC.

IMAGINE IN CONTROL

Available state audits for fiscal year 2008 show that anywhere from 90 to 98 percent of the total state and federal funds received by Imagine schools in Ohio was paid to Imagine Schools, Inc.³⁵ Agreements between the management company and its schools clearly spell out that Imagine is to provide almost all services the school will need; the operator is landlord, superintendent, district central office, principal, teaching force and custodial and food services crews.

Some of those funds were for salaries and benefits, as all administrators, teachers and other staff are employed by Imagine and not by the governing authorities of the schools. Other fees paid to the management company cover administrative fees, facilities management and fees to cover costs incurred before the schools opened. Rent payments went to Schoolhouse Finance, the management company's real estate subsidiary. Imagine also pays for curricula and education materials. The school boards pay their sponsors and contract out some work directly, including fiscal services provided by Charter School Specialists.

This connection has been described most clearly by Imagine officials. In the words of Imagine CEO Dennis Bakke, speaking to a Las Vegas Sun reporter in 2008: "It's our school as much as anyone else's school ... We've made it very clear that if you don't trust us, don't start with us, because we are there forever. It's very difficult to unwind this marriage, and it was meant to be that way."³⁶

Recurring language found in Imagine operating agreements further underscores this "marriage," requiring that board approval "shall not be unreasonably withheld or delayed" in a number of areas, including approval of budgets prepared by Imagine, subcontracting of special education services, and changes to a school's education program. Under a section titled "Obligations of the Board," an operating agreement used by Imagine in Ohio reads: "The Board shall consider all reasonable rules, regulations, policies and procedures as recommended by Imagine and seek Imagine's input in connection with any rules, regulations, policies and/or procedures proposed by the Board and/or the Authorizer."³⁷

News reports from other states cite the difficulties Imagine charter school boards have had when they've tried to terminate relationships with the management company.³⁸ If any Ohio schools were to attempt a break with Imagine, they would likely encounter similar

³⁵ At the six Imagine schools in Ohio for which audits were available on the state auditor's website, the percentage of total revenue paid to Imagine Schools, Inc., ranged from 90 to 98 percent. Clay Avenue – 90 percent; Groveport – 91 percent; Harvard Avenue – 92 percent; Romig Road – 93 percent; Academy of Columbus – 95 percent; Great Western Academy – 98 percent.

³⁶ Richmond, Emily. "Charter School on Thin Ice", *Las Vegas Sun*, June 10, 2008. Retrieved April 14, 2010 at <http://www.lasvegassun.com/news/2008/jun/10/charter-school-thin-ice/>.

³⁷ The entities providing oversight for charters are called "sponsors" in Ohio, in other states they are referred to as "authorizers."

³⁸ Strom, Stephanie, "For Charter School Company, Issues of Spending and Control", *The New York Times*, April 24, 2010. This article relates the difficulty a school in Kennesaw, GA, had breaking from Imagine Schools, Inc.

difficulty extricating themselves from contracts and owing money to Imagine. According to a review of operating agreements, both school and operator can terminate the agreement for cause. However, language in the agreements seems to favor Imagine in a number of areas, allowing the management company to terminate when it doesn't receive contracted-for revenue, if the school board fails "to adopt Imagine's reasonable recommendations" or if the board makes decisions "substantially inconsistent with the reasonable recommendations, mission, goals or objectives as stated in the charter."

As long as Imagine fulfils its responsibilities, operating agreements automatically extend "for the duration of any extension or renewal" of the schools' charters.

In the event of termination, Imagine Schools, Inc., retains the right to all curricula, materials and equipment it has purchased, while providing the school board the opportunity to purchase items from Imagine in order to continue using them.

KEY MECHANISMS BIND SCHOOLS TO IMAGINE

Operating agreements between Imagine and its schools describe the structures that tie schools to Imagine. These mechanisms set up by the management company and spelled out in operating agreements include:

- "Operating allocations," from which Imagine pays the operating expenses of the charter school. Imagine school boards are required to transfer all revenues to a charter school operating account for this purpose, except for funds that go to certain agreed-upon expenses of the board;
- "Charter school operating account," established and owned by Imagine Schools, Inc.;
- "Operating Advances" deposited in school accounts by Imagine Schools, Inc., to pay school expenses when state and federal revenues are not sufficient. After the fiscal year in which such advances are made, interest is charged until debt is repaid;
- "Administrative Allocations," referred to in some documents as "Indirect Cost" allocations, are payments schools are contractually required to make to Imagine to cover the firm's administrative costs, either 12 or 13 percent of state per-student funding depending on the school;
- "Development Allocations" to schools provide up-front cash for school start ups before per-student state and federal funding begins to flow at the start of the first school year. Schools must repay them with interest;
- Equipment leases made through Imagine provide its schools with desks, chairs and other furniture used by students, teachers and administrators.

Operating funds

Within three days, all revenues the school receives are to be deposited in a "charter school operating account established and owned by Imagine." These funds are kept by Imagine as its "gross operating allocation" which the firm uses to pay the schools' expenses.³⁹

³⁹ Including: "payroll processing expenses; personnel salaries and benefits expenses; cost of assessment materials; cost of furniture, fixtures, equipment, technology, textbooks and other materials and supplies, including equipment lease expenses incurred by Imagine in connection with the Charter School; insurance premiums and deductible payments other than for insurance maintained by the board ... costs for public

Operating Advances

All operating agreements reviewed for this study had language covering operating advances to cover schools' budget shortfalls. Such advances are described in the most recent operating agreements as "intra-company" loans and "not a debt of the board."⁴⁰

Imagine Schools, Inc., agrees to provide these loans without interest if they are repaid during the same fiscal year in which they are advanced; interest does accrue on balances outstanding after the first year, however. Some agreements stipulate a simple interest rate of no more than 10 percent; others set the annual rate equal to the prime rate as reported by the Wall Street Journal on May 31 of the previous fiscal year.⁴¹

Of the six Imagine schools audited by the Ohio auditor's office in fiscal year 2008, all had operating losses and three of the six had net assets deficits. More recent audits were not available.

Imagine sets fee to cover overhead

Imagine operating agreements reviewed for this study showed that Imagine sets as an operating expense for its Ohio schools an administrative fee to be paid on a monthly basis. Of the nine operating agreements reviewed for this report, five set 13 percent of state funds as the "administrative" or "indirect cost" allocation; the remaining four set the fee at 12 percent.⁴² All Imagine-run schools are charged a comparable fee.

In at least some of these operating agreements, Imagine commits to reconciling fiscal year revenues by a specific date

Imagine in Other States

In March 2010, two Imagine Schools in Manatee County, Florida, were declared to be in a state of financial emergency because they had incurred debts of nearly \$900,000; most of the money is owed to Imagine Schools, Inc. The schools will remain open but taxpayer money will be used by the schools to pay debts to Imagine that could include as much as \$350,000 in interest, according to news reports. Imagine had previously run into trouble when a local school board rejected its application to open a school because it did not have any local oversight. The decision was overturned, but later the school board raised concerns about the school's finances and the amount of money being paid to its corporate office when the company applied to open a second school.

Sarasota Herald-Tribune, March 1, 2010

utility services; transportation expenses; food service expenses; custodial expenses; expenses for maintenance and repair of grounds and buildings; marketing expenses; legal fees; Development Allocation; Indirect Cost Allocation; and other items reflected in the annual Budget but not limited to the expenses incurred by Imagine from time to time hereafter in connection with moving the charter school to a new facility.

⁴⁰ Imagine Schools, Inc., has been criticized in other states for allowing schools to accumulate debt to the company; older operating agreements did not include language about intra-company loans. Copies of operating agreements available at www.policymattersohio.com/ImagineSchools.htm.

⁴¹ Bella Academy of Excellence in Cleveland, operating agreement dated May 14, 2009, page 12, reads: "Simple interest at the rate of ten percent (10%) or such lower rate that Imagine may determine." Harvard Avenue CS in Cleveland, agreement dated July 1, 2008, page 13, refers to the prime rate report in the Money Rates section of the Wall Street Journal.

⁴² At 13 percent: Bella, Harrisburg Pike, Klepinger, Madison Avenue, Sullivant Avenue. At 12 percent: Groveport, Harvard, Romig Road, and Clay Avenue. Operating Agreements for Great Western and Academy of Columbus were not obtained, but audits for those schools indicate a similar fee is charged by Imagine.

in the next fiscal year. The board commits to paying any shortfall in this fee for the year; likewise, Imagine commits to applying overpayment of the administrative fee first to outstanding operating advances, next to outstanding promissory notes or development allocation between the board and Imagine, and last to the administrative fee due for the current fiscal year.⁴³

Development debt becomes monthly payment

Documents reviewed for Ohio and for out-of-state schools reveal common use of what Imagine Schools, Inc., refers to as a “development allocation,” an advance of funds and services before state per-pupil funds start flowing when a school first opens.

Ohio audits from fiscal years 2007 and 2008 show Imagine’s development fee as debt carried by schools from year to year, generally in the amount of \$250,000. Similarly, older operating agreements between Imagine and its charter schools refer to the fee as covering “development services” performed by Imagine, costs that it seeks to recoup from the schools once they are open. Updated operating agreements obtained for eight Imagine schools show that rather than keeping the development allocation as debt on school financial records, Imagine has converted the development fee for all the schools to a long-term monthly payment of \$2,500 to pay for school start-up services.

One such school, Groveport CS, is scheduled to pay the \$2,500 monthly fee for a total of 20 years, which would be \$600,000 for the original amount of \$250,000.” The operating agreement allows the school to repay the full amount at any time, with a 10.5 percent “per annum” discount. This language, and the 240-month term, is identical in all the agreements reviewed. Budget documents obtained for several schools show \$30,000 budgeted to cover this fee.⁴⁴

This shift from listing the development allocation as a large, ongoing liability for schools to its inclusion as a less visible monthly payment could help Imagine Schools, Inc., avoid questions the operator has faced in other states, such as Maryland (see sidebar), about the fees it charges the schools it manages.

According to Jason Bryant, an executive vice president for Imagine, the management company pays all development costs for schools before they open, including salaries and marketing. “We allow them to

Imagine in Other States

In 2008, the Harford County Board of Education denied an application by Imagine to open a school in the county because “substantial amounts of funds will be paid” by the school to Imagine for administrative, support and financial services. “These amounts are excessive in the judgment of the Superintendent’s Committee and do not represent efficient use of public funds either in a regular or charter school model.” After Imagine sought to answer concerns, the school board denied a second application largely because of Imagine’s 12 percent administrative fee, which in the board’s opinion was not justified or sufficiently explained. Imagine appealed the local decision to the Maryland Board of Education, which upheld the local board’s denial.

Imagine Harford, LLC v. Harford County Board of Education, Opinion No. 09-03

⁴³ Amended and restated operating agreement between Imagine and Harvard Ave. CS dated July 1, 2008; similar language in agreement with Bella Academy of Excellence, dated May 14, 2009.

⁴⁴ Budget documents available at www.policymattersohio.com/ImagineSchools.htm.

pay over the long term, although they can pay it off earlier if they want,” Bryant said in an interview. “We try to take the burden off the operating cash flow of schools.”⁴⁵

Other charters tap into grants from private foundations or get loans for start-up costs. In some states, per-student funding can flow to schools before they open their doors to students. Federal grants are also available for a maximum of \$500,000 over a four-year period. All but one of Imagine’s schools in Ohio have received grants of up to \$450,000 through this program, for a combined total of nearly \$3.5 million.⁴⁶

Equipment leases questioned

An assessment of an Imagine school in Nevada faulted the management company for entering into leases that were above market lease rates “without the governing board’s full understanding and/or consent.”⁴⁷ Like other Imagine schools, 100 Academy of Excellence in North Las Vegas leased everything from Imagine or its affiliates, including its building, furniture and textbooks.

Documents reveal similar concerns at Imagine’s schools in Ohio. Board meeting minutes from Groveport CS in Franklin county show that board members asked pointed questions about the schools “equipment use agreement” with Imagine and tabled consideration of the agreement “until further information is provided to the board.”

The minutes from the August 2009 meeting of the Groveport CS board show that one board member “raised concerns about the quality of the furniture being purchased.” Two board members pointed out that the agreement required the school to purchase the equipment at the end of the lease at a cost of 15 percent of the original value, even though “in many cases such equipment would have been fully depreciated and its book value would be zero.”⁴⁸

Such equipment use leases are common at Imagine’s Ohio schools, according to a former Imagine board member in a phone interview. This individual asked that comments for this study not be attributed by name or school where the board member served.

The former board member said the school principal was given authority by Imagine to enter into lease agreements for things like classroom furniture and didn’t seek board approval. Furniture leases signed by the school were particularly troubling to this individual, who has professional expertise in the leasing of furniture and equipment. “It wasn’t as though the initial purchase price was out of line,” said the former board member, “but the language of the lease was tricky. After three years of leasing, the school had to purchase it at an incredible rate. In my world, used furniture is worth pennies on

⁴⁵ Interview with Jason Bryant, April 27, 2010, at Bella Academy of Excellence in Cleveland.

⁴⁶ The Public Charter School Program, federally funded by administered by the state.

⁴⁷ Marcus, Steve, “Charter School on Thin Ice: As audit nears, School Board’s sponsorship of 100 Academy in question,” *Las Vegas Sun*, June 10, 2008.

⁴⁸ “Minutes from the meeting of the board of directors of Groveport Community School held on August 20, 2009,” obtained through records request; available at www.policymattersohio.com/ImagineSchools.htm.

the dollar. If something were to happen, and the school were to close,” it would be left with a large debt because of such leases.⁴⁹

IMAGINE SEES BOOSTING ENROLLMENT AS KEY TO FINANCIAL VIABILITY

According to state audit documents and interviews, the quest for financial viability of Imagine schools is focused to a large degree on increasing enrollment to bring in new per-pupil state and federal funds. This is in contrast to many charter schools, which often advertise their small size as an educational benefit for students.

Median Ohio charter school enrollment for the 2008-09 school year, excluding online schools, was 158, according to ODE data; the median for the 10 Imagine schools open that year was 388. The firm also managed the two largest non-digital charter schools in the state: Groveport CS, with 906 students, and Great Western Academy with 784. Both are in Franklin County.⁵⁰

FY 2008 audits from three Imagine schools spell out this strategy in identical sentences in a section of the audits entitled “Management Plan.” In each case, the audit noted the schools’ operating losses and deficit net assets and then Imagine’s identical solution: “Management intends to eliminate these deficits by increasing enrollment and improving operating efficiencies...”⁵¹

The reliance on increasing enrollment to eliminate deficits seems to have taken a toll on the academic performance of Imagine’s schools in Ohio, as shown in Figure 3 on the next page.⁵²

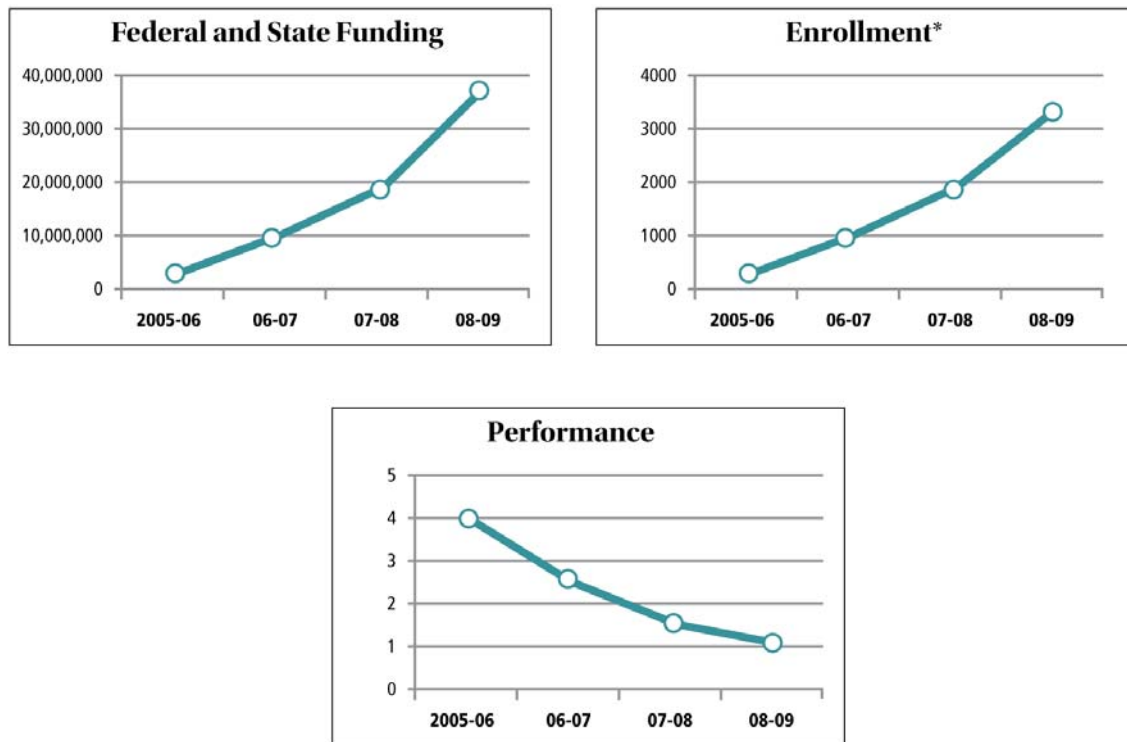
⁴⁹ Phone interview, May 4, 2010.

⁵⁰ Data from ODE community school annual report for 2008-09; according to U.S. Charter Schools, median enrollment nationally is 242; http://www.uscharterschools.org/pub/uscs_docs/o/faq.html

⁵¹ FY 2008 audits for Clay Avenue CS in Toledo, Groveport CS near Columbus, and Romig Road CS in Akron. The management plan also stated that the schools would “pay down the \$250,000 Development Allocation Fee.” Audits available online at www.auditor.state.oh.us/AuditSearch/default.aspx.

⁵² *Enrollment is just for rated schools

Figure 3: Enrollment, Public Funding and Performance at Imagine Schools over time



` (Averages from a scale where 5=Excellent, 4=Effective, 3=Continuous Improvement, 2=Academic Watch, and 1=Academic Emergency)

Source: Ohio Department of Education

In the case of Groveport Community School, for example, this note read: “Enrollment is expected to increase to over 400 students during fiscal year 2009 and staffing efficiencies have been realized since staffing has been utilized to the fullest. In addition, the Board has approved a building expansion to attract new students.”

Groveport’s enrollment increased from 363 students during the 2007-08 school year to 906 students the following year, when it expanded into another building and added grade levels.⁵³ The school saw its funding from state and federal sources more than double as a result of the enrollment increase from one year to the next, from just over \$2.7 million to more than \$6.5 million.

Interviews conducted for this study with an Imagine principal and regional company officials during a visit to Bella Academy of Excellence in Cleveland, the management company’s newest school, also shed light on how Imagine looks at school size. The school fell short of its enrollment goal of 300 for the 2009-10 school year, enrolling just

⁵³ Groveport Community School is listed as two schools with separate principals on Imagine’s website – one housing grades K-4, the other grades 5-8 – but is only one school according to ODE academic and financial records.

over 200 students, so it is forced to make do with a tight budget, according to school principal Jennifer Woody.⁵⁴

“We try the best we can if we don’t meet enrollment goals,” said Woody. She pointed out savings such as a decision to not buy bulletin boards to post student work in hallways; teachers instead taped the work to the walls. Woody said she purchased materials from other Imagine schools and sought other bargains, realizing cost savings in any way possible. Field trips were mainly kept simple and close to school, according to Woody.⁵⁵

“Where there is a need, we want to create a school,” said Imagine’s executive vice president Jason Bryant when asked about plans described in board meeting minutes to expand grades into an adjacent vacant building and possibly create a high school nearby. The company has no specific plans or goals to open a certain number of schools, according to Bryant; rather, it seeks available facilities in areas with enough population density to “make it work,” he said.⁵⁶

SALARY GAP AT IMAGINE

In order to provide solid academic programs, a charter school should spend about 60 percent of its state and local revenue on compensation in the classroom, for teachers, instructional aides and materials, according to Jane Ellis, director of charter school lending for the nonprofit Center for Community Self-Help, a national community development bank that lends in low-income and underserved areas.⁵⁷

A charter school should spend about 60 percent of its state and local revenue on compensation in the classroom for teachers, aides and materials. “We’ve been lending to charter schools since 1997.... It’s what successful schools generally spend,” ~ Jane Ellis, director of charter school lending for Center for Community Self-Help

“We’ve been lending to charter schools since 1997, and we really get into the financial picture of the schools,” said Ellis. “It’s what successful schools generally spend,” she explained. Administration, including compensation for the principal, should be about 10 percent of revenue, said Ellis.⁵⁸ The agency checks with other nonprofit lenders and commercial banks to compare notes as it develops its guidelines,

which are included in a “Charter School Budgeting Worksheet” the organization distributes. Self-Help’s calculation does not include federal revenue, which is either one-

⁵⁴ ODE financial reports dated April 1, 2010, show school enrollment at 183; Woody said the discrepancy comes because school districts have “flagged” some students whose enrollment at Bella they question. As a result, funding for those students does not flow to the charter school.

⁵⁵ Visit to school and interview, April 27, 2010.

⁵⁶ Visit to Bella Academy of Excellence and interview, April 27, 2010.

⁵⁷ Phone interview, May 7, 2010. Also see Self-Help’s “Charter School Budgeting Worksheet” and an article by Ellis posted on the organization’s website. www.self-help.org.

⁵⁸ Ohio schools in 2007 spent 8.7 percent on school and central office administration, according to the National Center on Education Statistics: http://nces.ed.gov/pubs2009/expenditures/xls/table_02.xls

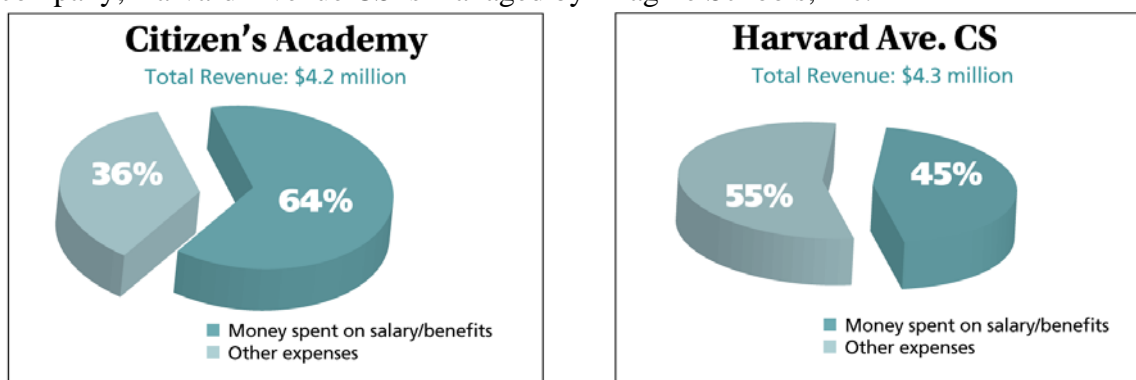
time start-up grants or “title” money for specific programs. The per-student amounts that state and local governments are required to pay are used because they are ongoing and have the strongest guarantees.⁵⁹

Imagine Schools, Inc., has been criticized for spending less on teachers than other schools. An April article in the New York Times reported that less than half of revenue at one Imagine school in North Las Vegas – about 41 percent – went to teacher and administrator salaries and benefits, while a Las Vegas charter school of comparable size that operates without a commercial management company spent about 74 percent of its revenue on salaries and benefits.⁶⁰

An analysis based on school budgets made available to Policy Matters shows that Imagine schools in Ohio budget about 40 to 45 percent of expenses for teacher compensation and direct classroom expenses. The rest is budgeted for operations, facilities, marketing and other costs, including pay for non-classroom Imagine staff and for administrative and development fees paid to Imagine.

A different comparison in Cleveland reveals a salary gap as well, as Figure 5 shows. According to fiscal year 2008 audits, Imagine’s Harvard Avenue CS spent about 45 percent of its total revenue on salaries and benefits for its teachers and administrators, all of whom are employees of Imagine Schools, Inc., rather than the local school board. Citizens’ Academy, a high-performing east side charter that does not work with a management company, spent 64 percent of its total revenue on salaries and benefits.⁶¹

Figure 5: A comparison of revenues and salary expenditures in fiscal year 2008 for two charter schools. Citizens’ Academy operated without a commercial management company; Harvard Avenue CS is managed by Imagine Schools, Inc.



Sources: Ohio Department of Education and State of Ohio Auditor.

⁵⁹ In Ohio, local money is not paid directly to charter schools.

⁶⁰ Strom, Stephanie, *For Charter School Company, Issues of Spending and Control*, page A 1, New York Times, April 24, 2010.

⁶¹ Figures used for this comparison from fiscal year 2008 audits, which correspond to the 2007-08 school year.

Harvard Avenue CS is larger, enrolling 496 students in 2008, while Citizens' Academy enrolled 388, but their total revenues are similar.⁶² The Imagine school received nearly \$4.3 million in total revenue; Citizens' Academy took in just under \$4.2 million. Figure 5 shows that Harvard Avenue CS had four more teachers than Citizens' Academy, but paid teachers, on average, about \$10,000 less that year. The Imagine school was in Academic Emergency for the school years corresponding to both fiscal years 2008 and 2009; Citizen's was rated Effective in 2008 and Excellent in 2009.⁶³

IMAGINE EXCEEDS FACILITY-COST BENCHMARK

The guideline for charter school facilities set by the Center for Community Self-Help is about 15 percent. "The biggest concern is facility cost," said Self-Help's Ellis. "Schools get into trouble when they spend more than 15 percent on occupancy costs." Occupancy costs include lease or mortgage payments, building maintenance and cleaning, utilities, insurance and even services like lawn care and snow removal. Schools that go significantly above this guideline cut into money that could be used for instruction, according to Ellis.⁶⁴ The worksheet distributed by Self-Help sketches out a budget with no more than 7.5 percent of revenue going to pay rent or mortgage, with the remaining 7.5 percent for other facility costs.⁶⁵

News reports from other states where Imagine Schools, Inc., manages schools and an analysis of Imagine school budgets in Ohio shows that the management company far exceeds these facility guidelines. One school in Nevada paid more than \$1.3 million for its facility, nearly 40 percent of its revenue.⁶⁶

In Ohio, budgets for Imagine schools show that, on average, Imagine schools in Ohio budgeted about 28 percent of state revenue for facility costs. Madison Avenue CS in Toledo budgeted the lowest amount, about 21 percent, while Klepinger CS in Dayton budgeted 39 percent.⁶⁷

Even when costs such as utilities, insurance and maintenance are not included, annual base rent costs alone were more than the amount recommended by Self-Help to cover all facility occupancy costs – on average, these seven schools are paying about 21 percent of state revenue toward their rent.

⁶² Enrollment numbers from ODE's annual report on charter schools; the 2007-08 ODE report card for Citizens' Academy put the school's enrollment at 311.

⁶³ The schools fund their operations differently. While they both received the same level of operating funds from the state on a per-student basis, Citizens' Academy brought in more per student in federal funding and almost \$450,000 in private grants and contributions. Harvard Avenue CS received somewhat less federal money and brought in no private grants or contributions, according to its FY 2008 audit.

⁶⁴ Phone interview, May 7, 2010.

⁶⁵ Another source on the 15-percent benchmark, Peter Tschaepe of Ball State University in Indiana, an Imagine sponsor, was cited in an article by Angela Mapes Turner in the *Fort Wayne Journal Gazette*: "Lease adds up at Imagine: Charter school defends selling campus, renting it back," August 16, 2009. Retrieved May 7, 2010, at <http://www.journalgazette.net/article/20090816/LOCAL04/308169927>. See also <http://www.cacharterschools.org/Library/bizplbud.html>.

⁶⁶ Richmond, Emily "Charter School on Thin Ice," *Las Vegas Sun*, June 10, 2008.

⁶⁷ The budgets for seven of the 11 Imagine schools in Ohio were included in this analysis; the budget for Bella Academy of Excellence in Cleveland was not included as the school is in its first year.

All lease agreements for Imagine schools in Ohio are “triple net leases,” which specify that these non-rent occupancy costs, as described above, are to be paid by the school above and beyond “annual base rent.”

IMAGINE AS A REAL ESTATE BUSINESS

Integrated into Imagine’s work as an education operator are real estate deals crafted by Imagine subsidiary Schoolhouse Finance, LLC; these ventures have prompted critics to ask whether the firm is primarily interested in education or real estate. Supporters, including staff and some board members interviewed for this study, say the schools get good facilities at a reasonable cost.

Bakke’s company and its related land entity work together to find land and buildings to house Imagine’s schools. According to Imagine’s website, “Schoolhouse Finance LLC, part of the Imagine family, provides long-term real estate financing for many of the school buildings that are home to Imagine’s public charter schools.... To date, Schoolhouse Finance, together with its financing partners, has provided long-term financing for 36 of Imagine’s schools, both completed and under construction, representing an aggregate real estate value of approximately \$160 million.”⁶⁸

Imagine and Schoolhouse Finance have been questioned in a number of states about their handling of school finances and high rent charged to the non-profit governing boards that hold charters to Imagine schools in many states.

After hearing testimony about Imagine’s complex deals to acquire land and construct school buildings, Texas Board of Education member David Bradley asked (Imagine Schools chief financial officer and Schoolhouse Finance president Barry) Sharp, “So are you in the real estate business or the charter [school] business?” Sharp responded, “We are in the business of educating children and giving parents a choice, and part of that is real estate.”⁶⁹

Imagine in Other States

Dr. Theron Williams, a former board member of the Imagine East Academy in Indianapolis, sold his church’s property to Imagine to house the school. According to Williams, Imagine is charging the school about \$90,000 a month for the building. He said an appraisal less than two years ago set the lease value at \$10,000-\$12,000 a month.

*Fort Wayne Journal
Gazette, April 5, 2010*

Land deals involve sale, resale

Transactions do not end with the leaseback arrangement between each school (the nonprofit charter holder) and Schoolhouse Finance LLC, which has sold a number of school properties to real estate investment trusts, or REITs. In these deals, the REIT leases the property back to Schoolhouse Finance.

⁶⁸ Retrieved from <http://www.imagineschools.com/dynamic-school.aspx?id=1012> on March 24, 2010.

⁶⁹ Retrieved from the Dallas Morning News on March 24, 2010:
<http://www.dallasnews.com/sharedcontent/dws/news/city/collin/mckinney/stories/070509dnmetimagine.3cd7006.html>

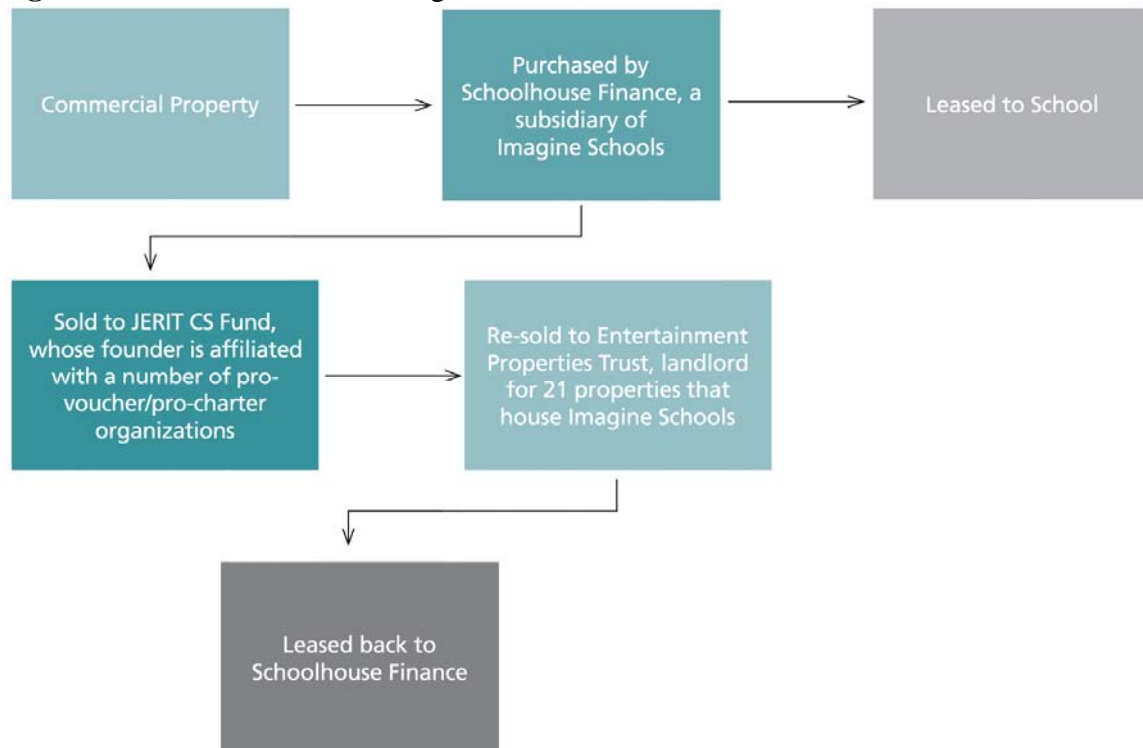
In Nevada, the state awarded 100 Academy of Excellence in North Las Vegas a charter, and the school hired Imagine to run its educational services. Schoolhouse Finance paid for the school's property and building construction. Schoolhouse Finance then leased the property to the charter school for \$1.4 million a year.

Next, Schoolhouse Finance sold the \$8 million property to a real estate investment trust, Entertainment Properties Trust, based in Kansas City, Mo. The REIT then leased the property back to Schoolhouse Finance at a lower rate than the charter school pays.

Money remaining after Schoolhouse Finance pays its lease to the trust goes to Imagine Schools, Inc. This tiered lease system has led to 10 percent returns on investment for owners and investors in the two companies, Sharp said.⁷⁰

Providing adequate facilities helps schools the company manages, Imagine vice president for education, Eileen Bakke, told one reporter: “Our organization brings new investment into public education and avoids the need for the local community to float school bonds.”⁷¹ Figure 6 shows how Imagine’s real estate model works.

Figure 6: How it works: The Imagine deal on school facilities.



Source: Policy Matters analysis of real estate records.

⁷⁰ Ibid.

⁷¹ Strom, Stephanie, *New York Times*, April 24, 2010.

Real estate in Ohio

Our study shows that Imagine and Schoolhouse Finance have taken an approach to school facilities in Ohio that is similar to what it has done in other states. One former board member said he resigned, in part, from the board of a Columbus area Imagine school because he couldn't get good answers to questions about the rent charged to his school. Two others from the Cleveland area, however, said they were not as concerned about rent costs and felt that Imagine was responsive to the boards on which they served.

While it is difficult to compare real estate prices in different markets and for different uses, a breakdown of costs helps show how Imagine and Schoolhouse Finance have handled real estate in Ohio.

Replicating Imagine practice in other states, four of the firm's Ohio schools lease property that Schoolhouse Finance purchased in recent years and then sold to real estate investment trusts that have partnered with or are subsidiaries of the publicly traded Entertainment Properties Trust, the same REIT that has partnered with Schoolhouse Finance and Imagine Schools, Inc., in Nevada and other states.

Land records indicate that Schoolhouse Finance sold four properties to one of two REITs – Charter School Fund I and JERIT CS Fund I, affiliates of JER Investors Trust and Joseph E. Robert Company. Founder Joseph E. Robert is a board member of pro-voucher/pro-charter national organization “Alliance for School Choice,” chairman of the Washington, DC, voucher program Washington Scholarship Fund, and board member of Children's Scholarship Fund (founded by the Walton family, inheritors to Wal-Mart fortune).

Entertainment Properties Trust bought half of a joint venture that held leases for Academy of Columbus, Groveport Community School near Columbus, and Harvard Ave Community School in Cleveland from JERIT CS Fund I in Oct. 2007; EPT obtained the lease for Romig Road Community School, in Akron, in June 2008.⁷²

Schoolhouse Finance sold a fifth property in January 2010 to Education Capital Solutions, LLC, a wholly owned subsidiary of Entertainment Properties Trust.

A single tenant leases or is the mortgagor of all our investments related to metropolitan ski areas and a single tenant leases all of our charter schools. Peak is the lessee of our metropolitan ski area in Bellefontaine, Ohio and is the mortgagor on five notes receivable secured by ten metropolitan ski areas and related development land. Similarly, Imagine is the lessee of all of our charter schools. If Peak failed to perform under its lease and mortgage loan obligations, and/or Imagine failed to perform under its master lease, we may need to reduce our shareholder dividends and may not have sufficient funds to support operations until substitute operators are obtained. If that happened, we cannot predict when or whether we could obtain quality substitute tenants or mortgagors on acceptable terms.

*Entertainment Properties Trust
Annual Report 2008*

Nationally, Entertainment Properties Trust is landlord for 21 properties that house charter schools where Imagine Schools, Inc., is the management entity. The lease payments due to EPT are laid out in 25-year master leases with Imagine Schools, Inc., or its affiliates.

⁷² Entertainment Properties Trust Annual Report 2008, p. 29 – 30.

Figure 7 shows that between February 2005 and March 2008, Schoolhouse Finance spent a combined total of \$6 million to buy five Ohio properties that now house four Imagine schools. Within 22 months of the purchase date for each property, Schoolhouse Finance had sold all five properties to one of three REITs for a combined total of more than \$26 million.⁷³ According to state audits and lease documents obtained through public records requests, the non-profit charter schools run by Imagine continue to operate under long-term leases with Schoolhouse Finance, paying hundreds of thousands of dollars in rent each year to the Imagine subsidiary. Current lease documents show that 2009-10 annual base rent for these schools ranges from more than \$500,000 in Akron to more than \$1.4 million for a two-building campus in Groveport, outside Columbus.

Figure 7: Schoolhouse Finance LLC, a subsidiary of Imagine Schools, Inc., purchased and then quickly sold to real estate investment trusts – at a combined mark-up of more than \$20 million – these five properties where Imagine has located four of its Ohio schools. The publicly traded Entertainment Properties Trust has at least a partial stake in all these Imagine charter school properties.

	Academy of Columbus	Groveport Community School		Harvard Avenue Community School	Romig Road Community School	
County	Franklin	Franklin		Cuyahoga	Summit	
Annual lease payment	\$659,548	\$ 1,473,754		\$ 805,764	\$ 536,361	
Sold to	Charter School Fund I LLC	Jerit CS Fund I LLC	Education Capital Solutions LLC	Jerit CS Fund I LLC	Jerit CS Fund I LLC	
Sale date	Dec-06	Jul-07	Jan-10	Jul-07	Jun-08	transaction totals
Sale price	\$5,208,208	\$3,749,237	\$6,671,000	\$6,117,606	\$4,258,152	\$26,004,203
Purchase price	\$1,500,000	\$1,850,000	\$1,250,000	\$700,000	\$700,000	\$6,000,000
Purchase date	Feb-05	May-06	Mar-08	Jan-06	May-07	

Source: Property data from county websites; lease payments calculated from lease agreements, which included annual increases. Two properties are listed for Groveport Community School because the school expanded from its original campus to occupy an adjacent property.

An examination of construction permits obtained from the Village of Groveport building department, where Groveport Community School is located, provides an example of how Imagine and Schoolhouse Finance handle real estate.

Schoolhouse Finance converted the two buildings that now house the school from warehouse and office space to classrooms and other school use. Applications for permits included estimated work totals for the first building, which houses kindergarten through 4th grade, at \$3.2 million for two phases of work. Permits for the second building, which houses grades 5 through 8, show estimated renovation totals of \$3.23 million. Schoolhouse Finance continues to lease the properties from the REITs, renting them back to Groveport Community School. During fiscal year 2008 (school year 2007-08), the school paid \$439,769 in rent to Schoolhouse Finance.⁷⁴ With additional renovations to

⁷³ Information received from Franklin, Cuyahoga and Summit county websites.

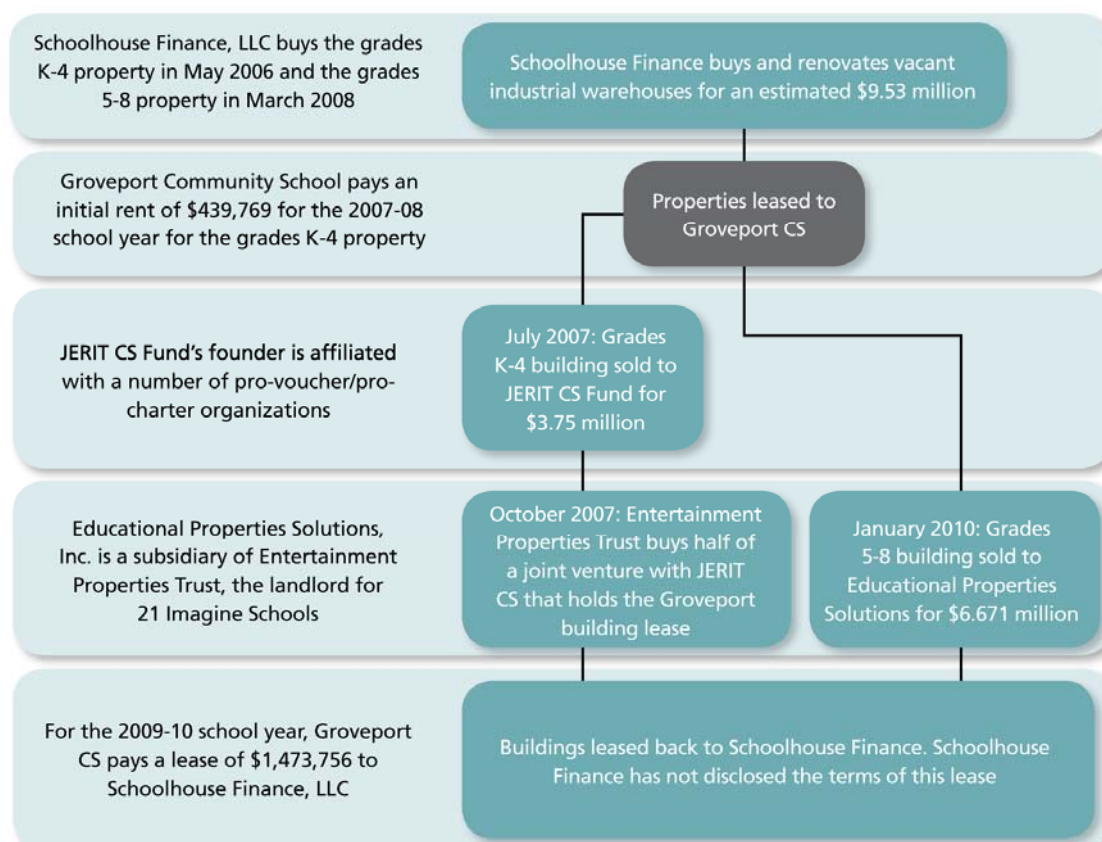
⁷⁴ This amount is included in both the state's fiscal year 2008 audit of Groveport CS and in a lease agreement between the school and Schoolhouse Finance, obtained from the Ohio Department of Education.

the first building and the expansion into a second building, current lease documents show that Groveport CS was paying Schoolhouse Finance just over \$1.4 million in rent for the 2009-2010 school year.⁷⁵

Since Imagine Schools, Inc., and Schoolhouse Finance LLC are private firms, information is not available on the financial terms of leases they hold with the REITs involved in their land ventures. Figure 8 shows how one of Imagine's real estate transactions has played out in Ohio.

Figure 8: Imagine real estate in Ohio

Imagine's Complex Private Real Estate Transactions



Source: Franklin County property records and lease documents obtained by Policy Matters.

Former Groveport CS board member David Welch said renovation work was well done and resulted in good facilities for the school. At the same time, “We pretty much thought the rent was high,” said Welch, referring to his view and that of fellow board members.

⁷⁵ The Groveport lease contains automatic rent increases “at a rate equal to the greater of the Consumer Price Index increase for the immediately preceding calendar year as reported by the Bureau of Labor Statistics (“CPI”) or three percent (3%) (the “Annual Base Rent Increase”). Based on this, 09-10 annual base rent was calculated using 3 percent annual increases.

Welch said his efforts to get information on a number of financial issues relating to the school were resisted by the school administration, business manager and treasurer, particularly in his role on the board's audit committee. Among the issues that concerned Welch was a lack of response by Imagine to his effort to determine whether the rate of return Schoolhouse Finance was getting was competitive to market rates for the Groveport facilities.

"When the market rate for a mortgage loan was 4, 5, 6, or 7 percent, [Imagine's] rate was in double digits," said Welch. Imagine officials did respond adequately to his concerns, he said. "A reluctance to provide information readily raised red flags that eventually led to my resignation," explained Welch.

In contrast, Jeffrey Nischwitz in Cleveland did not report any concerns over leases for Bella Academy of Excellence and Harvard Avenue CS in Cleveland. "Bella got a very favorable deal, I've never sensed that was out of whack," said Nischwitz.

Direct mortgage would be less costly

Groveport Community School budgeted more than \$1.4 million in base rent for its two 15-year leases with Schoolhouse Finance in 2009-10. According to the leases, the rent the school pays will go up by at least 3 percent each year; by 2020, the school, if it still exists, could be paying nearly \$2 million a year in rent.

Had Schoolhouse Finance renovated and then sold these two properties directly to Groveport CS for the same amount it sold them to the REITs, the school's annual mortgage payments would be about \$300,000 less than its 2009-10 lease payments. Annual payments for two 15-year mortgages for a total of \$10.4 million at 7 percent interest would be \$1,123,920.36 each year for 15 years rather than over \$1.4 million a year with annual increases of at least 3 percent.⁷⁶

It is unlikely that a new school with less than five years left on its charter and an uncertain future, especially one with no track record or a poor one like Groveport CS, would be able to get such a loan. Nevertheless, these mortgage calculations show that Groveport is paying a premium for its facilities, one that will increase with each passing year.

Different approach, same high price

Imagine's Great Western Academy, a K-8 school in Columbus, is located on the site of a former shopping center. In this deal, Schoolhouse Finance did not purchase the property; rather, the firm leased property from Great Western Shopping Center Company and subleased it to Great Western Academy.

Schoolhouse Finance agreed to pay a minimum of \$155,000 annually to Great Western Shopping Center Company starting September 1, 2008 through August 31, 2011. During this same period, Great Western Academy signed a lease agreeing to pay an annual

⁷⁶ Payments calculated with an online mortgage calculator; commercial mortgage rates available in 2010 ranged from 6 percent to 8 percent, depending on market and property type.

minimum rent of \$960,482 to Schoolhouse Finance, with increases set at a rate equal to the overall Consumer Price Index increase for all urban consumers. These rents correspond to \$2.24 per square foot payable by Schoolhouse Finance to its landlord and \$13.86 per square foot payable by Great Western Academy to Schoolhouse Finance as sub-landlord.

Schoolhouse agreed to pay a minimum of \$183,996 annually from September 1, 2011, through August 31, 2016, or \$2.66 a square foot, while collecting at least \$989,482, or \$14.28 per square foot, from the charter school.⁷⁷

The school is responsible for all additional costs related to the property, including common area maintenance at \$1.90 per square foot, real estate taxes at \$1.50 per square foot unless a tax exemption is obtained, insurance, and other costs.

Of the rest of the charters run by Imagine Schools, Inc., five are located on property currently held by Schoolhouse Finance LLC, while one is located on property owned by Charter Schools Development Corporation, a national non-profit that provides facility-related services to charter schools around the country.⁷⁸

Related party deals require scrutiny

Based on interviews with board members at two Imagine schools in Ohio, it's not clear that governing authorities at those schools performed due diligence on the lease agreements they approved.

"At the end of the day, it's the charter school board's responsibility to do due diligence," ~ Real estate attorney Randall Arndt

"When we did due diligence and tried to do our job, we were met with resistance," ~ Dr. David Welch, former board member of Imagine, Inc. school near Columbus

Lease agreements signed between related parties such as Imagine Schools, Inc. and Schoolhouse Finance should get careful assessments from governing boards to make sure they can't get a better deal elsewhere, according to Randall Arndt, a Columbus-based real estate lawyer who reviewed Imagine lease documents for Policy Matters Ohio.⁷⁹

"If two parties don't know each other, they negotiate fair terms," Randall

explained. "If you do a deal with someone you know, it raises a higher level of inquiry." Questions should be asked about the economic basis of the transaction, he said. "It's OK to do deals with parties you have a relationship with, as long as the terms are sound from an arms-length perspective," he said. An "unrelated third-party assessment" would answer such concerns, according to Arndt. He also noted that "typically in a related party

⁷⁷ From Great Western Academy audit for fiscal year 2008, "Note 9 – Operating Leases," retrieved from Ohio Auditor's website at <http://www.auditor.state.oh.us/AuditSearch/default.aspx>

⁷⁸ <http://www.csdc.org/>. All lease documents are posted at www.policymattersohio.org/ImagineSchools.htm.

⁷⁹ Phone interview, April 2, 2010.

deal the parties would do a better job” of documenting in the lease agreement how they determined fair market value.

“At the end of the day, it’s the charter school board’s responsibility to do due diligence,” said Arndt.

David Welch, the former board member at Groveport CS, said the board tried: “When we did due diligence and tried to do our job, we were met with resistance.”⁸⁰

William Proctor, former board president at Harvard Avenue CS, said he felt the board “did everything it could to try to make sure we were getting a good deal.” Proctor, who spoke positively about his work with Imagine, left the board in late 2009 after serving since the school opened three years earlier.⁸¹

“There was some discussion around the rents,” said Proctor, but it was a new school and “we were more focused on students getting what they needed.” When he left, said Proctor, the school was operating with a surplus and was not skimping on teachers or any things else needed to educate children. “Did [the rent] affect the operating of the school? At the end of the day, I don’t think it did.”

Imagine in Other States

The Nevada State Board of Education’s raised concerns about a 2008 Imagine application to start a new school in Las Vegas, including:

- “The governing body appears to relegate the entire educational responsibility of the school to its proposed contractor”
- “[The Contract] appears to tie the hands of the governing body into a forced operation with the contractor having powers to remove authority from the governing body;”
- “Past performance of this EMO contractor in other states has resulted in publicly reported deficiencies including debt of the school(s), control of school(s) by the contractor rather than a public entity, and lack of proper control...insuring tax payer dollars are being appropriately spent;”
- “The cost of school operations with this EMO contractor appears to be excessively high when compared to the cost of instructional services provided to students.”

Nevada State Board of Education, minutes of the subcommittee on charter schools, May 1, 2008

Paul Stroud, a long-time board member at Harvard Avenue CS who has a real estate background, declined to participate in an interview for this study.⁸²

⁸⁰ Phone interview, April 26, 2010.

⁸¹ Phone interview, May 4, 2010.

⁸² Phone interview, May 4, 2010.

MANY SCHOOLS, ONE FORMULA

As a national company, Imagine Schools, Inc., has put its stamp on the schools it operates through its educational approach to essentially identical operating agreements between Imagine and the charters it runs.

Rather than relying on local groups to start schools, most Imagine schools in Ohio were started by the management company, which applied for non-profit status for schools and recruited board members.⁸³ As a result, codes of regulations obtained from different Imagine schools – the documents that govern how boards operate – were nearly identical.

The same six individuals serve on the boards of two Imagine schools that opened in Columbus in 2009, Harrisburg Pike CS and Sullivant Avenue CS. The boards for the two schools meet simultaneously and produce meeting minutes that are identical except for principals' reports.

None of these practices are against Ohio law. Nevertheless, along with concerns raised about governance of Imagine schools in Ohio and other states, these similarities raise questions about the management company's approach and its stated approach to education: "At Imagine Schools, we recognize that a "one size fits all" approach to education is not in the best interest of students and families. Therefore, we make every effort to design our school educational program to match the needs and interests of each community we serve."⁸⁴

This approach sounds good in theory, but does not appear to be working out for Imagine's Ohio schools, which share many practices and have all struggled with poor academic performance.

⁸³ Great Western Academy signed a contract with Imagine Schools, Inc., a few years after it opened.

⁸⁴ Retrieved from company website, www.imagineschools.com.

CONCLUSION

Imagine Schools, Inc., manages 11 charter schools in Ohio and receives the vast majority of state and federal funds its schools receive – at least \$115.7 million over the past five school years.

The for-profit management company has a poor academic record in Ohio; as a result, it is currently not allowed to open new schools here. While the school we visited as pleasant and orderly, Imagine's Ohio schools lag behind neighboring public schools serving similar populations in state ratings, and do not exceed nearby schools in value-added measurements of student achievement.

Imagine's real estate deals with its subsidiary Schoolhouse Finance and a number of Real Estate Investment Trusts, in particular, have escaped proper scrutiny as the interconnected private companies have purchased, renovated, sold and subleased former commercial property in several Ohio school districts.

This research leads Policy Matters to conclude that Imagine Schools, Inc., is creating more problems in Ohio's education and charter school system than it is solving. In fact, Imagine's record in Ohio, and other states, calls into question the role of for-profit management companies in the charter school movement.

POLICY RECOMMENDATIONS

Our findings document the need for policy makers to further strengthen oversight of charter schools by the Ohio Department of Education and the sponsors it approves to help start schools and to which it largely delegates its oversight role. Ohio has taken good steps in recent years toward boosting oversight, but policy makers must do more.

Necessary steps include:

- Requiring charter school operators to demonstrate a meaningful record of academic success before being allowed to open or contract with Ohio charter schools. Allowing large operators like Imagine Schools, Inc., to simply show success in one Ohio school is not enough;
- Prohibiting for-profit operators from managing charters in Ohio. Many Ohio schools rely on legitimate sub-contractors for essential services, but the evidence in this report suggests that the participation of for-profit management companies like Imagine simply facilitates the wholesale transfer of public funds into private hands with little meaningful oversight;
- Addressing the independence and proper role of the governing boards of charter schools and ensuring that board members are empowered and held accountable as stewards of public trust and monies. A sponsor put an Imagine school in Fort Wayne, Indiana on probation when troubles came to light there; changes included mandating board training and limiting board members to service on only one board – similar steps could help in Ohio;
- Forbidding charter school sponsors from conducting business with companies that have ties to schools monitored by the sponsor, as is the case with Charter School Specialists, St Aloysius Orphanage and Imagine schools in Ohio;
- Requiring that the operations of charter school sponsors be completely transparent and subject to full public disclosure.

Finally, policy makers, state regulators and the state attorney general should investigate the elaborate real estate transactions, management, development and other fees and mechanisms employed by Imagine Schools, Inc., and other management companies to assure that public monies are being appropriately spent on the education of children.

Appendix A: The following chart shows a comparison of Ohio charters managed by Imagine Schools, Inc., (in gray), and the closest traditional public schools. All district schools in this comparison are within a mile of the Imagine schools, with the exception of the less densely populated Groveport; all Groveport district schools listed are within 2.3 miles of the Imagine school located in that Franklin County community. For school demographic data, see appendix at www.policymattersohio.org/ImagineSchools.htm.

For ratings: AE = Academic Emergency or a grade of "F"; AW = Academic Watch or a "D"; CI = Continuous Improvement or a "C"; Effective is the equivalent of a "B"; Excellent is an "A".

Value-added is a measure of student academic growth used in Ohio. "Below" means growth did not meet expectations; "met" means goals were met; "above" means goals were exceeded.

Imagine School/district schools	District	School type	Rating	Value-added
Academy of Columbus	Imagine	K-8	AE	below
Avalon Elementary	Columbus	K-5	Effective	above
Columbus Spanish Immersion	Columbus	K-8	Effective	met
Northtowne Elementary	Columbus	pk-5	CI	above
Parkmoor Elementary	Columbus	pk-5	CI	above
Woodward Park Middle School	Columbus	6-8	CI	met
Clay Avenue CS	Imagine	K-6	AE	met
Riverside Elementary	Toledo	K-6	AW	above
Leverette Middle School	Toledo	7-8	AW	met
Great Western Academy	Imagine	K-8	AW	above
West Broad Elementary	Columbus	pk-5	AW	above
Westgate Alternative Elementary	Columbus	K-5	CI	above
Westmoor Middle School	Columbus	6-8	AW	met
Groveport Community School	Imagine	K-8	AE	above
Groveport Elementary School	Groveport	K-5	Effective	above
Glendening Elementary	Groveport	K-5	CI	below
Groveport Madison Middle School South	Groveport	6-7	Excellent	above
Groveport Madison Jr. High	Groveport	8	CI	below
Harvard Avenue CS		K-7	AE	above
Nathan Hale School	Cleveland	K-8	AE	above
Robert Jamison School	Cleveland	pk-8	AE	above
Paul Revere School	Cleveland	pk-8	AE	above
Charles Dickens Schools	Cleveland	K-8	AE	below
Romig Road CS		K-6	AE	above
Lawndale Elementary	Akron	K-5	CI	met
Innes Middle School	Akron	6-8	CI	above
Smith Elementary	Akron	K-5	CI	below

Source: Ohio Department of Education. All data for 2008-09 school year.

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MAIN OFFICE: 3631 PERKINS AVENUE, SUITE 4C-E • CLEVELAND, OHIO 44114

COLUMBUS: 300 E. BROAD STREET, SUITE 490 • COLUMBUS, OHIO 43215

[HTTP://WWW.POLICYMATTERSOHIO.ORG/](http://WWW.POLICYMATTERSOHIO.ORG/)



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