Public Good vs. Private Profit:

Imagine Schools, Inc. in Ohio

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

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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.