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For release Wednesday, May 12, 2010
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Read the report at: <http://www.policymattersohio.org/ImagineSchools.htm>

Study of Imagine Schools, Inc finds poor performance, high management fees Academic record disqualifies management firm from opening new schools

Imagine Schools, Inc., the nation's largest for-profit charter school management company, with 71 schools nationwide and 11 in Ohio, has a record of poor academic performance that disqualifies it from opening new schools here.

Since the 2005-06 school year, Imagine Schools, Inc's 11 Ohio schools have received at least \$115.7 million in state and federal funds. Imagine Schools, Inc., receives as much as 98 percent of its schools' funding to act as superintendent, central office, principal, workforce and landlord. 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 for-profit management companies, many of them out-of-state operators like Imagine Schools, Inc.

"We found that Imagine, Inc. has a poor record of performance in Ohio and a business model that includes elaborate school real estate transactions, high management and operations fees, overlapping business relationships with their main authorizer, low spending on classroom instruction, and tight control of school finances and board relationships," said Piet van Lier, study author and a senior researcher at Policy Matters. The report found:

Low academic performance: Five of the six Imagine schools rated by the state received an "F" for the 2008-09 school year, while one got a "D;" 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 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" measure of growth in student achievement, these Imagine schools showed results largely similar to nearby district schools.

Weak oversight and conflicts of interest: ODE delegates oversight of charter schools to sponsors, which are supposed to verify that a school complies with Ohio Revised Code, monitor and evaluate academic and fiscal performance, and provide technical assistance in a number of areas. St. Aloysius Orphanage, the sponsor of seven Ohio 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 is, for all practical purposes, the sponsor. 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.

Large schools and low salaries: Many charter schools boast their smaller size as an educational advantage over traditional public schools, but Ohio schools managed by Imagine Schools, Inc., have median enrollment that is more than double median non-digital charter enrollment in the state. Imagine also pays significantly lower salaries for teachers than do many other charter schools.

Imagine Schools, Inc., has been privately owned since 2004 by Dennis Bakke, a high-profile and outspoken supporter of education vouchers and charters who recently contributed \$10,000 to the campaign of gubernatorial candidate John Kasich. Bakke, the former chairman of AES Corporation, a global energy generation and distribution company, made news in 2009 when an internal memo he wrote surfaced; in it, he told Imagine 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. The management company has been criticized in other states, but has avoided censure in Ohio. Some authorities in other states have denied permission to open schools because of Imagine's poor management record.

This study is based on operating agreements, leases, board meeting minutes, school budgets, school academic and enrollment data, audits, property information, and other documents from ODE, a law firm representing Imagine in Ohio, a charter school sponsor, the state auditor and a local building department.

On the basis of our research, Policy Matters makes the following recommendations: that for-profit management companies be barred from operating charters in Ohio; that charter school governing boards be empowered and held accountable; and that in order to assure that public monies are being appropriately spent on the education of children, policy makers, state regulators and the state attorney general investigate the elaborate real estate transactions, fees and mechanisms employed by Imagine Schools, Inc., and other management companies.