

Charter School Explosion: Follow the Money

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Although charter schools must, by Florida law, be overseen by a non-profit board of directors, there are many ways in which for-profit organizations have begun to hijack the charter school movement. For-profit management companies frequently provide everything from back office operations including payroll, contracting with vendors for food services, textbook, etc., to hiring principals and teachers and curriculum control; so what was sold to parents and children as a local public education innovation now looks more like national charter-chains, the “Walmartization” of public education. According to education expert Diane Ravitch, “nearly half of all charter school students are enrolled in a charter chain school” in the United States. The top four charter operators in Florida for 2011-2012 were Academica (72), Charter Schools USA (37), Charter School Associates (20), and Imagine Schools (23). These are not the small, locally run experimental schools envisioned by the original legislation.

The real profits, however, are not in the operation of the charter school, but in the real estate development. After receiving a variety of grants, loans and tax credits for building a charter school, the for-profit chain charges ever escalating rents and leases to the school district, paid by tax-payer education dollars. The for-profit then reaps the profits when the building is sold in a few years. Meanwhile the properties with high, non-taxable, values based on claimed “commercial” revenue streams from public tax-payer dollars are leveraged to borrow additional funds to build more school buildings.

Our shining local examples in Hillsborough County are owned by Charter Schools USA. My first glimpse of Winthrop Charter School in Riverview in November of 2011 was during a scheduled visit with then Rep. Rachel Burgin. When told the two story brick building was a charter school, I was mystified. The site on which it was built was purchased from John Sullivan by Ryan Construction Company, Minneapolis, MN. From research done by the League of Women Voters of Florida all school building purchases ultimately owned and managed by for-profit Charter Schools USA are initiated by Ryan Construction. The Winthrop site was sold to Ryan Co. in March, 2011 for \$2,206,700. In September, 2011 the completed 50,000 square foot building was sold to Red Apple Development Company, LLC for \$9,300,000 titled as are all schools managed by Charter Schools USA. Red Apple Development is the school development arm of Charter Schools USA. We, tax payers of Hillsborough County, have paid \$969,000 and \$988,380 for the last two years to Charter Schools USA in lease fees!

The big prize purchased by Ryan Co. at the same time, March of 2011, was the 58,000 square foot former Verizon call center on 56th Street in Temple Terrace for \$3,750,000. Ryan Co. made no discernible exterior changes except removal of the front door, added

a \$7,000 canopy and sold the building as Woodmont Charter School to Red Apple Development for \$9,700,000! Who would not love a \$6 million dollar boost in 6 months? Lease fees for the last two years were \$1,009,800 and \$1,029,996! Are we outraged yet? Woodmont made headlines in the *Tampa Bay Times* this spring as an “F” rated (FCAT score) school advertising for new students and a fired teacher reporting that out-of-field teachers and uncertified teachers were on the faculty.

Similar figures exist for the last of the triumvirate for CSUSA, Henderson Hammock Charter School in Citrus Park which opened in 2012. Their lease fees are the largest of the three, \$1,170,000 for 2012-2013 and \$1,193,400 for 2013-2014!

These three Hillsborough schools opened since 2011 enroll more than 20% (2,799) of all charter students: Winthrop – 1,254; Henderson Hammock-895; and Woodmont-650. The other for-profit management companies in our county are Charter School Associates with 10 schools, the Leona Group with two small schools and Accelerated Learning Solutions with two virtual (online instruction) high schools. These four for-profit management companies, including Charter Schools USA, control the finances for 17 of the 42 charter schools in Hillsborough County.

In Florida, according to the League of Women Voters Statewide Charter School Study, the three largest for-profit management companies (Academica, Charter Schools USA and Imagine) control 27% of all charters. The proposed MacDill Charter School was rejected by Hillsborough County Schools because of questions regarding governance (the people running the school) which will be covered in the next article.

The high per student management fees (around \$450) plus rent/lease fees (at least 20% of the total school budget) mean that there is less funding available for “instruction,” including teacher salaries, books, etc. In *Florida Trend Magazine*, Jonathan Hage, CEO of Charter Schools USA, brags his biggest efficiency is in administration. Where Miami-Dade County spends \$2,036 per child on administrative costs, he spends \$1,425. In Hillsborough that equates to 2,799 children times \$1,425 equaling \$3,988,575! That is money in his “pockets,” not instructing children who need to be educated.

In addition to direct funding of charter schools, the federal government provides tax breaks to encourage banks and individuals to invest in charter school construction. The Community Renewal Tax Relief Act of 2000 included the New Markets Tax Credit, which provides wealthy investors with a 39% tax credit that more than doubles returns on these charter school construction investments within seven years. Furthermore the head of Entertainment Properties Trust – a large real estate investment firm – David Bain, appeared on CNBC in 2012 telling the audience “how profitable charter school investment has become.”

While you are shaking your head at the implausibility of the aforementioned investment, hold on! The Immigrant Investor Program, also known as EB -5 (Employment Based to the 5 Category) Program permits foreigners who make investments in charter schools to bring their whole family to the U.S. on green cards! Wealthy foreigners can contribute just \$1,000,000 toward urban charter school development or \$500,000 in a rural area, they are required to create 10 jobs for Americans and the investor gets visas for the whole family!

We discovered that Ryan Construction Company, in collaboration with Red Apple Development and the Florida Development Finance Corporation, secured a mortgage and loan agreement for multiple sites with Regions Bank in Tallahassee for \$55,800,000 tax-exempt series (the “Series 2012A Bonds”) and \$3,520,000 taxable series (the Series 2012B Bonds). This transaction was November 1, 2012. Red Apple Development had secured a mortgage from Church Loans and Investments Trust dba CLI Capital in Texas for \$9,841,000 for the Woodmont Property in late 2011; they paid off the nearly \$10,000,000 mortgage in 16 months (January of 2013) by virtue of the \$55,800,000 “windfall”.

From *The Tampa Bay Times* opinion editorial April 1st, 2014 “Another area where the distinction between public and private is blurred for the benefit of for-profits is the issuing of bonds. Although Florida law prohibits charter schools from issuing bonds, Charter Schools USA has found a way. When naming Jon Hage as Floridian of the Year, *Florida Trend* in December 2012 contended that Charter School USA is the largest seller of charter school debt in the country. “It will sell \$100 million worth of bonds this year (2012-13), Hage says. . . The bonds come with tax-exempt status because they are technically held by the non-profit founding boards that oversee the schools.”

As you can see “following the money” in the for- profit charter sector is very complex and, in some cases, impossible. Audits are incomplete and, because of the blurred line between the non-profit and for-profit entities, requests for information are rebuffed, as these charter chains claim to be “public” when seeking public education dollars and “private when avoiding accountability. As one of our LWV members characterizes their attitude, “Heads we win, tails you lose.”

America’s for-profit education industry is BIG BUSINESS on a global scale. Charter school profiteering is alive and thriving in Florida and many other states. Profit is the end game with profits trumping public good. What happened to “corporate social responsibility” and political ethics??