# Wall Street financiers and land developers are making windfall profits off charter schools

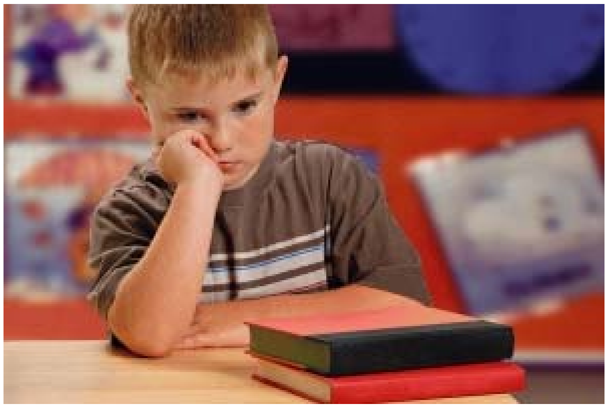
This explains how charter advocates have funding for expensive TV ads and glossy pamphlets.  It should be no surprise that two out of the three board members of KARE, including Hal Heiner, have either direct or indirect ties to real estate and land development interests.

MONDAY, SEP 12, 2011 13:39 ET

# The bait and switch of school "reform"

**Behind the new corporate agenda for education lurks the old politics of profit and self-interest**

BY DAVID SIROTA



**Bronwyn Photo** via **Shutterstock**

*Due to a production error, the first published version of this article was incomplete; this is the complete text. We regret the error.*

In recent weeks the debate over the future of public education in America has flared up again, this time with the publication of the new book "Class Warfare," by Steven Brill, the founder of American Lawyer magazine. Brill's advocacy of "reform" has sparked different strands of criticism from the **New York Times**, New York University's **Diane Ravitch** and the Nation's **Dana Goldstein**.

But behind the high-profile back and forth over specific policies and prescriptions lies a story that has less to do with ideas than with money, less to do with facts than with an ideological subtext that has been quietly baked into the very terms of the national education discussion.

Like most education reporters today, Brill frames the issue in simplistic, binary terms. On one side are self-interested teachers unions who supposedly oppose fundamental changes to schools, not because they care about students, but because they fear for their own job security and wages, irrespective of kids. In this mythology, they are pitted against an alliance of extraordinarily wealthy corporate elites who, unlike the allegedly greedy unions, are said to act solely out of the goodness of their hearts. We are told that this "reform" alliance of everyone from **Rupert Murdoch** to the Walton family to leading **hedge funders** spends huge amounts of money pushing for radical changes to public schools because they suddenly decided that they care about destitute children, and now want to see all kids get a great education.

The dominant narrative, in other words, explains the fight for the future of education as a battle between the evil forces of myopic selfishness (teachers) and the altruistic benevolence of noblesse oblige (Wall Street). Such subjective framing has resulted in reporters, pundits and politicians typically casting the "reformers'" arguments as free of self-interest, and therefore more objective and credible than teachers' counterarguments.

This skewed viewpoint becomes clear in this excerpt of a C-Span interview with Brill about "Class Warfare," in which Brill is talking about a group called "**Democrats for Education Reform**" -- a group financed by major hedge fund managers:

> "[The group] was created by a small group of frustrated education reformers ... *They happen to be* well-to-do frustrated education reformers who were Democrats and they had an epiphany ... And the epiphany they had was that the Democrats, their party, their party that they thought stood for civil rights, were the political party that was most in the way. And what frustrated them was they consider education reform to be *the civil rights issue of this era*. And they really couldn't believe it was their party that was blocking their idea of *reforms that are necessary*. So they describe it repeatedly ... as a sort of Nixon-to-China gambit in which Democrats are going to reform the Democratic Party and they've made lots of progress." (emphasis added)

Though self-billed as a work of objective journalism, Brill's book reads like an overwrought ideological manifesto because -- like much of the coverage of education -- it frames the debate in precisely these propagandistic terms.

As Brill and most other education correspondents tell it, those most aggressively trying to privatize public schools and focus education around standardized tests just "happen to be" Wall Streeters -- as if that's merely a random, inconsequential coincidence. Somehow, we are to assume that these same Wall Streeters who make millions off of **"parasitic"** investment **schemes** to **leech** public **institutions** for **private profit** couldn't have ulterior motives when it comes to public schools.

No, in the standard fairy tale sold as education journalism, these "reformers" are presented as having had an honest, entirely altruistic "epiphany" that led them to discover that "the reforms that are necessary" (ie., only the policies Wall Street deems acceptable) comprise "the civil rights issue of this era."

In this framing, millionaires and billionaires trying to eviscerate traditional public education from their Manhattan office suites are the new Martin Luther Kings -- even though the **empirical data** tell us that their schemes to charter-ize and privatize schools have been a systemic failure, often further disadvantaging the most economically challenged students of all (one example: see **Stanford's landmark study** showing more than a third of kids whom reformers ushered into charter schools were educationally harmed by the move).

The truth, of course, is that for all the denialist agitprop to the contrary, corporate education "reformers" are motivated by self-interest, too. In a sense, these "reformers" are akin to the Bush administration neoconservatives when it came to Iraq. Some of them wanted to invade for oil, some wanted to invade to create a new sphere of influence, some wanted to invade to further isolate Iran, and still others wanted to invade to "spread democracy." But as **Paul Wolfowitz** famously said, they "settled on the one issue that everyone could agree on which was weapons of mass destruction" as the public rationale for war.

Same thing for those who fund corporate education "reform": they have a lot of different self-interests, but they've settled on schools as a political target that unifies them all.

So, then, what are those self-interests? Here are three of the biggest ones that go almost entirely unmentioned in the ongoing coverage of the education "reform" debate.

**Self-Interest No. 1: Pure Profit**

First and foremost, there's a ton of money to be made in the education "reforms" that Big Money interests are advocating.

As the **Texas Observer** recently reported in its exposé of one school-focused mega-corporation, "in the past two decades, an education-reform movement has swept the country, pushing for more standardized testing and accountability and for more alternatives to the traditional classroom -- most of it supplied by private companies."

A straightforward example of how this part of the profit-making scheme works arose just a few months ago in New York City. There, **Rupert Murdoch** dumped $1 million into a corporate "reform" movement pushing to both implement more standardized testing and divert money for education fundamentals (hiring teachers, buying textbooks, maintaining school buildings, etc.) into **testing-assessment technology**. At the same time, Murdoch was buying an educational technology company called **Wireless Generation**, which had just signed a **lucrative contract** with New York City's school system (a sweetheart deal **inked** by New York City school official Joel Klein, who immediately **went to work for Murdoch**.

Such shenanigans are increasingly commonplace throughout America, resulting in a **revenue jackpot for testing companies and high tech firms**, even though many of their products **have not objectively improved student achievement.**

At the same time, major banks are reaping a windfall from "reformers'" successful efforts to take public money out of public schools and put it into privately administered charter schools. As the **New York Daily News** recently reported:

> Wealthy investors and major banks have been making windfall profits by using a little-known federal tax break to finance new charter-school construction. The program, the New Markets Tax Credit, is so lucrative that a lender who uses it can almost double his money in seven years...

> The credit can even be piggybacked on other tax breaks for historic preservation or job creation. By combining the various credits with the interest from the loan itself, a lender can almost double his investment over the seven-year period.
>
> No wonder JPMorgan Chase announced this week it was creating a new $325 million pool to invest in charter schools and take advantage of the New Markets Tax Credit.

On top of this, "reformers'" initiatives to divert public school money into voucher schemes -- which data show have **failed** to produce better student achievement -- means potentially huge revenues for the burgeoning **for-profit private school** industry, an industry that "has fascinated Wall Street for more than a decade," reports **PBS Frontline.**

The bottom line is clear: In attempting to change the mission of public education from one focused on educating kids to one focused on generating private profit, corporate leaders in the "reform" movement are pursuing a shrewd investment strategy. Millions of dollars go into campaign contributions and propaganda outfits that push "reform," and, if successful, those "reforms" guarantee Wall Street and their investment vehicles much bigger returns for the long haul.

In light of all the money that's already being made off such "reforms" (and that could be made in the future), pretending that businesspeople who make their living on such transactions are not applying their business strategies to education is to promote the fallacy that the entire financial industry is merely a charitable endeavor.

**Self-Interest No. 2: Changing the Subject From Poverty and Inequality**

Inconvenient as it is to corporate education "reformers," the well-proven fact is that poverty -- not teacher quality, union density or school structure -- is the primary driver of student achievement. We can see this most easily in two sets of data.

First, as **the Nation** magazine reports, "The research consensus has been clear and unchanging for more than a decade: at most, teaching accounts for about 15 percent of student achievement outcomes, while socioeconomic factors account for about 60 percent." Second, as **Dissent** magazine notes in its examination of U.S. Department of Education data, American students at low poverty schools consistently score near the top on international tests. Indeed, U.S. students in public schools with a poverty rate of less than 10 percent "outperformed students in all eight participating nations whose reported poverty rates fall below 10 percent."

The reason America's overall scores on such tests are far lower is because high poverty schools produce far worse results -- and as the most economically unequal society in the industrialized world, we have far more poverty than our competitors, bringing down our overall scores accordingly. Predictably, as economic inequality and poverty have **spiked** in America during the Great Recession, those poverty-fueled education problems have gotten even worse.

This reality obviously represents a problem for the growing ranks of economically struggling Americans. More and more citizens simply cannot afford to live in rich neighborhoods that benefit from a property-tax-based education financing system which has created gated communities out of school districts. As documented in a **new study by the University of Kansas,** this system allows wealthy enclaves to disproportionately target their tax revenue to their own public schools and "hoard" public monies -- all while other schools in low-income areas are starved for resources.

This structure is hugely beneficial to the super-rich -- but the poverty question poses a potential political problem for them. As the **New York Times** recently put it, if America realizes that "a substantial part of the problem (is) poverty and not bad teachers, the question would be why people like (Wall Streeters) are allowed to make so much when others have so little."

That question, if it became central in our political discourse, would potentially lead the growing ranks of economically struggling Americans to start demanding governmental policies that address wealth inequality and its consequences -- policies such as re-regulating Wall Street, raising taxes on millionaires, eliminating tax policies that allow revenue hoarding, and targeting disproportionately more public funds at schools in high-poverty areas rather than at schools in wealthy neighborhoods.

But, then, those policies are precisely the ones that offend and threaten rich people. So the wealthiest and most politically astute among them have constructed front groups like "Democrats for Education Reform" to press a message of education "reform" that seeks to change the subject from poverty altogether. Their message basically says that the major problem in America is not the fact that our public policies are helping make more citizens poor, nor the fact that the same economic structure that allows the Walton family to own **more wealth** than the bottom 40 percent of the whole nation has **one in five kids living in poverty**.

No, reformers give us what I've previously called the **"Great Education Myth,"** telling America that the *real* problem is supposedly the schools -- and that if we just make radical and empirically unproven school changes then everything will supposedly be great. And, tellingly, the "reformers'" specific policy prescriptions tend only to be those changes that don't ask rich people to share in any sacrifice.

Thus, for instance, the "reformers" push to tear up teachers union contracts and demonize the structure of public schools, rather than, say, initiating a discussion about raising more revenue for schools most in need. Seeking to avoid any larger debate about raising taxes on the wealthy to pay for such new education investment, they float their favorite one liner about how we "can't throw money at the problem," even though many of the schools with the biggest challenges need more resources to combat poverty.

You don't have to believe me to know that the need is there; just listen to the corporate education "reformers'" own much-celebrated hero, Harlem Children's Zone's Geoffrey Canada, who insists schools in high-poverty areas "can't succeed ... without substantially increased investments in wraparound social services," reports the **New York Times.** But since those are investments that probably require tax increases, they aren't the thrust of the corporate "reform" movement's agenda.

In the bait-and-switch of the "Great Education Myth," then, the corporate "reformers" get to pretend that they care about poor people and brag that they are benevolently leading "the civil rights issue of this era," when what they are really doing is making sure America doesn't talk about the macroeconomic policies that make Wall Streeters so much money, and impoverish so many others in the process.

**Self-interest No. 3: New Front in the War on Unions**

Today, unions are one of the last -- and, unfortunately, weakening -- obstacles to corporations' having complete control of the American political system. Whenever there is a fight over economics in particular -- whenever a Wall Street-backed tax, deregulation, Social Security privatization or trade bill comes down the pike -- it is the labor movement that comprises the bulk of the political opposition. Therefore, crushing unions in general has been an overarching goal of the corporate elite, and one way to crush unions is through education policy that undermines one of the largest subsets of the labor movement: teachers unions.

Looked at through this prism, we see a key reason that education "reformers" are not satisfied with merely finding common policy ground with unions on points of potential consensus. They don't want any agreement with unions because the underlying goal is to destroy those unions entirely. Hence, "reformers" are increasingly focused on promoting union-free charter schools and diverting public school money into union-free private schools as a means of crippling the labor movement as a whole.

To know this truth is to know that the Walton family of Wal-Mart fame is now one of the biggest financial forces in the education "reform" movement. As the single most anti-union force in contemporary American society, the family now annually holds out a huge wad of Wal-Mart cash as a hard-to-resist enticement for cities to divert public school money exclusively into union-free charter schools or union-free "innovation" schools. Essentially, the money is offered, but on the condition that policymakers put it into education initiatives that undermine teachers unions.

While the foundation publicly insists it is looking only to help kids excel, union busting -- not student achievement -- is clearly what drives the Walton family's education activism. As but one example proving that motive, consider that just five days after news broke that Los Angeles' traditional public schools are **outperforming** charter schools, the Walton family **announced** it is dumping a massive new tranche of Wal-Mart cash into a plan to expand the city's charter schools. If the family was truly focused on helping kids, it would have put that money into traditional public schools that were showing success. Instead, the money went to the union busters, student achievement be damned.

Brill epitomizes how that motive has been ignored by establishment reporters covering education. After spending years reporting a massive tome on the education debate, he told the **New York Times** with a straight face that "I didn't see it as the rich versus the union guys," as if schools' being an arena for the age-old battle between capital and labor is so preposterous, it didn't even cross his mind.

Brill may be telling the truth here, because corporate education "reformers" are so ubiquitously branded as disinterested altruists, that any other motive probably never did cross his mind, just like it never crosses most other reporters' mind. But just because the union-busting part of the story isn't being told, doesn't mean it isn't a key objective of the "reform" movement.

None of this is to argue that teachers unions don't act out of self-interest. They do. The point, though, is that they do not have a monopoly on self-interest in the education debate. As the modern-day version of what Franklin Roosevelt would call "organized money," the underwriters of the corporate education "reform" movement are just as motivated by their own self-interest. It's just a different portfolio of self-interest.

For Americans looking for credible voices in the confusing education debate, the question, then, is simple: Which self-interest is *more* aligned with improving schools for our kids?

Teachers unions' self-interest means advocating for better teacher salaries and job security -- an agenda item that would, among other things, allow the teaching profession (as in other nations) to financially compete for society's "best and brightest" and in the process help kids. The unions' self-interest also means advocating for decent workplace facilities, which undeniably benefits not only the teacher, but also students. And it means pressing for curricular latitude that doesn't force educators to teach to a standardized test, a notion that would help actually educate students to think critically, rather than train them to be test-taking robots.

Corporate education "reformers'" self-interest, by contrast, means advocating for policies that help private corporations profit off of public schools, diverting public attention from an anti-poverty economic agenda, and busting unions that prevent total oligarchical control of America's political system. In short, it's about the profit, stupid.

Neither side's self-interest is perfectly aligned with the goal of bettering our education system. But one side is clearly far more aligned with that goal than the other.

---

-- David Sirota

MACARTHUR
The John D. and Catherine T. MacArthur Foundation



# CDFIs Receive Funding to Support Charter Schools

**June 24, 2010**

As part of a new $325-million JP Morgan Chase initiative, two Foundation-backed Community Development Financial Institutions (CDFIs) — Philadelphia-based The Reinvestment Fund and San Francisco-based Low Income Investment Fund — will receive grants and access to $175 million in new low-cost debt to finance top-performing charter schools. This funding, and similar, recent commitments from Goldman Sachs and Citigroup, will deliver more than $800 million in new private sector capital to leading CDFIs across the nation. Since 1986, the Foundation has been a leading supporter of CDFIs, providing $250 million in grant and program-related investment support.

**John D. and Catherine T. MacArthur Foundation**
140 S. Dearborn Street, Chicago, IL 60603-5285 USA Phone: (312) 726-8000 TDD: (312) 920-6285
4answers@macfound.org

# Imagine schools' real estate deals fuel company growth

BY ELISA CROUCH • ecrouch@post-dispatch.com > 314-340-8119

STLtoday.com | Posted: Sunday, October 30, 2011 9:00 am

**ST. LOUIS** • When students first entered Imagine Academy of Academic Success four years ago, their school was already entangled in a complex series of real estate deals — ones that would divert dollars from their education.

By the time they were on their first summer break, their brown brick building at 1409 East Linton Avenue had been sold three times, the final price nearly 10 times higher than the first. In the process, the company running the school — along with a small group of other players — cashed in.

Imagine Schools Inc., the nation's largest charter school operator, runs six charter schools in St. Louis. Together, their performance on state standardized exams is worse than any school district in Missouri.

Nevertheless, those schools are generating millions of dollars for Imagine and a Kansas City-based real estate investment company through real estate arrangements ultimately supported with public education money.

The deals are part of a strategy that has fueled Imagine's national expansion. In most cases, Imagine sells its buildings to another company that leases them back to Imagine, with the schools themselves shouldering the rent with public funds.

It's a strategy that includes risk. In St. Louis, it has led to one deal gone sour. It has saddled the schools with lease payments that cost more per student than any other charter school in the city. It has led to land purchases on speculation that a school might open.

In downtown St. Louis, it has pushed a school to open in 21 days, while other charter school organizers would take a year or more to prepare. And it has contributed to budget shortfalls at the schools.

Leaders of Imagine Schools Inc., a for-profit charter school management company based in Virginia, say their schools answer the desperate demand for alternatives to failing traditional public schools. They defend their unusual business model as an effective means to meet that demand.

"I think of it as another approach to serving parents of kids and providing a choice to parents who might not otherwise have it," said Barry Sharp, Imagine's chief financial officer.

Imagine officials generally discount their schools' low test scores and point to other indicators of success. Namely, they say, Imagine schools in St. Louis have been popular with parents, drawing 3,800 students this fall — more than 10 percent of those who attend public schools in the city.

"We provide an environment that is warm, an environment that is stimulating, and an environment where there is learning," said Sam Howard, executive vice president for Imagine.

But the Post-Dispatch has found problems at Imagine schools that run far deeper than its low test scores.

Interviews with dozens of parents and educators and review of hundreds of pages of documents related to Imagine's real estate suggest that Imagine's charter schools here have failed students, even as the schools have been structured to support the company's financial success.

The investigation shows the schools have exceeded occupancy limits and were cited for building code violations, including for an inoperable fire alarm, days before opening in 2007. Along the way, Imagine has worked with a real estate investor who pleaded guilty in February to bank fraud for a kickback scheme involving unrelated downtown real estate.

Documents also point to unexplained wire transfers referencing the name of an Imagine executive that were made by the same developer. (See accompanying story.)

In addition to rent, Imagine's charter schools are required to pay the for-profit company 12 percent of their budget each year. Yet some classrooms in Imagine schools lacked basic instructional materials— such as age- and grade-appropriate books, pencils, paper and other supplies — when Missouri Baptist University, the sponsor of Imagine schools, recently evaluated them. Former teachers and parents also describe schools that cut corners even as children fall further behind.

"There are shortages of basic things like toilet paper, soap, paper towels," said Serena Mouyaga, who taught Spanish for two years at Academic Success.

Angela Howard, a former principal at the school for four years, said educating children — most of whom live in poverty and are several grade levels behind their peers — was difficult given budgetary constraints.

"You have a significant amount of children who have asthma, who have bipolar, who are diagnosed with ADHD, and you have limited funds to meet those needs," she said.

**A DIFFERENT STRATEGY**

As far as brands go, Imagine dominates the charter school industry. Its schools enroll more than 36,000 students at 75 schools in 13 states and the District of Columbia.

The company was formed in 2004, after Dennis W. Bakke retired as chief executive of AES Corp., a global energy supplier. He and his wife, Eileen, used part of their fortune to buy the failed Chancellor Beacon charter school company.

The Bakkes infused Imagine Schools Inc. with $150 million of their own capital to build what would become the largest commercial charter school operator in the country. According to Imagine's 2010 annual report, revenue grew to $265 million from $95 million in 2006.

Charter school management companies such as Imagine are intended to bring greater efficiency and support to schools by centralizing curriculum decisions and administration. But the fees they charge their schools and how they make decisions range widely.

Imagine's approach contrasts with that of most other charter schools.

Imagine schools open big, while other charter schools typically open with a few grades and then grow. For example, in 2007 Imagine opened four campuses in St. Louis for 1,663 students in kindergarten through eighth grade. In contrast, the independent City Garden Montessori opened the next year north of Tower Grove Park with just 52 pupils in kindergarten through third grade.

"They just seem to be opening up a large number of schools in a short period of time," said Todd Ziebarth, vice president of state advocacy and support for the National Alliance of Public Charter Schools. "Not to say you can't do that and have high-quality schools. Schools that grow slow tend to perform better in the short and long term. That's kind of anecdotal, but that's what we've seen."

Critics say Imagine's focus on growth compromises how charter schools should be governed. Under Missouri law, charter schools are overseen by independent boards. Those boards, in turn, often hire companies to administer the schools. But Imagine executives operate in reverse, recruiting board members themselves.

"We don't see the boards in charge, we see the management company in charge," said Robbyn Wahby, education liaison for St. Louis Mayor Francis Slay. "That is a significant difference that we think has led to some of the poor outcomes."

Former staff members say the company places a greater emphasis on enrollment than on academics.

In March, Angela Howard said, she would begin receiving emails from the regional office pressuring her to raise enrollment numbers for the next school year. This took her focus off state standardized tests, which few of her students were passing.

"Our test scores were horrible," she said.

**COMPLEX DEALINGS**

One of the greatest struggles in opening a charter school is finding a suitable building and the money needed to make it a school.

It's a struggle Imagine's business model is built to address.

Just like traditional public schools, charter schools rely on state money to operate. But they receive no state or local funding specifically for buildings and renovations. So every dollar spent on construction or leases is diverted from instruction.

"A new public school can be built on the bond credit of the city. That's not available to charters," said Sharp, who is also the president of Imagine's real estate arm. "To build a school or open a school or refurbish a building like we've done in St. Louis, that's difficult."

Charter school organizers in St. Louis most often lease buildings — such as old warehouses or vacant Catholic schools — and then take out a loan to renovate them.

But Imagine offers a far more complex solution, engaging in a series of transactions that leave future charter schools predestined to have high rent even before they open.

In St. Louis, a common link between those transactions is Samuel Glasser, a developer who recently pleaded guilty to federal bank fraud charges involving a project unrelated to Imagine schools.

For more than a decade, Glasser made his mark downtown by turning pieces of Washington Avenue into a district filled with loft apartments and condominiums.

In 2003, Glasser leased part of the International Shoe Co. building at 1509 Washington Avenue to the now-defunct Ethel Hedgeman Lyle Academy. The school was operated by Chancellor Beacon, the company Imagine would later buy.

And it would be the first in a chain of transactions that would place Glasser at the forefront of Imagine's expansion in St. Louis.

Glasser did not respond to repeated requests for comment. But Imagine officials say he was part of the team that selected sites for future schools. He bought or arranged the purchases of existing buildings using such names as Stanley H.D. Equities, 3740 Marine Associates and 1901 North Kingshighway.

Two of the buildings — the old King Tri-A and Lowell schools — had belonged to St. Louis Public Schools, which resisted selling property to charter organizers.

To get around this policy, Glasser didn't state his true plans on the sales agreements. After the two buildings opened as Imagine charter schools, district officials temporarily imposed deed restrictions on their buildings to prevent such moves.

Glasser later sold the two buildings to a subsidiary of Imagine Schools — Schoolhouse Finance — at mark-ups of as much as $665,000.

He profited in other ways. Schoolhouse Finance reimbursed his general contracting company, Samuel & Co., for work done on four of the school sites according to contracts, Sharp said. In addition, Samuel & Co. earned profits and fees for each project. In the case of Imagine Academy of Careers Middle, the company made $943,244 in construction fees and profit from the $2.4 million project, according to an audit filed with the Missouri Department of Economic Development.

In 2007, the department awarded Glasser $478,583 in historic tax credits for work done on the building that houses Imagine Academy of Academic Success. Glasser charged Imagine $150,000 to apply for those credits, according to a development agreement. And he charged the company similar fees for each of three additional applications he submitted to get historic tax credits on other Imagine school buildings.

**BIG INVESTMENTS**

Imagine can traffic in such high-dollar transactions thanks in part to a relationship with a key investment partner. And like the relationship with Glasser, it's one that leads to escalating costs for schools.

In 2007, a real estate investment trust founded by Joseph E. Robert Jr., an advocate for school choice, began infusing Imagine with the capital it needed to buy and renovate buildings across the country.

That trust, called JERIT CS Fund I, is now a subsidiary of Kansas City-based Entertainment Properties Trust, which mostly owns multi-plex theaters, wineries and small ski resorts nationwide. Holdings include Hidden Valley in Wildwood, as well as 26 Imagine school buildings in nine states and Washington. Five of the schools are in St. Louis.

The company buys the school buildings from Schoolhouse Finance and leases them back to Schoolhouse. Schoolhouse Finance then subleases the buildings to the charter schools, who get money from the state based on attendance and enrollment. Schoolhouse charges the schools 5 percent to 15 percent more for rent than what it passes on to Entertainment Properties Trust, Sharp said. Imagine spends this difference on property taxes and on rent if a school closes, he said.

In 2010, Entertainment Properties Trust collected $26.3 million from its leases with Imagine schools, according to an end-of-year financial statement. Within 30 years, the company plans to triple its investment on each school building.

"If you do it right, it can be a steady investment income," said Jerry Earnest, chief investment officer for Entertainment Properties. "If the schools do well academically and do provide good opportunity for kids, the schools will operate for a long period of time and be a good investment."

In June 2008, Entertainment Properties bought the building used by Academic Success on East Linton Avenue for $4.7 million — almost 10 times what Glasser had paid for the structure in 2006. The company paid Schoolhouse Finance $11.5 million for Imagine College Prep at 706 North Jefferson, 10 times what Imagine had paid for the building. It also paid $22.8 million for the building at 1008 Spring Avenue, a former Kroger bakery now used by Imagine Academy of Environmental Science and Math.

Imagine pours millions of dollars into these buildings, filling empty shells with shiny lockers, bright hallways and sunlit classrooms. Sharp said the escalating prices of the transactions merely reflected the renovation costs. In some cases, Imagine lost money on the sales, he said.

Nevertheless, within months of the sales, the boards that oversee those schools approved amended leases with higher rents than the schools had paid to Imagine the year before.

All six Imagine charter schools in St. Louis are paying a higher percentage of their budgets toward rent or mortgages than any other charter school in the city. For example, the three schools that operate under the Imagine Academy of Careers charter spent almost 21 percent of their revenue on rent in the 2009-10 school year. In contrast, City Garden Montessori spent less than 4 percent of its revenue that year to rent part of Tyler Place Presbyterian Church on South Spring Avenue.

Imagine officials stand by their real estate strategy, saying it produces a respectable environment for its schoolchildren.

"You want to treat them like first-class citizens," said Sam Howard, executive vice president for Imagine, and no relation to Angela Howard.

They say the arrangement is not designed to enrich Imagine. In fact, Sharp says Imagine bears the brunt of the financial risk when a charter school closes, as recently happened in Marietta, Ga. In that case, Sharp said, Imagine was left to pay the rent on a school that no longer exists.

But the company recently found a way to turn a similar situation in its favor in St. Louis.

Last year, Ethel Hedgeman Lyle Academy, once an Imagine school, closed because of financial failure.

In August, Imagine opened another school in its place. Imagine Academy of Cultural Arts now serves kindergarten through fifth grade at 1509 Washington Avenue.

"And the underlying real estate never lost a beat," said Greg Silvers, chief operating officer for Entertainment Properties, in a June teleconference with investors.

**VIOLATIONS**

Imagine's complex real estate transactions produce top-notch school buildings, company officials say. They proudly lead visitors through Imagine Academy of Environmental Science and Math, a school on South Spring Avenue that spent $2.4 million on rent last school year, according to a school budget.

Museum-quality nature exhibits line the hallways. Several murals were painted by a professional artist.

"I've got to give it to Imagine," said Rep. Tishaura Jones, D-St. Louis. "I've toured a couple of their schools and they're beautiful facilities. ... You walk in, and it leaves you to believe there is learning here."

But public records point to numerous shortcomings at several other Imagine campuses.

In 2007, two weeks before school started, city building inspectors declared Imagine Academy of Academic Success unsafe for occupancy. They found 13 mechanical code violations, ranging from fuel-burning equipment installed without a permit, to a heating system that didn't supply adequate heat for winter, according to city inspection records.

The fire alarm was inoperable, a letter from the fire marshal said. Exit signs didn't illuminate. The sprinkler system wouldn't function.

Frank Oswald, head of the city's Building Division, said that the list of issues was addressed in the days before school started and that Imagine had verbal permission to use the building. However, a letter from the city to Glasser, the building's owner, several weeks later stated otherwise.

It wasn't until Nov. 7 — almost three months after children first sat at their desks — that the city's Building Division gave the school the permit legally needed for occupancy.

Year after year, Imagine violates city safety codes by putting more children in two of its school buildings than the city considers safe. Inspectors set occupancy limits based on the number of exits and how long it would take students to leave the building in an emergency.

"We take those pretty seriously," said Rich Voelker, who supervises fire safety for the Building Division. "Those should be adhered to."

The limit for Academic Success is 400 students, according to a 2007 letter from the city's Board of Public Service. Yet Imagine's enrollment target for the school is 600. According to state data, the school has enrolled 405 to 505 children since it opened.

Imagine Academy of Careers Middle School, 1409 North Kingshighway, has an enrollment limit of 300 students, says a permit on file with the city. Yet the school enrolled 333 children in fall 2008, and 331 children in fall 2009, according to the state.

"I don't know what that's all about," Sam Howard said. "We follow the building code and city procedures."

**TIGHT BUDGETS**

By the end of its first school year, Academic Success was losing money.

It was running a deficit of $246,000, according to minutes from the May 2008 board meeting.

Budget constraints were being felt across town at all Imagine schools. According to state financial reports, Imagine schools finished their first year with operating deficits and continue to have negative fund balances.

In addition to rent, Imagine charges schools operating costs, which amount to 12 percent of their annual revenue. The company also charges fees to cover salaries of regional administrators. It charges schools a one-time "development fee" of $250,000 to cover start-up costs. When schools don't make budget, Imagine lends the schools money with interest.

In November 2008, after one year of operation, Imagine Academy of Environmental Science and Math laid off 17 teachers and staff members, according to minutes from that month's board meeting. The building had just been sold to Entertainment Properties. Annual rent was about to increase to $2.3 million, from about $2 million.

"The lease will always be a liability," Lavon Bush, Imagine's regional chief financial officer, said at the November 2008 board meeting.

As the schools struggled financially, Imagine's Schoolhouse Finance spent more than $4.3 million buying a city block at 4230 Gravois Avenue, according to city records. The property includes an eight-story building once used as a candy factory. Architectural renderings show Imagine's plans to turn it into a performing arts school for elementary, middle and high school students. A regulation-sized soccer field was included.

Imagine is no longer pursuing that option.

"We've written off our investment," Sharp said.

Teachers at Imagine schools say they know very little about the company's real estate ventures. They do know, however, that they have limited supplies and often get no more than two reams of paper a month. Their average salaries in 2010 were between $35,000 and $37,000 — compared with almost $50,000 in the St. Louis Public Schools.

Teacher turnover is a problem. At Academic Success, just 15 of 41 teachers in 2009-10 returned for the 2010-11 school year, according to a report from Missouri Baptist University, sponsor of the Imagine schools.

Angela Howard said she could no longer work for Imagine. She wanted to pay her best teachers more money, she said. The budgetary stresses, among other things, were too much.

Test results show that in 2011, just 5.4 percent of the school's students passed the communication arts section of the state test, and 8.5 percent passed the math portion.

"It was the frustration of the whole setup," Howard said. "To me, the red flag should be your test scores and how they're worse than every other school in the state of Missouri. If that is not a red flag I don't know what is."

*David Hunn of the Post-Dispatch contributed to this report.*

# KARE Information

KARE was formed as a 501 (c) (3) in August 2011 (Articles of Incorporation).

Board of Directors:

1. Hal Heiner, 12910 Shelbyville Road, Suite 200; Louisville, KY 40243
2. Dr. Wayne D. Lewis, Jr., 6012 Canonero Way, Lexington, KY 40383
3. Bill Schreck, 2565 Cherosen Road, Louisville, KY 40205

Sole Incorporator: Jennifer Sheehan, Attorney, KWH Law, PLLC, 4949 Old Brownsboro Road, Suite 289, Louisville, KY 40222.

The “principal office” is the same as Hal Heiner’s on Shelbyville Road

As a new 501(c) (3), it will not be required to file any information with the IRS or anyone else for several more months.

Hal Heiner is a land developer and part-time politician. Now he’s apparently trying to make a buck as an education reformer.
A Ƴl·ƴ named Bill Schreck used to be a code enforcement official in Louisville City government under the Abramson regime. He is currently involved in the Kentuckians for Progress, the pro-bridge, pro-business, anti-River Fields action group. He also has ties to land developers.

Wayne Lewis Jr. is a UK education professor and self-styled education reformer.

Also…

Brent,

I was curious about KARE and looked into who owned their domain name. Turns out the owner of the domain name is Jason Williams owner of the Stoneridge Group. They are a national republican campaign consulting group out of Georgia with an office in Louisville. They worked on the campaigns of Marco Rubio and Rand Paul so there is a Tea Party aspect to KARE.

Article about their involvement in another campaign: http://www.hallcountytruth.com/whats-the-deal/

http://stoneridgegroup.com/