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Florida charter schools: big money, little oversight

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Jeremy Rosende participates in his first-grade art class at the Renaissance Charter School in Coral Springs.

Preparing for her daughter's graduation in the spring, Tuli Chediak received a blunt message from her daughter's charter high school: Pay us \$600 or your daughter won't graduate.

She also received a harsh lesson about charter schools: Sometimes they play by their own rules.

During the past 15 years, Florida has embarked on a dramatic shift in public education, steering billions in taxpayer dollars from traditional school districts to independently run charter schools. What started as an educational movement has turned into one of the region's fastest-growing industries, backed by real-estate developers and promoted by politicians.

But while charter schools have grown into a \$400-million-a-year business in South Florida, receiving about \$6,000 in taxpayer dollars for every student enrolled, they continue to operate with little public oversight. Even when charter schools have been caught violating state laws, school districts have few tools to demand compliance.

Charter schools have become a parallel school system unto themselves, a system controlled largely by for-profit management companies and private landlords — one and the same, in many cases — and rife with insider deals and potential conflicts of interest.

In many instances, the educational mission of the school clashes with the profit-making mission of the management company, a Miami Herald examination of South Florida's charter school industry has found. Consider:

- Some schools have ceded almost total control of their staff and finances to for-profit management companies that decide how the schools' money is spent. The Life Skills Center of Miami-Dade County, for example, pays 97 percent of its income to a management company as a "continuing fee." And when the governing board of two affiliated schools in Hollywood tried to eject its managers, the company refused to turn over school money it held — and threatened to press criminal charges against any school officials who attempted to access the money.

- Many management companies also control the land and buildings used by the schools — sometimes collecting more than 25 percent of a school’s revenue in lease payments, in addition to management fees. The owners of Academica, the state’s largest charter school operator, collect almost \$19 million a year in lease payments on school properties they control in Miami-Dade and Broward counties, audit and property records show.
- Charter schools often rely on loans from management companies or other insiders to stay afloat, making charter school governing boards beholden to the managers they oversee. Loans to two Pompano Beach schools were disguised as gifts in financial documents to avoid scrutiny from the school district and make struggling schools appear solvent, the schools’ former managers said in court papers.
- At some financially weak schools, tight budgets have forced administrators to cut corners. The cash-strapped Balere Language Academy in South Miami Heights taught its seventh-grade students in a toolshed, records show. The Academy of Arts & Minds in Coconut Grove went weeks without textbooks. Schools have also been accused of using illegal tactics to bring in more money — charging students illegal fees for standard classes, or faking attendance records to earn more tax dollars, court records show.
- Charter schools in Miami-Dade take a disproportionately lower share of black, poor and disabled children, records show. One in three students in Miami-Dade traditional public schools are black, while one in five charter school students are black. School district officials also suspect some charter schools have deliberately sought out high-performing students — contrary to the schools’ contracts.

This year, several South Florida charter schools made headlines for violating local rules or state laws, including Arts & Minds, which was accused of charging illegal fees to students, and Balere, which the school district said turned into an after-hours nightclub on weekends. The district withheld funding from both schools — before concluding that it does not have the legal authority to do so.

That’s because Florida’s charter school laws — considered among the nation’s most charter school friendly — are aimed more at promoting the schools than policing them, leaving school districts with few ways to enforce the rules.

When school districts have taken a hard line with charter schools, they have found their decisions second-guessed by state education officials in Tallahassee. And as the number of charter schools has climbed — almost 200 now operate in Miami-Dade and Broward counties alone — state lawmakers have chipped away at local school districts’ ability to monitor them.

“It’s frustrating for school district officials,” said John Schuster, spokesman for the Miami-Dade school district. “The only cases where we can really intervene are safety-to-life, severe financial distress or poor academic performance.”

MEDICINE FOR WHAT AILED US

Bringing marketplace principles to education

Charter schools first took hold in Florida in 1996, amid worries of overcrowded classrooms and

poor student performance in urban school districts. They were seen as a cure for many of the problems in public schools, bringing innovative techniques and smaller classes to populations of students struggling to keep up. Charter schools were also designed to give parents more choices, and bring the principles of the marketplace to public education. Competition from charter schools was expected to force public schools to adapt and improve.

In many ways, the plan succeeded. Florida now has 519 charter schools — from small, specialized schools tucked in strip malls and churches to sprawling new campuses with 3,000 kids from kindergarten to 12th grade.

Some charter schools rank among the highest in the state in academic performance. School districts in Miami-Dade, Broward and around the state have responded to the competition by creating more magnet schools and specialized programs.

By design, charter schools are unshackled from many of the bureaucratic rules of traditional public schools, with independent school governing boards making most decisions instead of the local school district. Charter school advocates say this freedom is needed for schools to be creative and nimble, and to encourage start-ups.

While this freewheeling system has minimized the oversight of school districts, it has given rise to a cottage industry of professional charter school management companies that — along with the landlords and developers who own and build schools — control the lion's share of charter schools' money.

In Miami-Dade and Broward, about two in three charter schools are run by management companies, which charge fees ranging from 5 to 18 percent of a school's income. These fees can exceed \$1 million a year at a large charter school.

Some management companies handle only school finances, while others control the budget, hiring and the curriculum.

In some cases, the managers effectively take over the schools, using financial leverage to render the schools' governing boards "irrelevant," said Pam Hackett, a retired legislative aide who has served on the boards of five Broward County charter schools.

"They push the little guy into a corner where they can't afford to do anything but acquiesce or go out of business," Hackett said.

Two years ago, Hackett sparred with the Leona Group, a Michigan-based management company, after the company removed a popular principal from two affiliated Hollywood charter schools on whose board she serves — Sunshine Elementary and Paragon Academy of Technology. When the board tried to rehire the principal, the management company objected, saying it alone had that power.

"They basically told us: 'According to the contract, we can do whatever we want,'" Hackett said.

The board had other complaints with Leona: The management company refused to provide school records, including contracts and spending documents, and failed to follow the school's

education plan, school officials said. The board canceled Leona's contract in July 2009.

When school officials later tried to access the schools' bank accounts, Leona refused to give up the money — and its lawyer accused them of attempting to steal it, court records show.

Leona "is committed to criminally prosecuting those individuals responsible for their attempted theft from the account," attorney Jeffrey Wood wrote in a letter to the schools' attorney. The dispute is now in litigation.

Leona executives did not return phone calls seeking comment.

Hackett says the schools now operate without any for-profit managers; instead, the principals make all financial and educational decisions. "Overall, it's cheaper and more efficient and more accountable," she said.

Many charter schools depend on management companies not just for expertise, but for cash. Schools often borrow money from the managers, creating an uneasy arrangement that can stifle a governing board's independent oversight.

The Leona Group, for example, gave more than \$360,000 to four Broward charter schools — money described as gifts in the schools' financial reports. But in court papers, the management company said the payments were really loans disguised as gifts to make the schools appear financially sound.

"The funds were referred to as a 'one-time gift' so that the schools would not have to show the funds on their balance sheets," the management company's lawyers wrote. The schools insist the payments were gifts, not loans.

It is not uncommon for management companies to give or lend money to schools to get them up and running, said Jonathan Hage, president of Charter Schools USA of Fort Lauderdale, one of the region's largest charter school operators.

Most charter schools lose money in the first year or two as they try to expand enrollment while paying rent, construction costs and other start-up expenses, he said. In addition, new charter schools often find it difficult to get financing from banks.

Hage and other charter school supporters say the state's funding formula for charter schools is inadequate, making it difficult for smaller schools to survive without assistance. Hage's company benefits from scale, he said. "Being able to spread overhead costs over many schools and many students helps."

Statewide, about one in four charter schools have shut down since 1996, either voluntarily or at the command of local school districts — double the national average. Most schools close for financial rather than academic reasons.

SCHOOLS AND THEIR LANDLORDS

For property owners, it's a profitable deal

Charter schools generally receive more than 80 percent of their income in per-student payments

from the state. In addition to the roughly \$6,000 per-student allocation — slightly less than what traditional public schools receive — charter schools also get some state funds for facilities and maintenance.

For most charter schools, finding a location is the greatest difficulty and expense. Most schools rent their facilities — in churches, shopping centers, or brand-new school buildings erected by real-estate developers. Any property used by charter schools is exempt from property taxes.

Some schools devote less than 5 percent of their income to rent. Others pay crippling rates.

“Rent continues to be the greatest financial impact for our school,” administrators at Broward Community Charter West wrote in a report to the state Department of Education last year. The school was \$118,000 in the red that year.

Neither the state nor the local school districts have rules or guidelines on how much a charter school lease should cost; nor are schools required to seek independent appraisals. But Hage, of Charter Schools USA, said a school’s lease should not eat up more than 20 percent of its revenue.

A Miami Herald review found 19 schools in Miami-Dade and Broward with rents exceeding 20 percent of their income in 2010 — about one in seven South Florida charter schools renting property that year. One Miami Gardens school spent 43 percent of its income on rent, according to audit reports.

Many of the highest rents are charged by landlords with ties to the management companies running the schools, The Miami Herald found. At least 56 charter schools in Miami-Dade and Broward counties sit on land whose owners are tied to management companies, property records show.

For example, the Lincoln-Martí Charter School in Hialeah paid \$744,000 in rent last year — about 25 percent of the school’s \$3 million budget, even after the landlord reduced the rent by \$153,000. The previous year, the school spent one-third of its income on rent, audit records show.

Records show the landlord, D.P. Real Estate Holdings, and the management company are run by the same man: former Miami-Dade School Board member Demetrio Perez Jr. Perez’s son, Demetrio J. Perez, works at the management company, which operates three Lincoln-Martí charter schools.

The Lincoln-Martí charter schools were established by three friends of the elder Perez, who owns a string of well-known private schools and daycare centers also called Lincoln-Martí.

The younger Perez said the school buildings are too large for the student body: Only 364 students attend the school, though the facilities can hold up to 1,000 kids. He said the rent, at \$9.78 per square foot, is below market rate; however, the board did not seek an appraisal before approving the lease.

Board member Gil Beltran said the elder Perez plays no role in the school. However, at Perez’s request, the board agreed last year to guarantee \$24 million in loans for his real-estate business,

records show.

After school district officials objected, the bank released the charter schools from the loan last month. "We didn't see anything inappropriate about it," Perez's son said.

His father's company has also agreed to give the school \$350,000 before the end of the school year as a gift, the younger Perez said. The school currently owes \$250,000 in overdue rent.

School districts don't have the authority to dictate the terms of a charter school's lease, or any other financial deals. That role falls to a school's governing board.

But in many cases, the governing board includes members with ties to the management company or the landlord — creating a potential conflict.

At the Academy of Arts & Minds in Coconut Grove, the school's founder, Manuel Alonso-Poch, acts as the school's landlord, its manager and the food-service vendor. For the first three years the school operated, Alonso-Poch also served on the governing board, school records show. He stepped down at the urging of the school district in 2006.

Alonso-Poch still has close ties to the board: His cousin, Ruth "Chuny" Montaner, is the chairwoman of the board, which approved all of the school's contracts with Alonso-Poch's companies — including a lease that cost 28 percent of the school's revenue in 2010. (Montaner did not vote on Alonso-Poch's \$90,000-a-year management contract.)

Another Arts & Minds board member, Jorge Guerra Castro, was listed as a board member for years, though he lives in Peru. Castro said he was unaware that he was named to the board until he was told about it by a Herald reporter — yet some school board meeting records purport to show his attendance.

In some instances, the landlords hold significant sway with charter schools' governing boards.

The landlord of the Charter School at Waterstone in Homestead has the right "to be involved" in any decision to remove the school's management company, under that school's lease. Last year, landlord Luis Machado warned the school's board not to renew a contract with a management firm that had sued the school over a contract dispute, records of the school's Jan. 6, 2010, board meeting show. Machado told the board he wanted to make sure the school operated "within his business philosophy."

The school's board dropped the management company. Machado did not return phone calls seeking comment.

WHEN SCHOOLS PURSUE PROFITS

Strange things can happen, like \$600 fees

As statewide budget cuts have hit the bottom line at all public schools, some charters have been accused of cutting costs and boosting revenue at the expense of children and parents.

It's a story Tuli Chediak knows well. As her daughter was preparing to graduate from the International Studies Charter High School in Miami earlier this year, Chediak was notified that she

had failed to complete the 120 hours of volunteer service required of all parents. Her family was told to pay \$600 — \$5 for each hour — or their daughter could not graduate, Chediak said.

The mother had signed paperwork promising to complete the volunteer service, a common requirement at private schools and some charters. But Chediak said the school offered few opportunities to complete the service. The contract said nothing about a fine or withholding her daughter from graduation, she said.

Chediak refused to pay and complained to the school district, which declined to get involved. The school ultimately allowed her daughter to graduate, and blamed the dispute on a miscommunication. But the experience left Chediak and other parents who were asked to pay frustrated.

“There are people taking advantage of parents,” she said. “It shouldn’t be that way.”

The Balere Language Academy saved cash by teaching nine seventh-graders in a wooden storage shed on campus, records show. One report by the school district said students “had difficulty putting their legs comfortably under the desks.”

The school denied it, but district photographs show colorful posters, a whiteboard and student papers hanging from the walls. The shed is no longer used for classes.

Arts & Minds boosted its bank account for several years by charging student fees for basic classes like math and reading — a violation of state law, school district officials said. The district complained about the practice in September, prompting Arts & Minds administrators to return all checks received from parents this school year.

Parents at Arts & Minds, a school that has relied on loans from its landlord and founder to stay in the black, had also complained that the school did not have enough books for its students, and some classes had no teachers for the first five weeks of this school year.

The complaints aren’t new: Earlier this year, school administrators were photocopying textbooks, until the school’s then-principal questioned whether this violated copyright laws, governing board minutes show.

Insiders at the Mavericks High of South Miami-Dade, a Homestead charter school for at-risk students, also say the school has broken state law to bring in more money.

Kelly Shaw, a former career coordinator at the school, filed a whistleblower suit in June accusing school administrators of defrauding the school district by inflating student attendance and enrollment figures, to increase the amount of money the school collected.

A former Mavericks teacher, Maria del Cristo, filed a separate suit accusing the school of improperly charging fees to students enrolling at the school. Through their attorney, Shaw and del Cristo declined to comment.

Lauren Hollander, the CEO of the school’s management company, Mavericks in Education Florida, denied the allegations, and said both women had been fired “for cause.” The lawsuits are still pending.

Miami-Dade school district officials said they never heard of the allegations.

KEEPING TABS ON PUBLIC DOLLARS

More monitoring urged, less monitoring OK'd

Many problems at charter schools go undetected until they become debilitating — if they're discovered at all.

Charter schools are required to file financial statements with their local school districts. The reports are among the most important monitoring tools districts have to assess the financial health of charter schools.

Still, the statements don't always show the complete picture. The law does not require operators to provide details on day-to-day spending — and governing boards can sometimes be left in the dark.

In 2007, the board of Sunshine Academy in Miramar went to police after discovering that the school's principal, Alcira Manzano, had made unauthorized withdrawals from the school's account — including \$5,200 for a down payment on an SUV, court records show. The board closed the school, and Manzano was arrested on theft charges.

Investigators later found that Manzano had also made loans to the school and personally paid the rent. Broward County prosecutors dropped the charges against Manzano in June.

“The record keeping at the school and oversight of the school by the board of directors was virtually nonexistent,” prosecutor Kathryn Heaven wrote in a memo after dropping the case. “The school appears to have been poorly run.”

In 2008, a legislative report said the state should adopt stronger monitoring methods to detect struggling schools before they reach the brink of closing.

Instead, lawmakers relaxed the rules even more. Earlier this year, Gov. Rick Scott signed a bill allowing some high-performing schools to file financial reports quarterly, instead of monthly. The Legislature also reduced the amount of money that high-performing charter schools must pay to school districts to cover the costs of oversight.

Even when school districts detect problems, their ability to assess charter schools' conduct and demand compliance is limited.

For example, state law does not spell out clear conflict-of-interest rules for charter schools or their governing boards — a shortcoming highlighted by legislative analysts in 2008, but never changed. Nor does the law clearly define how much control a management company should have.

Earlier this year, Miami-Dade school district auditors questioned whether four schools — two Life Skills charter schools and two Renaissance charter schools — were operating as mere pass-throughs to their for-profit management companies.

The Life Skills schools each paid 97 percent of their money to White Hat Management of Ohio,

which in turn paid the school's expenses — including lease payments to another White Hat company. White Hat officials did not return phone calls seeking comment.

The school district's audit committee considered asking the schools to modify their contracts, but the district's attorney determined that the district could not take action.

School districts can deny an application for a new charter school or refuse to renew a school's charter. But the state Board of Education has overturned those decisions 30 times since 2003, state records show. (The state upheld 53 denials over the same time period.)

School districts can also close a school that has received consecutive failing grades or has persistent financial problems. But some districts, including Miami-Dade, have had that power questioned, too.

In 2010, the Miami-Dade School Board voted to close Rise Academy in Homestead after the school ended the year \$250,000 in the red. Questionable expenses included \$8,300 at retail clothing stores; \$2,800 at hotels and Orlando theme parks; and \$2,145 at restaurants, according to bank records. Meanwhile, teachers had gone unpaid and textbooks were in short supply.

Weeks later, the decision to close Rise was overturned by the state Board of Education. State education officials said the school, which had boosted its state-issued grade from F to A in a single year, had not received a fair hearing.

Rise never reopened.

Charter school advocates insist the law and state rules provide for enough oversight.

"There is absolute accountability," said Lynn Norman-Teck, a spokeswoman for the Florida Consortium of Public Charter Schools. "Parents, if they see something wrong, will call the school, the district, Tallahassee."

But district officials say it is a frustrating exercise.

"School districts are limited in their authority over charter schools," said Schuster, the Miami-Dade spokesman. "They have minimal ability to impose effective consequences."

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