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Whose Opportunity?

Profiting off of School Turnaround
and Takeover in Atlanta

ACKNOWLEDGEMENTS

This report was prepared by the Center for Popular Democracy. It was written by Aditi Sen and edited by Shabnam Bashiri, Allie McCullen and Connie Razza. Research assistance was provided by Claire Bolton, Gloria Jean Howerton, and Anna Simonton.

ABOUT THE **CENTER FOR POPULAR DEMOCRACY**



The **Center for Popular Democracy** (CPD) works to create equity, opportunity and a dynamic democracy in partnership with high-impact base-building organizations, organizing alliances, and progressive unions. CPD strengthens our collective capacity to envision and win an innovative pro-worker, pro-immigrant, racial and economic justice agenda.

ABOUT **RISE UP**



Rise Up is a grassroots community-based organization that supports progressive political change in Georgia. Rise Up's mission is to build the power of the new majority—which includes people of color, women, LGBTQ people, immigrants, and young people—to advance racial and economic justice by taking bold action in the streets and at the ballot box.

Executive Summary

The “Opportunity School District” (“OSD”) is a proposed, statewide takeover district that would allow the state to seize control of up to 100 “failing” schools for between five and 10 years. This is but the latest effort to remake public education in the state of Georgia. In each instance, these dramatic measures take control over educational priorities away from students, parents, residents, and educators, and confer it to wealthy developers, out-of-state charter school boosters, and an overwhelmingly white state administration.

This report concludes that a true turnaround plan centers communities in school decision-making and structure, rather than stripping control of educational institutions from low-income communities of color.

The report opens with an exploration of the troubling record of state takeover districts in New Orleans and Tennessee, which have been cited as precedents for the Georgia proposal. In these districts, charter education has failed to meet its promise as the one-size-fits-all solution to turning around low-performing schools. Further, these models demonstrate that profits come before performance in school takeover initiatives. The report then focuses on Atlanta—Atlanta Public Schools (“APS”) has the largest number of schools—26—eligible for takeover of any district.¹ Here, Black students and communities are already at risk under the current proposal, even as the actors that have invested the most in passing the OSD initiative and expanding charter schools in Georgia—including education consultants, real estate developers, and education management organizations—are all well poised to gain financially in the takeover plan. The report finds that many of the people and entities involved in the push for and the business of taking the public schools out of public hands have clear conflicts of interest. The report concludes by offering specific recommendations toward an alternative approach to improving school performance.

Recommendations

Instead of taking control away from communities, the State of Georgia should recognize that parents, students, and teachers are the best resources we have to fix failing schools. But they cannot do it alone. Instead of the takeover district proposal, the state should:

1. Restore funding levels to education back to 2002 levels, adjusted for inflation.
2. Embark on a real community input process, enlisting community-based organizations to design and implement a study, starting with the Atlanta Public School system.
3. Commit to improving outcomes at struggling schools, centered on five key principles developed by the Alliance to Reclaim Our Schools.² School turnaround strategies should focus on:
 - **Curriculum** that is engaging, culturally relevant and challenging.
 - **High quality teaching**, not on high stakes testing.
 - **Wrap-around supports** such as health care, eye care and social and emotional services that support academics.
 - **Positive discipline practices** such as restorative justice and social and emotional learning supports.
 - **Transformational parent and community engagement.** The full community should actively participate in planning and decision-making.

Introduction

The “Opportunity School District” (“OSD”) is a proposed, statewide “takeover” district, so called because it would allow the state to seize control of up to 100 “failing” schools for between five and 10 years.³ The state would be able to keep these schools under direct state control, jointly run them with the local district, turn them over to private management as charter schools, or close them outright.⁴

The birth of the OSD proposal is mired in the interests of private entities seeking personal gain. Rather than serving the interests of the students and communities our education system is intended to serve, the takeover proposal exposes them to private businesses that are unable to show a convincing record of improving education and have been found to siphon public education resources into their own pockets. Furthermore, the OSD will remove from parents and communities the meaningful input they should have in their young people’s education.

But, while students, parents, and communities stand to lose in the OSD, a set of private actors are poised to benefit: education consultants, real estate developers, and charter school operators consistently see gains, *regardless* of whether children see improved educational outcomes. At the beginning of takeover initiatives, public assets are transferred to private hands: contracts are signed; buildings are sold; financial relief is arranged. Only much later do changes to educational outcomes become apparent. Too often, things have changed for the worse—increasing discriminatory practices, teaching to the test, and backsliding in results. But by then, it is too late to get the money back.

This report examines the story of how the Opportunity School District was born, how students and communities will lose under the takeover plan, and the mechanisms in place to ensure that private providers will win anyway. In this paper, we focus on the impacts in the Atlanta Public Schools (“APS”) because it has the largest number of schools—26—eligible for takeover of any district⁵ and because APS has lined up most closely with this detrimental plan.⁶

But clearly, for too many schools in Georgia, a dramatic overhaul is needed. To this end, the report recommends:

1. Voters reject the Opportunity School District and maintain local control and meaningful community input into their schools.
2. The legislature and the governor should restore education funding levels back to 2002 levels, adjusted for inflation.
3. The Department of Education should embark on a deep and sincere community input process, in partnership with community-based organizations, from design through implementation of the study.
4. The Department of Education and the Governor should commit to improving outcomes at struggling schools while maintaining these core principles:⁷
 - a. **Transformational parent and community engagement.** The full community should actively participate in planning and decision-making. This process recognizes the link between the success of the school and the development of the community as a whole.
 - b. **Curriculum** that is engaging, culturally relevant and challenging. Include a robust selection of classes and after-school programs in the arts, languages, ethnic studies, and AP and honors courses. Also offer services such as ELL, special education, GED prep and job training.

- c. **High quality teaching**, not on high stakes testing. Assessment should be used to help teachers meet the needs of students, and educators must have a real voice in their own professional development.
- d. **Positive discipline practices** such as restorative justice and social and emotional learning supports. These approaches should be prioritized so students grow and contribute to the school community and beyond, and suspensions and harsh punishments should be eliminated or greatly reduced.
- e. **Wrap-around supports** such as health care, eye care and social and emotional services that support academics. Such services should be available before, during and after school and be year-round to the full community. Providers must be accountable and culturally competent.

These principles ensure that the interests of students, parents, and the community at large are paramount in the design of turnaround schools.

The Birth of the Opportunity School District

Over the past several years, public education in the state of Georgia has been remade through multiple efforts. In each instance, these measures have taken control over educational priorities away from students, parents, residents, and educators, and conferred it to wealthy developers, out-of-state charter school boosters, and an overwhelmingly white state administration.

In 2008, charter school proponents designed and enacted the Georgia Charter Schools Commission, which is able to override local school boards to approve and finance charter schools where it deems necessary.⁸ After the Supreme Court of Georgia declared the Commission unconstitutional (only local school boards had the right to open and fund charter schools),⁹ proponents needed a constitutional amendment to reinstate their commission.¹⁰ In November 2016, voters will decide whether to adopt yet another constitutional amendment, when they go to cast their ballots on the so-called “Opportunity School District.”

Governor Deal Goes to New Orleans and Tennessee

The Opportunity School District (OSD) fundamentally conflicts with the interests of Georgia students, parents, and communities – a conflict which is evident in its very conception. In the month before the OSD legislation passed in Georgia, Governor Nathan Deal took all-expenses paid trips to both New Orleans and Tennessee to learn about their state takeover districts, requesting permission from the state’s ethics board. (These trips were arranged by Michelle Rhee’s pro-charter lobbying group, StudentsFirst, in conjunction with Deal’s Deputy Chief of Staff, Erin Hames.¹¹ StudentsFirst spent nearly \$14,000 on meals, travel, and lodging.)¹²

These two models of takeover school districts have become mainstays in the governor’s argument for Georgia’s Opportunity School District proposal. However, the Governor’s invocation of these two districts overlooks the patchy track record of these experiments. Although takeover districts claim to emphasize data-driven initiatives, the data on **results** are mixed:

- test scores move up and down;
- metrics are altered from year to year, confounding meaningful comparisons;

- takeover districts do not necessarily improve any faster than locally-controlled districts; and
- absolute standards may still remain low.¹³

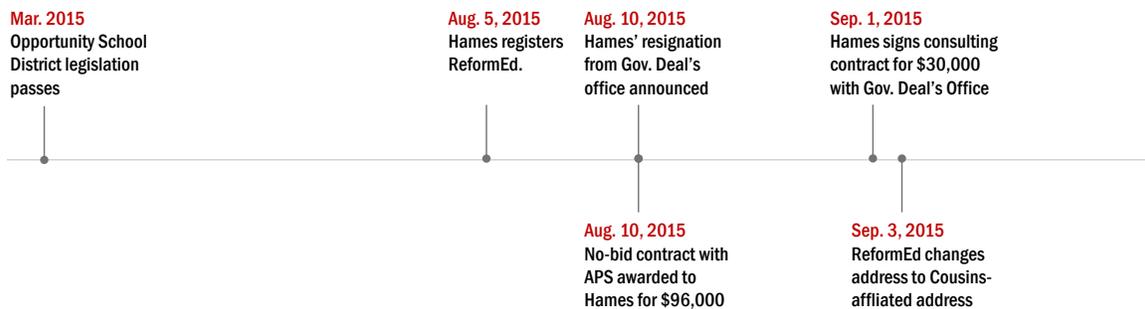
Erin Hames and ReformEd: Conflicted from the Start

In September 2015, it emerged that Erin Hames, former Deputy Chief of Staff to Governor Deal and architect of the OSD takeover legislation, would simultaneously earn consulting fees from Atlanta Public Schools (APS) to help them get off the OSD takeover list and help the Governor’s office decide which schools should be taken over by the OSD. On August 5, 2015—a few months after the passage of the OSD legislation and while still on staff at the Governor’s office—Hames registered a new consulting firm called “ReformEd.”¹⁴

Five days later, Governor Nathan Deal’s office announced that Hames was stepping down from her position at the end of August 2015 in order to “pursue opportunities in the private sector,” but that she would “continue to play a leading role for Deal’s education reform effort.”¹⁵ Hours later, the Atlanta Public Schools (APS) Board voted 7–2 to approve a *no-bid* \$96,000 one-year consulting contract (with option to renew) with ReformEd.¹⁶ Under the contract, ReformEd is responsible to help the APS with policy, legislation and political strategy; to develop strategies for “chronically low-performing schools in the district, to include those schools presently on the OSD-eligibility list;” and to coordinate assistance from state and federal departments of education on regulatory matters.¹⁷

Then, on September 1st, 2015, Erin Hames signed a consulting contract for \$30,000 with Governor Deal’s office (Fig. 1). According to the terms of the contract, Hames will continue to meet with the Governor to advise him on education-related matters, mentor staff members as they implement initiatives, and formulate public policy recommendations for his office.¹⁸ In an email announcing Erin Hames’ resignation, Deal’s chief of staff Chris Riley noted that he “doesn’t consider her gone, [he] just view[s] someone else paying their [sic] salary!”¹⁹ This arrangement poses a deep conflict of interest for both Erin Hames and the Governor, particularly when the “someone else” paying the salary is the Atlanta Public School system.²⁰

Fig. 1. Timeline of Erin Hames’ Double Dealing



A top Deal staffer has stated that ReformEd is funded by “two national families” who must remain confidential until after a national board meeting sign off.²¹ ReformEd changed its address from Erin Hames’ home address to the same business address as the Cousins’ Family Foundation and Purpose Built Communities, an initiative of Tom Cousins (former CEO of Cousins Properties), billionaire investor Warren Buffett, and former hedge fund manager Julian Robertson.²² Erin Hames is listed

as the CEO and Secretary of ReformEd.²³ Her husband, Ben Hames, is listed as the CFO;²⁴ he is presently the Deputy Commissioner of the Georgia Department of Economic Development.²⁵

Consultants for Charterization: Boston Consulting Group

Over the summer, in response to the OSD takeover list, the APS contracted with the Boston Consulting Group (BCG) for help developing a detailed school turnaround plan.²⁶ The eight-week study, funded by local philanthropists,²⁷ cost \$502,000.²⁸ The choice of the company seems to have predetermined the heavy role charterization would play in the turnaround plan. BCG's scope of work highlighted the active role that the profitable multi-national firm²⁹ (despite an earlier announcement that the contract would be awarded locally³⁰) has played in similar takeover initiatives across the country, including in New Orleans with the Recovery School District; Memphis, as part of Tennessee's Achievement School District; North Carolina and its takeover project; and Arkansas' ongoing examination of a proposed takeover district.³¹

The initial BCG scope for Atlanta presented a narrow set of potential solutions for APS' failing schools. This agenda highlighted themes from other BCG studies and many turnaround initiatives from across the country. These included:

- personnel changes or leadership changes in schools, including bringing in leadership from outside of the community;
- hiring private turnaround specialists like Unlocking Potential, Mastery, or Academy for Urban School Leadership to manage takeover schools;
- flipping takeover schools to "high-performing" operators such as KIPP or the Charles Drew charter school team; and
- changing enrollment/feeder patterns for schools.³²

The donors funding the BCG study also have a history of investment and involvement in charter school initiatives, both locally and nationally:

The Walton Family Foundation is the foundation of the Walton Family, owners of Wal-Mart. Since 1992, the Waltons have spent over \$1.3 billion in grants to advance charter schools and alternatives to public education across the country.³³ In January 2016, the family announced that they would invest an additional \$1 billion to back charter schools over the next five years.³⁴ The foundation has designated Atlanta a priority city for their charter school grant-making,³⁵ and funds the KIPP Charter schools, Drew Charter School, the Kindezi charter schools, Westside Atlanta Charter School, Christo Rey Atlanta Jesuit High School and Teach for America. In Georgia, they fund the Georgia Charter Schools Association and the Alliance for School Choice.³⁶

The Nonami Foundation, part of the Cousins' family's group of foundations, has funded the East Lake Foundation and Teach for America.³⁷ Nonami's president, Lillian Giornelli,³⁸ is developer Tom Cousins' daughter.³⁹ Giornelli sits on the board of the East Lake Foundation and is a Trustee of the Cousins Foundation.⁴⁰

The Sartain Lanier Family Foundation funds the East Lake Foundation, Teach for America, The Beltline, Georgia Partnership for Excellence in Education (a charter-affiliated advocacy and research organization), and KIPP.⁴¹ Its director, Mark Riley, is a board member of the Georgia Charter Schools Association⁴² and a former member of the Atlanta School Board.⁴³ Additionally,

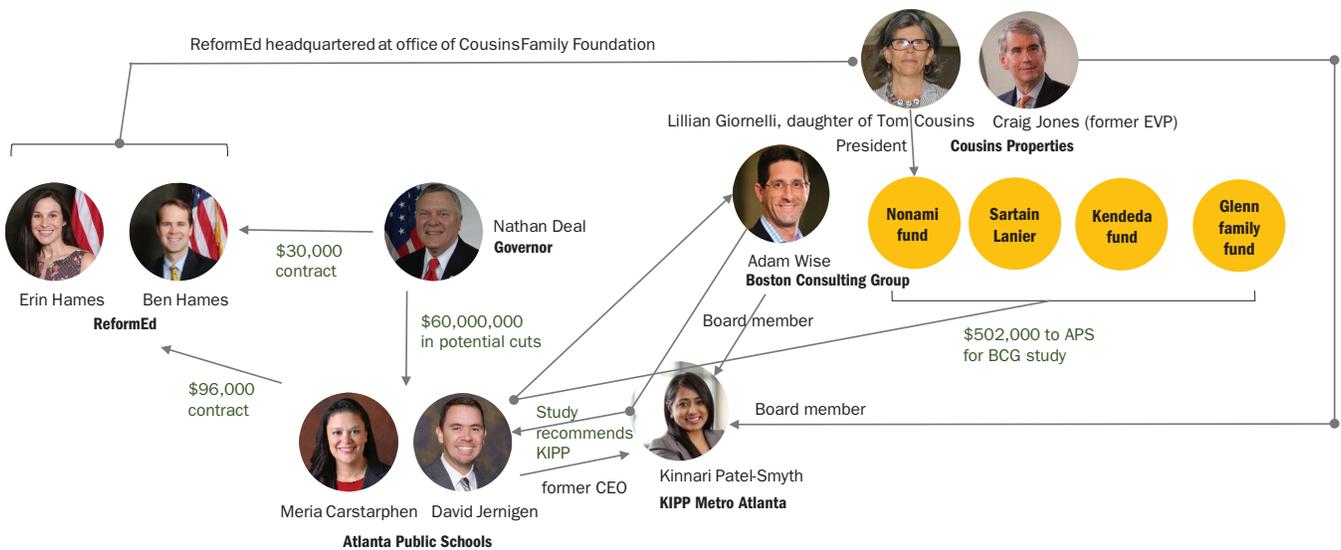
Riley is a partner at Urban Realty Partners,⁴⁴ which has contracted with the Atlanta Housing Authority to convert public housing projects into mixed income developments.⁴⁵

The Kendeda Fund was founded by Diana Blank, Home Depot-founder Arthur Blank’s first wife.⁴⁶ Kendeda is directed by their daughter, Dena Kimball, who also serves as Trustee of the Blank Foundation.⁴⁷ Kimball is a former executive with Teach for America and Teach for All.⁴⁸ Kendeda funds KIPP Metro Atlanta.⁴⁹

The Wilbur and Hilda Glenn Family Foundation, directed by Suzanna Stribling,⁵⁰ funds Teach for America, KIPP Metro Atlanta, Atlanta Classical Academy, the East Lake Foundation, and the Fulton County Schools.⁵¹

The record of both the funders and BCG demonstrates a longstanding commitment to promote pro-privatization school reforms. This orientation is manifested in the limited set of interventions that the BCG questionnaire considers and suggests that the study, ostensibly undertaken in the public interest, was overdermined to favor charter-based reforms (Fig. 2).

Fig. 2. Consultants for Atlanta Public Schools



These conflicts with the interests of students, parents, and communities help make sense of the push for takeover districts and the massive charterization of public schools they bring with them. While proponents of takeover districts try to paint charter schools as public schools, charter schools are profoundly private, autonomous entities that are heavily subsidized by public money.⁵² Every dollar they receive is a dollar taken away from a school system that remains under the control of the populace.

The Opportunity School District Will Harm Black Families in Atlanta

The High Costs of Introducing Large Numbers of Charter Schools

Drained Budgets

The introduction of charter schools has been shown to have a negative fiscal impact on school districts. A study of charters in Albany and Buffalo, New York, found that they can increase costs for districts and can also result in resources being distributed away from the district. Operating two parallel systems of schools under separate governance arrangements can create many additional costs. They increase the number of physical facilities that the school district has to maintain. They may require the district to provide services, such as transportation or special education, to schools and students scattered across a much wider geographical area, which comes with a higher price tag. Such factors led the Albany school district to lose up to \$26.1 million in revenue in a single year (as much as 12.5 percent of the total budget). Buffalo public schools lost out on between \$57.3 and \$76.8 million in revenue, or up to 10 percent of the total budget.⁵³

Other states have seen similar problems. In Michigan, increased numbers of charter schools were found to be strongly correlated with decreasing district fund balances.⁵⁴ And, in Ohio, where \$888 million were diverted from public to charter schools in the 2013-14 school year, state aid to public school students fell roughly 6.6 percent short of the state's estimates of need. Ohio's charter schools received \$7,189 per pupil in funding, nearly twice as much as the per-pupil spending (\$3,634) for public school students.⁵⁵

Poor Performance

Even worse, these decisions cannot even be justified by performance. Over half of Ohio's charter schools that received funding diverted from public schools had significantly lower scores on the state Performance Index Score than those public schools that children had left. Fifty-six percent of the state funding for charters came out of the budget of traditional public school districts that had performed better on either the State Report Card or Performance Index rating systems.⁵⁶ And in Michigan, ACT scores for schools in that state's turnaround district have remained stubbornly low at 13.7,⁵⁷ far below the national average of 21.0.⁵⁸

Hurt Students

In addition to straining education funds, students can be hurt by the proliferation of charter schools in other ways. The "no excuses" brand of discipline popularized by small charter operators like Collegiate Academies in New Orleans and larger ones like KIPP (Knowledge is Power Program), which operates across the country, highlights the dangers of allowing administrators, many of whom have very little teaching experience, to develop instructional and disciplinary programs with inadequate input from and accountability to parents and students. Such extreme disciplinary practices exacerbate profoundly disparate impacts for students of color—particularly for Black students. By high school, a Black student is three times more likely to be suspended than his or her white counterpart.⁵⁹ In a takeover district, where the traditional mechanisms of localized democracy are entirely swept away, the perils of a two-tier system—where students who need the most help get the least access—increase dramatically.

The APS has been systematically underfunded

The reality of the Atlanta Public School landscape is that schools—particularly those located in communities of color—have faced a profound lack of investment, due to spending priorities determined at the federal and state level. Between 2003 and 2015, Georgia’s public schools have experienced systematic underfunding, enduring a cumulative cut in state funding of over \$8.4 billion. For APS, state funding per pupil has dropped by **26.7 percent** between 2002 and 2015, compared to a statewide average of 12 percent in cuts. On top of that, inflation-adjusted local revenue for schools dropped 20.7 percent between 2008 and 2013.⁶⁰

During the same period, the city introduced and passed the BeltLine development proposal, which allowed it to divert property taxes generated in the special Tax Allocation District, intended for school funding, towards debt service payments for municipal bonds issued to develop the Beltline area. Setting this up required a constitutional amendment in 2008, after the Georgia Supreme Court struck down the initial plan as unconstitutionally taking revenue away from education. The BeltLine, a public entity, was set to pay a PILOT (payment in lieu of taxes) totaling \$162 million to the Atlanta Public Schools, but by 2014, the BeltLine was over \$19 million behind in payments.⁶¹ When the APS superintendent pressed Mayor Kasim Reed on the issue, he responded that “The Atlanta Beltline is the most popular public project in the entire city of Atlanta—by a lot—more popular than APS.”⁶²

In this context of austerity, elected officials are eliding the role of inadequate funding in poor school performance. By pathologizing the students, teachers and their communities that have been most hurt by cuts and marking them in need of outside intervention, state and city officials have set the stage for a dramatic reshaping of Atlanta’s education landscape. It is a strategy that has worked time and time again to advance the privatization agenda. While most might agree that educational improvements are imperative for the future of all communities and the economy as a whole, it is essential to focus on who stands to benefit from the false promises that takeover districts offer.

The takeover school district proposal threatens to strip communities of color in Atlanta of any say over these processes and to syphon off the limited resources dedicated to their education. As Erin Hames, architect of the Georgia OSD proposal, explained to APS Superintendent Maria Carstarphen back in June 2014, “You are about to lose upwards of \$60 million... back to the federal government, if you don’t come in and talk to us about how we can help you.”⁶³ Atlanta’s public schools, its students, and its families are being held hostage by education reformers.

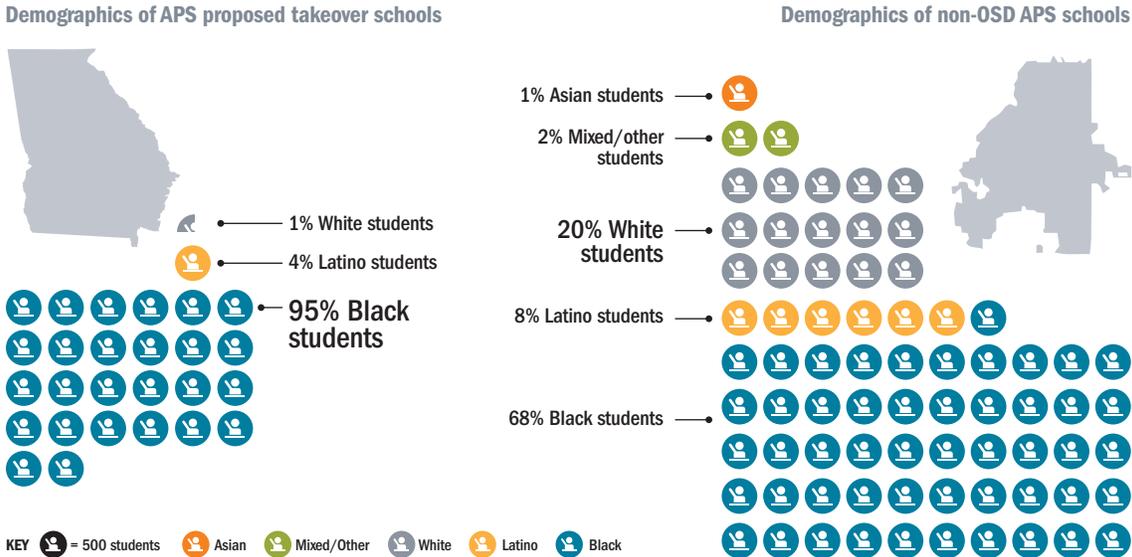
Schools in Black Neighborhoods Are Disproportionately on the Line

The record of other takeover school districts shows that students do not necessarily receive a better education, children are more at risk to experience harsh and discriminatory discipline, thousands of experienced educators lose their careers, and millions of dollars of the money that the entire populace has contributed to educate the state’s youth gets channeled into the hands of a few well-positioned private profiteers.⁶⁴ At the same time, communities of color are systematically shut out of making decisions about schooling.

In Atlanta, Black students and families are disproportionately more likely to experience these negative effects of shifting to a takeover district. Based on the takeover eligibility list, 95 percent of all students enrolled across the 26 schools eligible for the takeover district are Black, compared to only 68 percent of those students enrolled in schools not eligible for takeover (Fig. 2). In contrast, white students make up only one percent of the students enrolled in schools slated for takeover, compared to 20

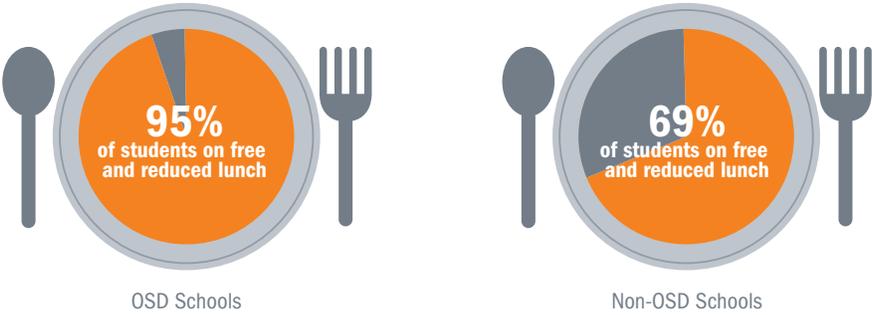
percent at schools that are not eligible for the OSD.⁶⁵ One in three Black children in the Atlanta Public Schools is enrolled in a school slated for takeover, compared to one out of every 100 white students—put another way, Black students are 30 times more likely to be affected by takeover than white students.

Fig. 2. Black students make up a disproportionate share of proposed OSD students

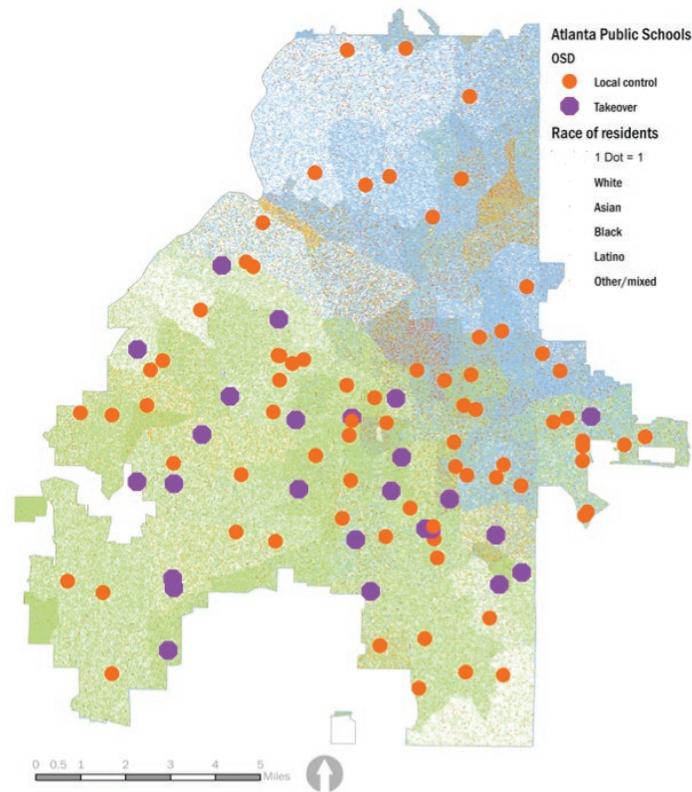


Poverty is disproportionately distributed across races, so it is unsurprising that low-income students are also concentrated in the schools slated for takeover. While 69 percent of all students in non-takeover schools are on free and reduced lunch, in takeover schools this figure is 26 percentage points higher, at 95 percent of all students (Fig. 3).⁶⁶

Fig. 3. Share of Students on Free or Reduced Lunch



An overlay of the schools slated for takeover in the proposed OSD onto the map of Atlanta confirms that the takeover school district runs counter to the goal of racial equity (Fig. 4). With few exceptions, the schools selected are in the majority Black areas of Atlanta’s South and West, while residents of Atlanta’s whiter North and Eastern regions are free to continue to make decisions about their schools through their local, elected school board. By focusing so pointedly in Black communities, the OSD plan strips Black families and educators of their voice in their students’ education.

Fig. 4. The Takeover Plan disproportionately strips Black neighborhoods of school control

A Lesson from Atlanta's First Charter School

The first of 17 existing charter schools, the Charles Drew Charter School, is often touted as Atlanta's most successful. Drew Charter School has invested in wraparound community services to help create an environment in which children are able to perform well in school. But unlike community-school models that see parents and caregivers as a central asset to school performance, the developer of the school, Tom Cousins, seems to view the community as a barrier. His model emphasizes high-quality privatized education in mixed-income communities, and creates a scenario in which private interests, not parents, teachers, and residents of the community, make decisions about educating children. In one instance, he stated, "For the children of public housing families to have any chance to succeed—to rise above the limitations inherent in their situation—we must create great public schools. We strongly advocate the formation of charter schools to serve the children in all mixed-income [residential] developments."⁶⁷

The origins of Charles Drew are telling. It took two years for Cousins to convince the Atlanta Public Schools to allow what was formerly Drew Elementary school, a traditional public school, to flip to a charter school. Cousins amassed \$17.5 million in private donations to start the charter school in order to avoid a funding fight and win the autonomy for donors and Cousins to select the principal of the school, outside of standard School Board procedure.⁶⁸

Although Drew Charter School is lauded for its consistently strong performance,⁶⁹ it is more like a remarkably well-resourced anomaly. As the area has gentrified—anchored by the mixed-income residential housing that Cousins' developed to replace low-income housing—the main Drew campus serves a whiter student body than the Atlanta Public Schools as a whole. The school controlled over \$19 million in assets and raises millions of dollars for both operational and capital^a expenses.⁷⁰

^a The school just raised **\$75 million** for its campus expansion, including multiple donations over the million dollar mark from The Arthur M. Blank Family Foundation, the Cousins Family Foundation, Chick-Fil-A Foundation, the Bill and Melinda Gates Foundation, the Georgia Power Foundation, the Kendeda Fund, the Marcus Foundation, the Robertson Foundation, the O. Wayne Rollins Foundation and the Robert W. Woodruff Foundation.

The Opportunity School District Will Profit Real Estate Companies and Education Management Organizations

Profits precede performance in takeover districts

Investors view education as big business and they have begun to pour money into the sector. For instance, investment in the national for-profit education sector alone was estimated to be \$389 billion in 2011, up from \$13 billion back in 2005.⁷¹ K-through-12 education is a significant piece of the education sector, where profit opportunities from the privatization of the full range of “products and services” that a traditional public school offers abound. Everything from food services to technology to test creation to teacher training can be privatized through a lucrative contract.

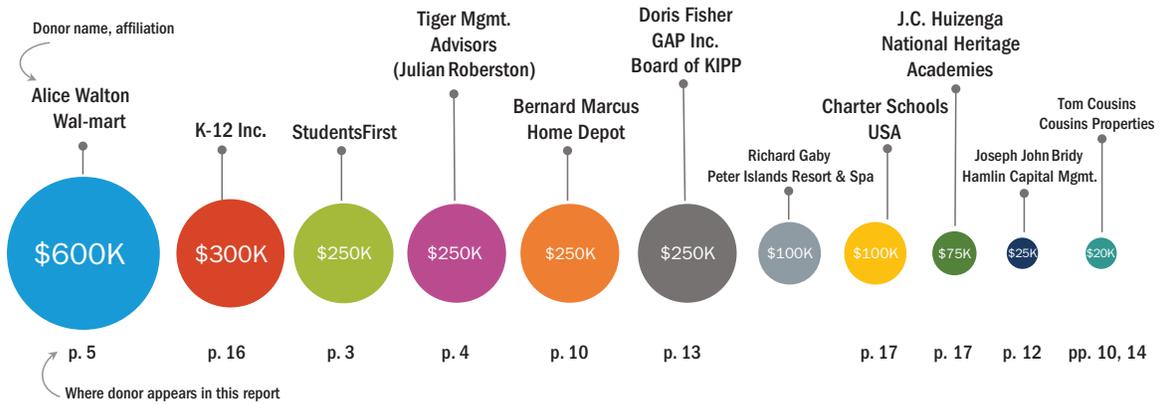
The transition from privatizing individual schools to creating full districts of charter schools has created ever-increasing business opportunities for investors. Simultaneously, the shifts in federal policy that emphasize autonomy and (paradoxically) standardization have created more opportunities for market-based approaches to educational improvement. The establishment of the nationally driven Common Core, for example, created a market for a whole new group of educational consultants and tech companies, as teachers required training and tests needed tablets. In this way, public school districts and management are being fractured, and particular functions are being swept up by an ever-increasing number of players, both local and national, all seeking a piece of profit.⁷² At the same time, this newly created education market is an opportunity for consolidation within specialized services in the private sector, which would rather not deal with the fragmentation, unevenness, democratic processes and public oversight of each of the 14,000 school districts across the country.⁷³

In state takeover districts, local oversight is eroded and private interests stand ready to gain, through both legal and illicit channels. Private companies and individuals profit from real estate deals involving public land, multi-million dollar construction contracts, and public contracts for “school turnaround consultants.” As these private actors profit, taxpayers suffer from the loss of public assets—real estate, as well as education dollars that private companies mismanage, steal, or defraud from the public.⁷⁴

Consultants also stand to make significant money in the burgeoning school-takeover market. A *Denver Post* investigation found that consultants received an **average of 25 percent** of federal grant dollars through the School Improvement Grant program, intended to turnaround low-performing schools.⁷⁵

For a picture of who stands to gain in Georgia, one need only look at the top contributors to the major political action committee (PAC) supporting the Charter School Amendment.

Fig. 5. Donors contributing over \$20,000 to “Families for Better Public Schools” in 2012



Real-estate companies and education or charter management organizations feature prominently. Several of these interests, who may stand to gain financially, have made significant donations to political entities advancing the spread of charter schools in Georgia (Fig. 5). Developer Tom Cousins put \$20,000 towards “Families for Better Public Schools,” the major PAC supporting the Charter School Amendment in 2012. Joseph John Bridy, a partner at New York-based investment house Hamlin Capital Management, donated \$25,000 to the same PAC.⁷⁶ Hamlin is one of the largest holders of high-yield tax-exempt municipal charter school bonds in the country—in 2012, it owned bonds on 68 different charter schools with outstanding payments of \$437 million.⁷⁷ Hamlin earns significant returns when charter schools pay back, usually with taxpayer money, the tax-free bonds they have used to construct new charter school facilities. K12 Inc. and Charter Schools USA both made six-figure donations.⁷⁸

Location, location, location

Land is one of the most valuable assets controlled by public school districts and, correspondingly, is one of the assets most coveted by charter school proponents. Boosters of charter schools often complain that they are unduly burdened with facilities costs compared to their public school counterparts; however, land and facilities are where private interests often make the most money, either through purchasing publicly-held real estate, getting publicly subsidized real estate financing, or getting public money for rent.

A takeover district significantly increases the possibilities for these kinds of profit for real-estate actors, by increasing the number of new charter schools financing facilities and enhancing the likelihood that closing existing public school would create a large number of surplus properties for sale. This section will explore why private real estate players, like Hamlin Capital, are paying so much attention to K-12 education, highlighting several different mechanisms through which real estate interests make money when education is privatized.

Public land sales

Transferring publicly-held land to private hands is one of the most direct ways that the private sector can gain access to this most valuable of public assets. Ostensibly, local school boards elect to sell off

surplus properties to private owners in search of additional revenue in the face of massive budget cuts. But at times, properties are not sold at their full value, thereby throwing such proceedings into question.

For example, KIPP Metro Atlanta, part of the national KIPP network and the largest charter school operator in Georgia, bought its property at 1444 Lucile Avenue SW, which houses the KIPP STRIVE Academy, for \$600,000 from the APS on January 31st, 2011.⁷⁹ At the time of the sale, the total value of the land and the building sold to KIPP was listed as \$ 1,525,000 with the Fulton County Tax Assessor.⁸⁰ Thus Atlanta Public Schools offered its building to KIPP at a 61.5-percent discount, missing out on a potential additional \$925,000 of revenue.

The network is often lauded as a success, and KIPP personnel are extremely well connected to key players in the efforts to privatize public education. KIPP Metro Atlanta's former Executive Director, David Jerrigen, left the network after 12 years in 2014 to become the current Deputy Superintendent of Atlanta Public Schools.⁸¹ Craig Jones, the President of KIPP Metro Atlanta's Board of Directors, was formerly Chief Investment Officer at Cousins Properties. Alan Wise, who sits on KIPP's board, is a senior partner and managing director of Boston Consulting Group.⁸²

Tax-exempt bond financing

Another way that private companies gain financially from chartered schools is through tax-exempt bond financing. Charter schools, which have low credit ratings, have to pay higher interest rates on borrowed money, so more school funding goes towards servicing those higher debt costs than to student instruction. These additional payments are in turn channeled to large, for-profit bond holders.

Five percent of the 818 charter schools that issued bonds by 2015 ended up defaulting, up from 3.8 percent in 2014.⁸³ For instance, on October 1, 2015, the Ivy Prep Academy network of charter schools announced that it would be closing its three high school campuses by the end of the month, citing a lack of space and funding.⁸⁴ A little less than a year before, Ivy Prep had also made headlines when it purchased a strip mall in DeKalb County for \$14 million, funded by public, tax-exempt bonds, in a "first of its kind" deal.⁸⁵ Ivy Prep housed its Kirkwood campus in the strip mall, where it had been located for several years. Now, in addition to running its network of three charter schools, Ivy Prep became a commercial landlord. The rent from the other tenants of the mall was designated to pay off the DeKalb county-originated bond that had financed the facility purchase. Many people raised questions about Ivy Prep's ability to serve as a landlord in addition to meeting its educational mission, and the viability of this arrangement.⁸⁶ The \$14 million bond is held by Hamlin Capital Management,⁸⁷ who reports a minimum six percent rate of return on charter school bonds of this kind.⁸⁸

All three schools within Ivy Prep were operating at a deficit as of August 31, 2015, and the network has a history of financial mismanagement.⁸⁹ Yet despite Ivy Prep's troubled financial history, in 2014, the DeKalb County Board of Directors nevertheless approved Ivy Prep's bond at the recommendation of the State Charter Schools Commission.

Paying rent to your parents

Private, for-profit charter management organizations often control a school property and then lease the facility back to their local non-profit subsidiary for exorbitant amounts in rent. It is a straightforward way to siphon off public tax dollars that first pass through a non-profit, tax-exempt entity. While the

Another lesson from Tom Cousins

Tom Cousins developed the Charles Drew Charter School during the Atlanta Housing Authority's transfer all of its developments to private ownership and management in the mid-1990s.⁹⁰ Largely through the HOPE VI program, publicly owned assets were taken over by private real-estate developers who demolished the existing buildings and constructed mixed-income developments in their place. The community experienced a net loss of affordable units: previous residents were eligible for a reduced number of new affordable units, but most received housing vouchers to move elsewhere.⁹¹

One of the earliest of these redevelopment projects is the \$125 million project at East Lake, a brain child of Tom Cousins, then president and CEO of Cousins Properties. Hearing that the Atlanta Housing Authority had \$33.5 million in federal funding to redevelop public housing, Cousins developed the idea to pour it all into a single project that would anchor a mixed-income community, including the site of the East Lake housing project, around a neighboring golf course that he purchased in 1993.⁹² Cousins formed the East Lake Community Foundation (ELCF), began assembling land, and entered into negotiations with the Atlanta Housing Authority.⁹³ As part of the project, the Charles Drew Charter School opened in 2000.

In total, Cousins will be able to recoup over \$5.6 million in deferred developer fees from the housing portion of the project, though he only invested \$2.4 million of his own money in equity. The majority of the financing came from \$23.5 million of tax-exempt public bonds, supplemented with the sale of federal low-income housing tax credits. ELCF purchased the land to hold the Drew Charter School and a YWCA from the Atlanta Board of Education. In addition, the City of Atlanta donated 15 acres of land for the project.⁹⁴ After debt servicing, Cousins sees between five to ten percent in net revenue each year.⁹⁵

In addition to generous public subsidies for the residential parts of his development, Tom Cousins is also taking advantage of the federal New Market Tax Credit (NMTC) program for the Drew Charter school expansion. The NMTC gives investors 39 percent off of their federal income taxes over seven years if they contribute capital towards non-residential investments in designated low-income areas, including for the construction of charter schools. This structure means investors can make windfall profits, as much as doubling their money over the seven years.⁹⁶ Taxpayers, on the other hand, face significant costs, with the program estimated to cost \$5.2 billion in revenue between 2014 and 2018.⁹⁷ For its Drew Charter School expansion, the East Lake Foundation received \$34 million in NMTC

investments,⁹⁸ including \$12 million in credits from SunTrust. An executive of Atlanta-based SunTrust,⁹⁹ which received a total of \$428 million in allocations through the NMTC program,¹⁰⁰ sits on the board of directors of the East Lake Foundation.¹⁰¹

While profit is certainly important—he states that projects should have fewer public housing units than the East Lake model because “with 50% public housing units, we cannot make money on half of the units we manage”—Cousins is also engaged in a social engineering project to limit what he sees are the uniformly negative influences of the other people in low-income communities.¹⁰² He incorporated several invasive top-down measures into the management of the property, including a curfew for children and teens; a requirement that all adult residents be employed, seeking work, or participating in job training; and a “strategic neighbors” program designed to create higher income role models for low-income residents.¹⁰³ He seems to see low-income communities as pathological: “[F]rom a social standpoint[,] a lower mix of public housing units will result in a stronger and more stable community, one that is easier to manage, and one that better achieves HUD’s goal... At a 50-50 mix we have found that **the problems inherent in a low-income environment can easily overpower the strengths of a middle-income community** (emphasis added).”¹⁰⁴

Tom Cousins has partnered with retired hedge fund manager Julian Robertson of New York’s Tiger Management and billionaire investor Warren Buffet to create Purpose Built Communities, with the goal of replicating the East Lake model of mixed-income gated communities with a charter school in low-income neighborhoods across the country. The team behind Purpose Built may be eyeing more opportunities in Georgia. Julian Robertson, whose son sits on the board of the East Lake Foundation, which controls Drew Charter School, is another leading advocate for the expansion of charter schools in Georgia. Cousins and Robertson donated \$20,000 and \$250,000 (respectively) to Families for Better Public Schools, a pro-charter expansion amendment PAC.

Cousins’ affiliates are well represented in Georgia’s school reform circles and well poised to take advantage of a takeover district in Georgia. Cynthia Kuhlman, who serves as the Cousins Family Foundation’s Director of Educational Achievement, was named by the Governor to his Education Reform Commission in January of 2015.¹⁰⁵ ReformEd, Erin Hames’ new consulting venture, is housed in the offices of the Cousins Family foundations.

non-profit representing the charter school is ostensibly created for the purposes of education, the for-profit management company has little to lose if children do not learn. Several investigative studies have revealed these practices across multiple charter schools across the country.¹⁰⁶

In Atlanta, for-profit charter school management organization National Heritage Academy (NHA) runs Atlanta Heights Charter School, located at 3712 Martin Luther King Jr. Dr. NW, which opened in 2010. That year, a subsidiary of National Heritage Academies called “Charter Development 4 LLC” purchased the school property from Atlanta Neighborhood Development Partnerships, Inc. for only \$393,500, a price so low that the transaction was marked as “not typical of market conditions” in the Fulton County Assessor’s database. Just the following year, the total value of the land and its buildings was listed as \$7,365,800, or 19-times the purchase price.¹⁰⁷

Under the services agreement for the school, NHA “receives as numeration for its services an amount equal to the total revenue received by the school from all revenue sources.”¹⁰⁸ In other words, NHA takes all taxpayer dollars given to the school. In Fiscal Year 2014, that amount came to \$5.57 million. In Georgia, the state is supposed to take a closer look at schools that pay over 15 percent for facility expenses; however, according to Atlantic Heights Charter School’s annual report, 29 percent of the school’s spending went to these facility expenses, twice as much as is advised.¹⁰⁹

Education Management Organizations

Proponents of charter schools take great pains to assert, over and over, that charter schools are public schools, usually formed to meet the desires of an independent, local group of parents and community members, motivated to improve educational outcomes. In fact, charter school management is increasingly being outsourced to a limited set of decidedly private national organizations who specialize in running charter schools. These entities can either be for-profit, dubbed “Education Management Organizations” (EMOs)—like National Heritage Academies—or, ostensibly “non-profit,” in which case they are termed “Charter Management Organizations” (CMOs). Even in the “non-profit” CMO category, many private individuals are profiting. In 2014, Eva Moscowitz, head of the Success Academy franchise of charter schools, which is registered as a non-profit, earned \$485,000.¹¹⁰ The same year KIPP’s CEO Richard Barth made \$375,000 in total compensation.¹¹¹

In Georgia, 16 percent of all charter schools are currently managed by an EMO or CMO, which are usually national in scope. Several out-of-state entities associated with EMOs and CMOs donated heavily to back the 2012 Charter School Amendment, because they all stand to gain if more charter schools are permitted.¹¹² The takeover district offers similar opportunities for private charter operators: the Superintendent of Atlanta Public Schools has indicated that one of the major possibilities for APS schools eligible for the turnaround school district is to provide more EMOs or CMOs with contracts to take over school management, further increasing their foothold in the state educational landscape.¹¹³ But a closer examination of how several EMOs operate demonstrates both that private companies are profiting off of taxpayer money meant to educate children, and that, in many cases, EMOs do not have any expertise in the arenas for which they are contracted.

EdisonLearning, Inc.

EdisonLearning, Inc. was founded in 1992 as a private, for-profit charter school owner and operator. Edison now contracts with over 350 schools in the United States, the UK, and Africa, covering approximately 150,000 students.¹¹⁴ During its first foray into Georgia, Edison Learning was responsible

for the first five years of curriculum at Atlanta's first charter school, Charles Drew Charter.¹¹⁵ It now continues to have a management contract with the school, earning nearly \$335,000 in management fees per year.¹¹⁶ Edison also held a multi-year contract at Atlanta's now-defunct Intown Academy, for both instruction and management. Initially, Edison was guaranteed a fee of 13 percent of all revenue provided to Intown. In 2012, this switched over to an annual fee of \$183,798, paid in installments of over \$15,000 per month.¹¹⁷

While Edison was paid to manage the school, an employee made fraudulent payments totaling \$55,000 from the school's accounts.¹¹⁸ A 2013 audit of Intown found material weakness and revealed multiple instances of financial mismanagement, including several accounting and documentation mistakes in the books. The auditor attributed this to the fact that the school's Director of Finance and Administration for Fiscal Year 2013 had no accounting background.¹¹⁹

On top of collecting management fees, Edison also made money by lending Intown \$861,563 between 2010 and 2011, collecting six percent interest on this amount annually until 2013.¹²⁰ Finally, in Fiscal Year 2014, Edison spent \$2.1 million on instruction, and almost half as much (\$903,355) on what it called "General Administration."¹²¹ Edison's contract was terminated one year early, in June of 2014,¹²² and Intown's charter was not renewed in November 2014, mostly due to poor academic performance.¹²³

Edison contributed \$2,000 to Families for Better Public Schools, the PAC supporting the 2012 Georgia Charter School Amendment.¹²⁴

K12, Inc.

In the world of virtual charter schools, publicly-traded K12 Inc. is the largest player. In 2004, with the help of the American Legislative Exchange Council (ALEC), K12 helped draft model legislation authorizing virtual public schools.¹²⁵ The corporation manages online and blended schools in 32 states and Washington, DC.¹²⁶ In fiscal year 2014, K12 made nearly \$920 million in revenue and earned \$115 million in profits.¹²⁷ In Georgia, which allowed virtual 'public' schools starting in 2008, K12 currently operates one online charter school, Georgia Cyber Academy, headquartered in Atlanta, GA. Additionally, it operates nine other schools, either public or private, in the state. Several are open to statewide—or even worldwide—enrollment, while some limit enrollment to specific geographic areas.¹²⁸ K12 is looking to further expand its Georgia footprint. In 2012, K12 spent \$300,000 in two separate donations to Families for Better Public Schools, the pro-charter amendment PAC.¹²⁹

Ninety percent of K12's significant revenues is derived from taxpayer-funded public school programs, which include fully virtual public schools as well as blended programs. While enrollment has increased exponentially over the past several years, driven by aggressive marketing measures, this has been coupled with extremely high rates of student turnover. In 2013, K12 settled a class-action lawsuit brought by investors for \$6.75 million. The lawsuit alleged that K12 had misled investors by failing to disclose accurate enrollment and student retention data to investors.^{130,131}

In addition to high dropout rates and low graduation rates, academic performance at K12 schools is abysmal. The company states in its own latest report on academic performance that "in most states, test scores at K12 schools are generally below state proficiency percentages."¹³² A study from Stanford University's Center For Research on Education Outcomes found that online charter school students have such poor performance in reading and math compared to their counterparts that, as project's director put it, "It is literally as if the kid did not go to school for an entire year."¹³³

In 2012, Georgia’s State Education Department threatened to close down Atlanta’s Georgia Cyber Academy after it found that the school was repeatedly out of compliance with the Federal Individuals with Disabilities Education Act and violated the civil rights of its 1,100 students with special needs, by failing to provide them with legally required services.¹³⁴

Charter Schools USA

Charter Schools USA (CSUSA), is one of the nation’s largest for-profit charter school management companies—controlling 77 schools in Florida, Georgia, Illinois, Indiana, Louisiana, Michigan, and North Carolina.¹³⁵ The private company nets roughly \$300 million in annual revenue.¹³⁶

CSUSA manages, staffs and operates charter schools. Its sister company, Red Apple Development LLC, acquires land, develops school facilities, and then leases these facilities back exclusively to CSUSA’s schools.¹³⁷ A third related company vends education-oriented electronic equipment.¹³⁸

Charter Schools USA passes large portions of taxpayer funding to CSUSA charter schools through as rent payments to Red Apple, while also saddling the school with Red Apple’s long-term debt from the facility purchase. The school, then, has to make both rent and capital lease payments at exorbitant interest to Red Apple Development. For example, Keys Gate Charter, a Florida CSUSA school with \$8.9 million in revenue, ran a \$2.7 million dollar deficit in Fiscal Year 2015.¹³⁹ Almost all of the deficit can be accounted for by the alarming real estate transactions on Keys Gate’s books:

- \$1.8 million on interest payments to Red Apple;¹⁴⁰
- \$246,000 to Red Apple to pay down principal on the capital lease;¹⁴¹
- \$191,000 on facilities acquisition expenses; and¹⁴²
- \$183,000 in rent, also to Red Apple.¹⁴³

In fact, over the life of the 46-year capital lease deal with Red Apple Development, the school will spend ballooning amounts to pay off its debts: **a total of \$21.2 million in principal and \$33.8 million in interest, or nearly \$55 million¹⁴⁴—all for a school facility that CSUSA openly states has a net book value of only \$16.1 million.**¹⁴⁵ Simultaneously, rent payments for the facility will also increase, starting at \$15,250 per month but increasing to as much as \$139,000 per month or \$1.7 million per year.

While this real estate windfall is central to CSUSA’s business model, the company also reaps profits from a host of administrative fees. In the same fiscal year, Key Gate spent \$930,000 on something called “fiscal services,” \$698,000 to operate the building owned by Red Apple, and \$402,900 on “central services.” **In fact, instruction-related expenses accounted for only 36 percent of Key Gate’s expenditures,** coming in at \$3.1 million, \$550,000 less than what was originally budgeted. At the same time, items like school administration exceeded budget by over \$50,000, growing to \$433,000. CSUSA received a management fee of \$927,000 for the year. And, despite running the school at a significant deficit, these management fees to CSUSA are also scheduled to increase, jumping to \$1.6 million in the next fiscal year and moving up to \$2.1 million in fiscal year 2026.¹⁴⁶

This pattern of fees and high debt repayment holds true in CSUSA’s Georgia operations. The Coweta Charter Academy in Senoia has a five-year, auto-renewing management agreement with CSUSA to manage, staff and run the school.¹⁴⁷ CSUSA charged \$645,000 in management fees in Fiscal Year 2015.¹⁴⁸ If the contract were to continue, these fees would increase to \$2.4 million by Fiscal Year 2044.¹⁴⁹ Furthermore, the school will initially pay over \$6,500 per month in rent to Red Apple

Development, in order to lease the land on which the school facilities are located.¹⁵⁰ After the first five years, the land rent will increase with the Consumer Price Index (CPI)—but under no circumstances (including if the CPI were to fall) will rent paid decrease.¹⁵¹ Additionally, Red Apple Development purchased the building with \$11.9 million in taxpayer-backed (and tax-exempt) bond financing, and an additional \$508,000 bond for paying off the cost of issuance of the first bond.¹⁵² The school pays these back semiannually at up to 8 percent interest,¹⁵³ and over the life of these bond deals, Red Apple Development will receive \$11.9 million in principal payments and \$18.4 million in interest payments, all taken from public school funding.¹⁵⁴

CSUSA also charged the school \$561,456 for unspecified “invoiced services,”¹⁵⁵ and will lend the school over \$600,000 for “general working capital purposes,” to be paid back to CSUSA at 6.5 percent interest.¹⁵⁶ With all these outlays to CSUSA, the school only spent a little over one third of their expenses on instruction in Fiscal Year 2014.¹⁵⁷

In 2012, Charter Schools USA poured \$100,000 into Georgia’s charter expansion PAC, Families for Better Public Schools.¹⁵⁸ With the Atlanta Public Schools poised to hand over management of low-performing schools to charter operators, CSUSA may try to seize the opportunity to bring its extractive business model to the Atlanta market.

Conclusion

Residents of Atlanta’s neighborhoods of color are on the cusp of the single largest change to their education systems in decades. Private actors are already lining up to see financial gains by advising which schools should be turned over to which charter school operators and where teachers should be fired. These people will stand to benefit regardless of whether children see improved educational outcomes or communities have a say in their future. Clear conflicts of interest are going ignored, and decision-makers are working too closely with corporate entities that are pushing charterization and school takeovers as the way forward. But there is another way forward for Atlanta’s schools.

Recommendations

For too many schools in Georgia, a dramatic overhaul is needed. To this end, the report recommends:

1. Voters reject the Opportunity School District and maintain local control and meaningful community input into their schools.
2. The legislature and the Governor should restore education funding levels back to 2002 levels, adjusted for inflation.
3. The Department of Education should embark on a deep and sincere community input process, in partnership with community-based organizations from design through implementation of the study.
4. The Department of Education and the Governor should commit to improving outcomes at struggling schools while maintaining these core principles:
 - a. **Transformational parent and community engagement.** The full community should actively participate in planning and decision-making. This process recognizes the link between the success of the school and the development of the community as a whole.
 - b. **Curriculum** that is engaging, culturally relevant and challenging. Include a robust selection of classes and after-school programs in the arts, languages, ethnic studies, and AP and honors courses. Also offer services such as ELL, special education, GED prep and job training.
 - c. **High quality teaching**, not on high stakes testing. Assessment should be used to help teachers meet the needs of students, and educators must have a real voice in their own professional development.
 - d. **Positive discipline practices** such as restorative justice and social and emotional learning supports. These approaches should be prioritized so students grow and contribute to the school community and beyond, and suspensions and harsh punishments should be eliminated or greatly reduced.
 - e. **Wrap-around supports** such as health care, eye care and social and emotional services that support academics. Such services should be available before, during and after school and be year-round to the full community. Providers must be accountable and culturally competent.¹⁵⁹

These principles ensure that the interests of students, parents, and the community at large are paramount in the design of turnaround schools.

Now is the time to put in safeguards to ensure that the proposed takeover does not proceed and to advance an alternative vision for how Atlanta’s struggling schools can move forward. The

Atlanta Public Schools must stop behaving as though the OSD proposal is already policy, and slow down their efforts to close, charterize or reset schools as soon as the next school year.¹⁶⁰ Instead, they should invest in educating their constituents on the OSD proposal, and prioritize genuine community engagement. Luckily, voters across the state will have one last chance to take a stand and demonstrate that there are other, better paths to a better education for all of Georgia's children.

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