

Real estate key element in charter school finances

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Discovery Charter School and the Norman Howard School, a private school for students with disabilities, are both financed primarily through pass-through state and school district funding, receiving a fixed sum for each student. In turn, those schools and others like them have broad leeway in how to spend that money.

One of the largest expenditures is real estate, and auditors across New York and the country have uncovered practices ranging from less-than-transparent to fraudulent in how charter school property is leased or purchased. In 2012, for example, the state comptroller found a Brooklyn charter school had paid \$800,000 above market value per year to a related-party landlord.

Discovery is in the former Greece Odyssey Academy building at 133 Hoover Drive. In 2013, the Greece Central School District sold the building for \$2.5 million to 133 Hoover Dr. Limited Liability Company, a holding company affiliated with the Education Success Network, an umbrella organization for Discovery and other affiliates.

Discovery leases 39,000 square feet of the building from the LLC for \$608,000. Joseph Martino, who sits on Discovery's board, signed the lease agreement as the landlord.

By comparison, the median occupancy cost for the other 14 leased charter school buildings in Monroe County is \$241,000. No other school pays more than \$450,000 per year, even though five other schools have more square footage.

A survey of local charter schools showed they pay a median rate of \$7.26 per square foot for rent, taxes, utilities and maintenance. By the same measurement, Discovery pays \$15.64 per square foot.

The school said the \$608,000 contract in fact represents more than \$800,000 of value but did not specify how it arrived at that figure. It referred to a market analysis it conducted in 2013 that concluded its lease was among the cheapest in the county, and to a comparison of New York City charter school facility costs.

From that information, Martino wrote, "we conclude that we continue to be within the ballpark of reasonableness when it comes to facility cost management."

Two charter schools pay more per square foot than Discovery, though not as much overall. Genesee Community Charter School pays \$22.55 per square foot, but that includes student privileges at the Rochester Museum & Science Center. Rochester Prep High School's sublease for City School District space on St. Paul Boulevard is \$16.04 per square foot.

The lease for Eugenio Maria de Hostos' Clifford Avenue campus from the Ibero-American Development Corp. was \$15.49 per square foot in 2014-15, the final year of a 15-year agreement. School cofounder Julio Vazquez said the cost was high because Eugenio was the first charter school to open in Rochester and Ibero wasn't sure what it was getting into. Starting in 2015, he said, the annual rate was cut in half.

Discovery in turn subleased some of its space to EnCompass, an affiliated tutoring company, for \$97,300 in 2014-15; Martino also signed that contract on behalf of the tutoring company.

The technical ownership of the building at 133 Hoover Drive became significant in April 2015 when

Discovery asked the Max and Marian Farash Charitable Foundation for \$186,000 to pay for upgrades on the building. “Discovery Charter School purchased the building in 2012 at significant savings over constructing a new facility,” the request reads. “DCS’s proposed improvements will enable the continued growth of the building’s capacity for more students ... (and) will give DCS the capacity to share its campus with another school should the need arise.”

The school does not own the building, though. The holding company does, and Discovery pays to lease it.

Martino said the inaccurate statement was a mistake by an outside grant writer who then neglected to correct it after someone with ESN pointed it out.

“We take full responsibility for this missed clerical error,” he wrote in an email.

The Farash foundation did not approve the request or any of ESN’s other requests for funding, though it did give funding to eight other charter schools. It declined to comment on the matter.

Norman Howard, meanwhile, owns its school building at 275 Pinnacle Road in Henrietta. Nonetheless, it paid \$360,000 in rent in 2013-14 to the Education Success Foundation.

That is because the foundation owns an expansion of the building completed in 2002. That project included a new lobby, office space, classrooms, auditorium, computer lab and library; there was also a renovation and new roof put on the existing building. It was paid for in large part by more than \$3 million in donations to the foundation from 1998 to 2002.

When asked why the school is paying \$360,000 to lease space that was built for its benefit more than a decade ago and funded through charitable donations, Martino wrote that “...the board members, school leadership and advancement team had extensive and thoughtful discussions to determine the best approaches with regard to building a new school, renovating and building an addition, funding the efforts (and making) the lease arrangements, and they were forthright with this in the (capital) campaign.”

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The Norman Howard School in Henrietta.



Discovery Charter School in Greece.