

How Private Managers Make Money In Public Schools: Update On the EAI Experiment in Baltimore

--Executive Summary--

Education Alternatives, Inc. (EAI) is a private, for-profit company that presently manages ten public schools (and provides limited, noninstructional services to another two) in Baltimore. EAI has been at work in Baltimore since 1992. In 1994-95, EAI won a contract to manage the entire Hartford, CT, school district, but by the end of its first year in Hartford, EAI's responsibilities have been cut back to five schools. EAI also worked in Miami Beach at the South Pointe Elementary School for five years and had proposed to continue its work there, but school officials chose to terminate their arrangements with the firm when the contract expired in June, 1995. Because of the scope of its work and its current experience managing public schools, EAI is widely seen as an important test case for private management in public education.

This report draws on information available from the Baltimore City Public Schools (BCPS), EAI reports and documents, a new evaluation done by the University of Maryland/Baltimore County (UMBC), and press reports to provide an up-to-date analysis of EAI's operations, finances, and results thus far in Baltimore.

Student test scores declined in EAI elementary schools over the first two years (1992-93 and 1993-94), while scores in non-EAI schools showed modest gains.

- For reading, test scores in city schools went up 4 percentiles (or 2.0 NCE's, normal curve equivalents, another common test measure). In EAI schools, scores went down 4 percentiles (2.8 NCE's), a gap of 8 percentiles or 5.3 NCE's.
- For math, city schools went up 6 percentiles (3.3 NCE's), while EAI schools went down 3 percentiles (1.7 NCE's), a gap of 9 percentiles or 5.0 NCE's.
- Reading scores in the control group schools (eight schools comparable to the EAI elementary schools, chosen by the district for evaluation purposes) went up 8 percentiles (4.2 NCE's); in EAI schools, scores went down 4 percentiles (2.8 NCE's), a gap of 12 percentiles or 7.0 NCE's.
- Math scores in control group schools went up by 9 percentiles (4.6 NCE's); in EAI schools, scores went down 3 percentiles (1.7 NCE's), a gap of 12 percentiles or 6.3 NCE's.
- Over the two years of EAI management, matched scores (scores for Baltimore students who attended the same EAI school for the entire year matched with their previous year's test score) show an even larger decline in student achievement than a simple comparison of school averages would reveal. In 1992-93, matched scores decreased by 6.4 NCE's in math and 7.4 NCE's in reading.

During 1993-94, math scores rebounded by 1.7 NCE's, while no additional gains were made in reading.

After three years, EAI students recovered lost ground in math and gained back much of the reading test score decline according to an evaluation by the University of Maryland, Baltimore County (UMBC).

- In grades 1 to 5, reading scores declined by 1 NCE over the three-year period in EAI schools, while city-wide scores improved by 1 NCE. Math scores improved by 1 NCE in both EAI schools and in all city schools over three years.
- The UMBC evaluation team found a preoccupation with test scores and test preparation at the EAI schools. EAI's fall administration of standardized tests was found to have a small practice effect.

EAI has displayed a pattern of releasing data that it claims show improvement, only to blame "mistakes" and "clerical errors" when the data actually show poor results.

- EAI reported improvement in student test scores in August, 1993. When the improved scores turned out to be for a small and unrepresentative group of students, EAI claimed that their report had been an error.
- In June, 1994, Baltimore school officials reported reading and math gains in EAI schools between March 1993 and March 1994. Actual data released by the schools in October 1994, however, showed a decline in reading achievement and gains in math of only half of what had been reported in June. School officials blamed a clerical error for the discrepancy.
- In releasing Baltimore scores for 1993-94, the school district changed the control group schools chosen for comparative purposes, eliminating three higher-scoring schools and replacing them with lower-scoring schools.
- In its own analysis of the Baltimore 1993-94 test scores, EAI dropped the lowest scoring students from the data.

Attendance increased slightly at EAI schools, but at a slower rate than in other Baltimore schools.

- EAI claimed that attendance had gone up in its schools in the 1992-93 year, but in fact, it had declined.
- In 1993-94, average daily attendance at EAI schools rose slightly, from 91.7 percent in 1992-93 to 92.9 percent, but the increase still lags behind the average increase in other city elementary schools.

- In a press release, EAI reported "dramatic gains as much as 22.2 percent since the 1990-91 school year." The company later blamed a clerical error for the misreporting of a 2.2 percent gain at one of its schools.
- Attendance at other city elementary schools has been on an upward swing since before EAI's arrival, going steadily up from 91.8 percent in 1990-91 to 94.6 percent in 1993-94.
- According to the UMBC evaluation, which examined attendance at 7 of the 8 elementary schools, attendance rates at EAI schools did not improve over the first three years of the contract, while attendance improved by 3 percent in grades 1 to 5 at all of the other city schools.

Findings of the UMBC evaluation undermine EAI's claims that they have been especially successful in improving facilities, technology, parent involvement, safety, and staff development. EAI-run schools and control schools were found to be more alike than different.

- Classroom observations by UMBC researchers found no difference between EAI-run schools and control group schools in overall effectiveness or the condition of the physical plant.
- The UMBC review found no difference in the overall rating of parent involvement.
- Researchers found that control group schools had also made significant investments in computers and technology, thus washing out EAI's purported advantage in bringing computer technology into its schools.
- The Computer Curriculum Corporation's reading program did not improve reading scores. Evaluators also criticized the focus on students' "clocking" time on the computer while being removed from regular classroom instruction.
- Teachers in EAI schools were no more likely than control school teachers to give high marks to school pride, safety, classroom environment, homework practices, or the instructional program. EAI teachers, but not parents, believed that they had cleaner schools and more materials.
- UMBC investigators identified problems of low pay, high turnover, poor training, and lack of planning time for the EAI instructional interns.

The UMBC evaluation omitted significant issues. Investigators have not yet evaluated several areas that have been highly problematic for EAI and staff and students in their schools: Chapter 1 programs, special education, and finances. The failure to investigate these crucial areas severely limits the reasonable conclusions that can be drawn from the UMBC evaluation about EAI's overall effectiveness.

Though EAI officials have publicly blamed teachers in their schools for EAI's failure to improve test scores, the company cut the number of teaching positions by 20 percent and has selected nearly half of the teachers in its schools. Thus, EAI is grooming its own teaching force, but one in which most teachers have less than five years of experience in the Baltimore school system.

- EAI has the contractual authority to make recommendations to the superintendent regarding selection, assignment, evaluation, and transfer of all personnel.
- Over the first three years of EAI management, about 70 teaching positions were eliminated, 219 teachers left EAI schools, and EAI was able to choose 148 teachers.
- By 1994-95, 48 percent of the teaching staff had been selected by EAI over the three years of the contract.
- Showing a proclivity for choosing inexperienced teachers, the average experience level dropped from 14.5 years in Baltimore schools to 11.9 years. The teachers brought in by EAI averaged less than five years of experience.

EAI says that it has no authority to evaluate or replace principals or teachers. However, EAI schools have more authority to reshape or "hand pick" a staff than any other school in Baltimore, and the data clearly show that EAI exercised this authority.

EAI teachers have low morale and do not believe in the effectiveness of EAI and its Tesseract instructional program. A survey of teachers by Peter Hart Research Associates shows:

- Only 22 percent of teachers in EAI schools thought that Tesseract had a positive effect on teacher morale, with 40 percent indicating a negative impact.
- Only 25 percent of teachers thought that EAI had a positive effect on academic achievement, and 47 percent believed that there was a negative impact on the schools' ability to deal with special needs students.
- Only 31 percent thought that the Tesseract program had changed things for the better, and 47 percent thought that the way EAI has dealt with the Tesseract program in Baltimore had more of a negative impact.
- Only 20 percent of EAI teachers thought that Tesseract lived up to the promises and claims that EAI originally made.

In Baltimore, EAI dismantled the special education program in its schools, eliminating half of the special education teachers and providing fewer services.

- An investigation by the U. S. Department of Education found the company violated special education laws by failing to follow required procedures, notify parents, involve teachers in the evaluation process, and provide services to which students were entitled.
- The EAI schools are now operating under an extensive corrective action plan (CAP) for special education ordered by the state.
- Reductions in special education instruction spending of \$752,000 (60 percent) at the elementary schools and \$551,000 (53 percent) at the middle school provided one-third of the \$3.6 million in net revenue for EAI from the Baltimore contract in 1993-94.
- The number of elementary students with disabilities declined by 28 percent under two years of EAI management. The number of students getting 3 or more hours of special instruction daily declined from 178 to 69 students under EAI stewardship.

Chapter 1 funds are intended to provide additional resources for disadvantaged students, but EAI used these federal funds to replace local funds in several of the schools it runs, while simultaneously increasing the local funds allocated to schools without sizable Chapter 1 programs. According to federal regulations, Chapter 1 funds must supplement state and local funds -- not replace them.

- EAI failed to develop school-level Chapter 1 budgets and School Improvement Plans, which are the central features of accountability for Chapter 1 programs.
- EAI eliminated most Chapter 1 personnel and used some of these resources -- not EAI's own capital, as promised -- to pay for computer labs during the first contract year. In the second contract year, EAI used Chapter 1 funds to help pay for a majority of the regular elementary teachers in some of the schools.
- An investigation by the U. S. Department of Education found EAI out of compliance with Chapter 1 regulations. A corrective action plan is in effect. The investigation also recommended that the state of Maryland recover \$94,000 of EAI's general legal costs improperly charged to federal funds.
- During the second year of the contract, the district complied with EAI's request to cut Chapter 1 funding from \$3.7 to \$2.0 million and replace the \$1.7 million decrease with an equal increase in flexible local dollars. The increased local funding flowed into the three schools with the lowest concentrations of Chapter 1 students, and the pupil-to-teacher ratio increased substantially in schools with high concentrations of Chapter 1 students.

EAI makes money by spending less than the revenue they collect, not by improving learning. EAI received more money than the schools had been getting

and diverted funding from classrooms into facilities, administrative overhead, lawyers, accountants, corporate travel, and profit.

- The contract specifically identifies \$2.7 million--about 10 percent of the contract--in "enhancement expenditures" that exceeded the pre-EAI operating expenditures in the nine schools in the contract.
- EAI accounted for this extra "enhancement" funding by identifying expenditures for computer labs, interns, and staff development.
- EAI devoted only 48 percent of its spending to instructional staff, compared to 65 percent in the typical Baltimore school.
- Spending on physical plant doubled in EAI schools, funded by cuts in the instructional program.
- Audits by the accounting firm Arthur Anderson revealed that EAI made at least \$2.6 million in gross profits in 1992-93 and \$4.3 million in 1993-94.
- The EAI contribution to school district overhead fell from about 13 percent of the contract in year one to 7.5 percent in other years. This reduction increased the cost of the contract by about \$1.5 million without changing the total value of the contract.

EAI's sales pitch to school districts emphasizes its ability to bring its own private capital into the district as an "investment." Records reveal, however, that EAI is neither contributing nor investing private capital in the Baltimore schools it manages.

- Over the five years of the contract, \$7.3 million of taxpayers' money will be spent on computer and equipment leases.
- EAI "invested" about \$2.1 million of the school district's own money on wiring and cabling for computers, security cameras, lighting improvements, and phone system upgrades over the first two years of the contract.
- According to the contract, EAI does not pay for structural repairs, roofs, or other major capital investments.

According to EAI's annual financial report of corporate activities, net earnings increased from \$1.1 million in 1993 to \$2.5 million in 1994, "primarily attributable to profitability on the Baltimore management and consulting contracts." Other financial reports show that:

- EAI sold stock allegedly to fund working capital requirements, product development, and potential acquisitions. The value of EAI's investment portfolio,

which contains highly speculative derivatives, fell from \$36 million to \$23.5 million through September, 1994.

- Insider trading transactions reported in newspapers indicate that John Golle netted about \$5 million by selling stock and exercising stock options -- more than seven times the company's net operating income in the only year it did not suffer a loss.

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I. Introduction

While private contractors have managed cleaning, food service, and transportation operations in public school districts for years, interest in the private management of public schools greatly intensified during the summer of 1992 when Education Alternatives, Inc. (EAI) started to manage nine public schools in Baltimore. As a public corporation that sold stock to finance its business marketing, legal, and political activities, EAI sparked Wall Street's interest in the multibillion dollar public education industry.

Private management firms have little or no track record. The most common argument for private management is that public education cannot get worse, and so the private sector deserves a chance to show that it can do a better job. But things can get worse, and did in Baltimore. Student achievement declined substantially, and EAI is embroiled in controversies over misrepresented test scores and attendance figures. EAI is operating under extensive corrective action plans in the areas of special education and Chapter 1 programs for disadvantaged children. KPMG Peat Marwick, EAI's accounting subcontractor, is also the subject of controversy centering on conflict-of-interest issues involving its relationship with EAI and a direct contract to perform the duties of the school system's chief financial officer.

EAI officials blame teacher union opposition to the experiment on union leadership, not the rank and file. In making presentations to such groups as the National Parent Teachers Organization's legislative conference (March 15, 1995), the Baltimore City Council (December 7, 1994), and Congress (June 8, 1995), EAI officials claimed near-unanimous support among its teachers. Purportedly, their "Quality of Service Survey" showed that 94 percent of teachers indicated that they like teaching at EAI schools, and 84 percent indicated that they felt a positive difference was being made through using the techniques of EAI's Tesseract instructional program.

However, a national survey research firm found different and highly contradictory results. A survey of teachers in EAI schools by Peter Hart Research conducted in January 1995 showed that only 31 percent of EAI teachers believed that the Tesseract model had changed things for the better. Just 25 percent of teachers thought that Tesseract had a positive effect on student academic achievement. Only 20 percent of teachers in the EAI schools believed that Tesseract had lived up to its promises. During the third year of the contract, teacher turnover

hit 21 percent in EAI schools, about twice as high as the national average for large urban school districts.

Instead of receiving a fixed management fee or fees linked to the accomplishment of goals, EAI makes money in its schools by spending less than the revenue it collects. It makes money by cutting costs, not by improving student achievement. A tenth school, Lemmel Middle School, was given to EAI in March, 1994 under the same funding arrangements as the other nine schools. The money-making formula focuses on resource reallocation, primarily the reduction of labor costs. But this resource reallocation also represents serious shifts in educational priorities.

EAI focuses its marketing attention on average-to-high-cost districts. EAI made no promise to save money for Baltimore taxpayers and its Baltimore contract was awarded on a noncompetitive basis. EAI has a formal "teaming" agreement with KPMG Peat Marwick, Johnson Controls World Services, and Computer Curriculum Corporation. The company refuses to work wherever subcontractor bidding is required.

Private management is a form of contracting out, but not all contracting out is the same. Generally, EAI provides *management services* contracts, sometimes euphemistically referred to as "public-private partnerships." In some forms of contracting out, most or all public employees are terminated. But in management services contracts, like EAI's, most employees remain public sector employees managed by private contractors. Wages, benefits, and employee rights are still obtained under public sector collective bargaining laws. Management services contracts are considerably more complicated than contracts that simply pay a consulting fee for technical expertise. These management services contracts usually *include* labor costs as well as significant amounts of other public sector expenditures in the contract. Thus, EAI can "book" the school budgets as corporate revenue, as if it were a private school collecting tuition.

In some respects, contracted management seems to be a modest step towards privatization because jobs, wages, fringe benefits, and unions appear unaffected by private managers. However, the mixture of private sector managers and public funds offers substantial profit-making opportunities for small firms with few human or capital resources. Under contracted management, public employees may soon find fewer colleagues; more part-time, low-wage, high-turnover workers with fewer benefits; poorer working conditions; and lower quality materials and supplies with which to do their jobs.

Some financial analysts (Schilit, 1993) argue that a company like EAI is a small management consulting firm and should not "book" the value of the contract as revenue for the firm, since most of the contract pays for resources provided by the school district -- such as teachers. For example, the agent for a professional sports

figure does not book the value of the athlete's contract as revenue. In Baltimore, EAI subcontracts most of its work to KPMG Peat Marwick, JCWS, and CCC. Excluding staff development consultants, EAI ran the Baltimore project with a part-time project manager, a project accountant, a director of interns, and a state programs coordinator. Some company officials in Minneapolis worked part-time in Baltimore. EAI's profit should be judged against the cost of its management consulting, not the sum of school budgets. Yet EAI's gross profit (i.e., revenues collected in excess of expenses) from the Baltimore contract in just 10 schools hit \$4.3 million in 1993-94--a huge profit compared to the cost of its management consulting. No professional athlete would allow his agent to keep all of the money from a lucrative new contract, but Baltimore has allowed EAI, a small management consulting firm, to keep all extra revenue the schools get as well as money generated by cutting staff and programs.

In the 32-school Hartford operation, EAI is expected to bill the district \$2.5 million for 1994-95, a figure including the work of subcontractors (*Hartford Courant*, February 23, 1995). Of this amount, most goes to subcontractors including \$700,000 for CCC, \$600,000 for JCWS, \$650,000 for KPMG Peat Marwick. EAI is directly billing for only \$550,000, an amount that includes \$125,000 in legal fees for labor negotiations. While booking over \$200 million in revenues from the Hartford contract, EAI does not have the power to reimburse itself for expenses. Controversy erupted over EAI's bills for expenses, travel, attorneys, and condominium rentals (*Hartford Courant*, May 16, 1995), and by the conclusion of the 1994-95 school year, EAI had not yet been paid for any of its work in Hartford.

From a corporate perspective, EAI incurred \$4.1 million in selling and administrative expenses in 1993-94--including the selling of the Hartford contract (*EAI Annual Report*, 1994). The Baltimore contract contributed \$4.3 million in gross profits from about \$32 million in contracts at 10 schools. Operating under EAI control for just four months of 1993-94, the Lemmel Middle School contract alone contributed \$700,000 to gross profits.

The EAI contract permits little accountability, except for the extreme action of contract termination. EAI has been extremely reluctant to share any financial information. In Baltimore, EAI has never made a budget public, and no financial data for the second year of the contract became available until nine months following the conclusion of the school year. The Baltimore city council had to subpoena EAI for financial records on corporate travel and legal charges (*Baltimore Sun*, May 27, 1995). But financial disclosure is not the only accountability problem. Recently, Baltimore's Mayor Schmoke ordered the renegotiation of the EAI contract to include performance standards for student achievement (*Baltimore Sun*, March 18, 1995).

II. Student Achievement and Attendance

EAI insists that student achievement comparisons should include only students who have been in the same school all year and have a test score from the previous spring. Below is a review of the achievement testing controversies in EAI schools, as well as an analysis of the preliminary Spring, 1995 test results prepared by UMBC evaluators. This section highlights the comparison of "matched scores." The presentation of test scores differs slightly from previous AFT reports. The 1993-94 test data made available by BCPS, which could not be disaggregated by grade level, included kindergarten students. In order to make comparisons, test data from earlier years were recalculated to include kindergarten.

One Clerical Error, Two Clerical Errors, Three Clerical Errors . . .

In Baltimore, EAI promised dramatic increases in student achievement. And, indeed, EAI reported dramatic improvement in student test scores in August, 1993, after just one year in operation. Late in the second year of the contract, however, the myth of EAI's academic accomplishments was dragged into the sunlight, and it shriveled. Based on data obtained from the school system through a Freedom of Information Act request, the American Federation of Teachers found that academic achievement declined in the EAI schools, while achievement had increased in both a group of control schools and in the system as a whole.

An award-winning investigation by Joe Rigert of the Minneapolis *Star-Tribune* (June 4, 1994) revealed that the dramatically improved test scores reported in August, 1993 turned out to be for a small and unrepresentative group of students. A more typical group of 1,400 EAI students showed no better than normal progress. Experts in the *Star-Tribune* article pointed out that the results were self-generated and not independently evaluated. Documents obtained by the *Star-Tribune* showed that the Computer Curriculum Corporation, whose computer software generated the results, had warned EAI about using the limited results to show dramatic gain. Nevertheless, EAI claimed that the earlier reporting of misleading results was "a misstatement," "unintentional," and "a simple error."

When the poor student achievement data came to light, expectations rapidly changed. Supporters of EAI suddenly wanted to give EAI three years. Some thought five years would be needed. EAI focused attention on the transitional nature of its first year. Insinuations of teacher sabotage emerged. But the effect on test scores of increased teacher-to-pupil ratios, dismantled special education programs, and slashed Chapter 1 programs is obvious. Students in the EAI schools have been subjected to a "transition" that put them behind and reversed a promising upward trend in these schools and the district as a whole.

As it was concluding negotiations in Hartford, EAI tried to keep things quiet in Baltimore by reporting improved test scores for its second year of operation in June, 1994. But in October, 1994, the *Baltimore Sun* reported that the Baltimore school system overstated test score gains the previous June (October 18, 1994). In fact, reading comprehension scores had declined for the second year, and math scores had increased only half as much as claimed in June. Over two years, math and reading scores declined while scores improved for control group schools and system-wide. The Baltimore school system accepted the blame for a "simple clerical error" in which 1991 test scores were allegedly mixed up with 1994 scores. Even this explanation is unsatisfactory (see Appendix C).

In October, 1994, school officials also revealed that the control group of schools chosen for comparison purposes had been changed, with three higher-scoring schools being replaced by lower-scoring schools. Acceptable evaluation practice requires that control groups remain the same throughout an evaluation, and substituting lower-scoring schools is an obvious ploy to make the EAI schools look better in comparison.

Some public officials began to talk about terminating the experiment, and Mayor Schmoke linked EAI's future to improved student achievement and the results of an independent evaluation (*Baltimore Sun*, October 21, 1994). One week later, in an October 27 press release, EAI announced "dramatic gains in student attendance of as much as 22.2 percent." Later in the day, however, EAI confessed to a "clerical error," restating the attendance gain as 2.2 percent in one school. Headlines the next day, however, revealed the truth: "EAI Schools Fail to Match Citywide Attendance Gains" (*Baltimore Sun*, October 28, 1994).

In EAI's own analysis of the Baltimore 1993-94 test scores by a panel of current and former educational administrators, EAI dropped the lowest scoring students from the data. One headline read: "Panel Drops Worst Scores; Says Company's City Students Tested Higher" (*Baltimore Sun*, November 16, 1994). Concerns over the integrity of the data were also raised. Accepted testing practice dictates that if student test scores are legitimately problematic (for example, because the student has a handicap or is new to the school), students are either excluded from the testing group before the test is given or their scores are removed before the data analysis, not after results are in.

Baltimore was not the only place EAI battled over test scores. At South Pointe Elementary School in Miami Beach, student test scores over three years were comparable to those of other similar public schools. The Dade County Public Schools' evaluation of the program (Abella, 1994) concluded that "South Pointe students did not improve their academic skills beyond what they would have achieved had they attended a regular Dade County public school. . . . it [the EAI program] has yet to show that it can produce educational outcomes superior to those achieved by the regular education program of the DCPS."

EAI's contractual arrangements at South Pointe differed substantially from those in Baltimore, and consisted essentially of providing teacher training in the implementation of EAI's Tesseract educational program. South Pointe benefited from considerable extra resources, including private funds. As of June, 1993, more than \$1.5 million in donations had been awarded to South Pointe, funds raised by EAI. However, this figure falls considerably short of the \$2.5 million EAI promised to raise for South Pointe. EAI's five-year contract in Dade County ended in June 1995. The school district rejected an EAI offer of a new contract modeled after Baltimore that involved takeover of the budget and noninstructional services (*Miami Herald*, June 10, 1995).

Three-Year Trends in Student Achievement at EAI Schools From the UMBC Evaluation

After three years, EAI students have recovered lost ground in math scores and gained back much of the reading test score decline, according to the UMBC evaluation released on August 4, 1995. Test scores for EAI's third year (1994-95) indicate that EAI students improved in both math and reading. In grades 1 to 5, reading scores declined by 1 NCE over the three-year period in EAI schools, while city-wide scores improved by 1 NCE. Math scores improved by 1 NCE in both EAI schools and in all city schools over the three years.

In general, the UMBC evaluation presented a rigorous, fair, and balanced analysis of test scores. EAI's shift of special education children from self-contained classrooms, where their test scores are not reported, to regular classrooms, should contribute to a higher percentage of students for whom scores are reported and to lower school averages. However, the evaluators pointed out that the percentage of students with reported test scores unexpectedly declined in EAI schools from 79 percent to 75 percent (UMBC evaluation, p. 107). Therefore, it's likely that most special education students in EAI classrooms were not tested. It is clear that EAI tried to steer UMBC into making 1992-93, EAI's first year of operation, the base year for comparison purposes rather than the pre-implementation year of 1991-92, but UMBC resisted such efforts. Matched score testing data (scores for students in the same school all year compared with their scores from the previous spring) were analyzed well, with a careful discussion of the problems with "gain scores" (UMBC evaluation, p. 108).

Despite the general methodological strength of the UMBC approach to test score analysis, it is not possible to integrate the UMBC testing data into the AFT analysis in this report. The UMBC evaluation contained no testing data for individual schools, presented data for only 7 of the 8 EAI elementary schools, and -- without explanation -- employed the unorthodox practice invented by EAI of excluding students receiving the lowest possible score, an NCE of "1" (see discussion

in next section). Baltimore school officials have not released 1994-95 testing data for individual schools, nor have they released data in a format comparable to reporting in earlier years.

The UMBC evaluation did not analyze Spring, 1995 test scores for the original group of control schools chosen for comparative purposes, and instead analyzed scores for a second group of control schools, which was chosen two years into the EAI experiment and substituted three lower-scoring schools for three higher-scoring control schools. The decision to change control group schools was made two years after the EAI experiment began by a school administration under fire for supporting an expensive experiment that had produced test score declines. Two years of testing data under EAI were available to “rig” the new control group selection. One of the new control group schools is the only elementary school targeted by the state of Maryland for reconstitution, an indication of severe problems in the school.

Choosing new control group schools was considered “irregular” by UMBC. The procedure for selection of the original control groups involved acceptable statistical procedures. No explanation has ever been given of how the school district chose the new control group. UMBC evaluators should have compared EAI schools to both control groups in the area of test scores in order to remove suspicions about rigging the new control group.

The UMBC investigators suggest that EAI schools may engage in some “teaching to the test,” focusing on raising student scores quickly rather than ensuring that students are actually learning. The evaluators found “The preoccupation with test scores, and the concomitant use of instructional time for testing and test preparation, was particularly evident at Tesseract schools, where, instead of moving toward less testing, EAI added a fall administration of the CTBS” (UMBC evaluation, p. 114). UMBC researchers determined that since the Fall test was given only five months in advance of city-wide Spring testing, a small “practice effect” increased Spring scores (UMBC evaluation, p. 111).

Matched Score Data Reveal Larger Decrease In Student Achievement Than Previously Reported

In November, 1994, EAI hired a panel of current and former school administrators -- none of whom were testing experts -- to study student achievement testing in its schools. The panel recommended: 1) counting only those students who had attended an EAI school all year and had a test score from the previous spring, and 2) excluding students receiving the lowest possible score (a Normal Curve Equivalent or NCE of "1") during either the current testing period or the previous testing period. After making these two adjustments, EAI reported "gain scores" for 1993-94, its second year of operation, but did not report similarly-calculated results

for 1992-93. Using the new test reporting methodology and selectively reporting results, student performance at EAI schools looked a little better.

The following analysis of matched test scores (scores for students in the same school for the entire year compared with their scores from the previous Spring) shows that student achievement in EAI schools is worse than previously reported through a school-by-school analysis of average test scores for all students in a school. (See the next section and the AFT's earlier report, The Private Management of Public Schools: An Analysis of the EAI Experience in Baltimore.)

How Test Scores Are Reported. Test scores in this report are presented as percentiles and Normal Curve Equivalents (NCE's). In Baltimore, test results have historically been reported to the public as percentiles, where the national average score is the 50th percentile. The Maryland School Performance Report also uses percentiles to describe Comprehensive Test of Basic Skills (CTBS) scores for third- and fifth-graders. NCE's are similar to percentiles, except that the distribution of test scores is split up in such a way that each NCE is more likely to represent an equal amount of knowledge than is a percentile. Because student scores cluster around the average, it is easier to move from the 45th percentile to the 55th percentile than from the 85th to the 95th percentile. With NCE's, however, a movement from 45 to 55 represents about the same amount of gain as a movement from 85 to 95. Test score results must be reported as NCE's for federal Chapter 1 reporting purposes.

Description of Data. Matched scores (Column 2 in Table 1) apply to students who:

- finished second, third, fourth or fifth grade,
- attended the same school for the entire school year,
- had a CTBS score from the previous Spring
- were not excluded because of special education status.

The number of pupils with matched scores is much less than total enrollment because all current kindergarten and first-graders are excluded and because of student mobility in and out of the school during the school year. In Malcolm X, a K-2 school, only 99 of 388 students had matched scores because only 99 second-graders had been in the school for the entire school year.

EAI Reporting of Matched Scores. EAI's panel of experts used data describing the average change in matched scores during the second year of the EAI contract (column on far right). Although the EAI panel excluded students with NCE's of "1", the results are practically identical to those presented in this report. Six of eight EAI schools improved in math. With an average gain score of 1.7 NCE's in math, EAI did better than the average of all Baltimore schools.

Two-Year Trends in the Average Change in Matched Scores. The EAI panel of experts ignored the cataclysmic drop in matched test scores during the first year of the EAI contract (second column from right). In EAI schools, matched scores decreased by 6.4 NCE's in math (see Table 1) compared to a decrease of 1.0 NCE's in all city elementary schools and a decrease of 0.6 NCE's in the control group schools. In reading (see Table 2), scores in EAI schools declined by 5.2 NCE's compared to a decline of 1.5 NCE's in all city schools, and a decline of 1.5 NCE's in the control group schools.

Average NCE Scores in Math. The EAI panel only presented data on the *change* or *gain* in NCE's for students with matched scores, not the NCE score itself (which ranges from 0 to 100, with a mean of 50). Math scores in EAI schools improved from 38.3 to 39.7 NCE's in 1993-94, but over the two-year period declined by 3.5 NCE's. In all BCPS elementary schools, math scores increased from 44.5 to 47.0 NCE's in 1993-94 for a total gain of 2.8 NCE's over the two-year period. Control group schools increased from 42.6 to 44.2 NCE's in 1993-94, with a two-year gain of 2.7 NCE's.

Average NCE scores in Reading. Reading declined from 37.3 to 36.4 NCE's in EAI schools for 1992-93, with a two-year decline of 3.3 NCE's. In all of the BCPS elementary schools, reading scores improved from 42.7 to 43.9 NCE's in 1993-94, with a two-year increase of 2.5 NCE's. Control group schools showed an increase from 41.4 to 42.6 NCE's in 1993-94, with a two-year gain of 2.6 NCE's.

Matched Score Math Data Compared To Unmatched Data. When considering only the average test scores, which include students who have not been in the school for the entire school year, students without a test from the previous Spring, and kindergarten students and first-graders, EAI schools showed a decline of only 1.7 NCE's over the first two years of the contract (see Table 3). The matched score analysis shows a decline of 3.5 NCE's. The average gain score declined 6.4 NCE's in the first year of the contract, followed by a rebound of 1.7 NCE's during the second year.

All city elementary schools showed an increase of 3.3 NCE's over two years in the unmatched analysis and 2.8 NCE's in the matched analysis. The average change in matched scores was -1.0 NCE's in 1992-93 and + 0.3 NCE's in 1993-94.

Matched Score Reading Data Compared To Unmatched Data. When considering only the average test scores, EAI schools showed a decline of 2.5 NCE's over the first two years of the contract (see Table 4). The matched score analysis show a decline of 3.3 NCE's for students with matched scores. The average gain score declined 5.2 NCE's in the first year of the contract, followed by another decline of 0.6 NCE's during the second year.

All city elementary schools showed an increase of 2.5 NCE's over two years in both the matched and unmatched analysis. The average gain in matched scores across all city schools was -1.5 NCE's in both 1992-93 and 1993-94.

Two-Year Trends in Unmatched Student Test Scores

In Baltimore, two-year test results (1992-93 and 1993-94) show a widening gap between students in EAI elementary schools and those in other city schools. Student test scores are lower in EAI schools than they were before EAI arrived, while scores in other Baltimore City schools have gone steadily up. The student achievement data in Tables 3 and 4 include kindergarten because the 1993-94 data provided by BCPS included kindergarten. AFT's early work on student achievement excluded kindergarten.

For reading, test scores in city schools went up 5 percentiles (or 2.5 NCE's) over the two years. In EAI schools, scores went down 4 percentiles (2.5 NCE's), a gap of 9 percentiles or 5.0 NCE's.

For math, city schools went up 6 percentiles (3.3 NCE's) over the two years, while EAI schools went down 2 percentiles (1.7 NCE's), a gap of 8 percentiles or 5.0 NCE's.

Reading scores in the control group schools (eight schools comparable to the EAI elementary schools, chosen by the district for evaluation purposes) went up 7 percentiles (4.1 NCE's). In EAI schools, scores went down 4 percentiles (2.5 NCE's), a gap of 11 percentiles or 6.6 NCE's between EAI schools and the control group schools.

Math scores in control group schools went up by 10 percentiles (5.8 NCE's). In EAI schools, scores went down 2 percentiles (1.7 NCE's), a gap of 12 percentiles or 7.5 NCE's.

No scores have ever been released for the one middle school run by EAI.

Performance of EAI Schools on Maryland's Criterion-Referenced Tests Fails To Improve under EAI

EAI's proposal stated that "performance criteria will also be developed around the criteria-based testing that occurs at the third- and fifth-grade levels." These statewide tests, known as the Maryland State Performance Assessment Program (MSPAP), are designed to assess how well students apply classroom learning to real-life situations. These tests replace multiple-choice questions with "tasks" that require students to do such things as write essays and draw graphs. Individual students' scores are divided into five performance levels, with the most attention given to "satisfactory performance."

Despite the comparability problems outlined below, student performance at the eight schools managed by EAI in 1993 and 1994 declined at a faster rate than the city average in both math and reading in each grade level.

The controversial test has been administered only three times--in the Spring of 1992, 1993, and 1994. State officials acknowledge several problems with the tests. Flaws in some of the 1993 tests, procedural snags, and changes in the way the state releases results made comparison to the previous year's results problematic (*Baltimore Sun*, February 17, 1993).

Third-Grade Math. In the eight EAI schools, only 6.0 percent of students performed at the satisfactory level in 1994. Before EAI took over, 11.4 percent of students performed at the satisfactory level at these same schools. In the average Baltimore school in 1994, 12.4 percent of third graders performed at a satisfactory level compared to 11.2 percent in 1992. No EAI school improved its ranking in 1994 compared to 1992.

Third-Grade Reading. A mere 5.5 percent of students in the average EAI school performed at a satisfactory level in 1994 compared to 8.1 percent two years before. The city average declined from 12.1 percent in 1992 to 9.2 percent in 1994. Only one of the eight EAI schools improved its city ranking over the two years.

Fifth-Grade Math. Only 5.6 percent of students scored satisfactory in the typical EAI school compared to 16.9 percent the year before EAI took over. However, five of the eight EAI schools improved their city ranking. The city average for satisfactory completion dropped from 22.0 percent to 13.2 percent.

Fifth-Grade Reading. Just 6.0 percent of fifth graders in EAI schools performed at a satisfactory level compared to 10.1 percent before EAI took over. The city average moved from 9.8 percent to 10.0 percent. Five of the eight EAI schools failed to improve their ranking among all city schools.

EAI Schools Fail to Match Citywide Attendance Gains

In Baltimore, EAI claimed that attendance had gone up in its schools in the 1992-93 year, but in fact, it had declined slightly from 91.9 to 91.7 percent. Meanwhile, attendance at all city elementary schools grew from 92.6 to 93.0 percent.

In 1993-94, average daily attendance at EAI schools rose slightly, from 91.7 percent in 1992-93 to 92.9 percent, but the increase still lags behind the average increase in other city elementary schools, which grew from 93.0 to 94.6 percent. Over the two-year period, attendance rose by just 1.0 percent in EAI schools compared to 2.0 percent in all city elementary schools.

Attendance at other city schools has been on an upward swing since before EAI's arrival, going steadily up from 91.8 percent in 1990-91 to 94.6 percent in 1993-94.

III. EAI's Impact On Instruction, Facilities, Technology, Safety, Staff Development and Parent Involvement

EAI insists that test results are not the only measure of success and that the public is oversold on the importance of standardized test scores. The following statement by EAI head John Golle typifies EAI's position:

"We have made substantial progress. We have redone the physical plants. We are proud that they are inviting, safe, clean environments. They have state-of-the-art technology. Teachers receive two hours of staff development every single week. They have more textbooks; they have more supplies; they have more furniture. We've instituted parent training" (*Baltimore Sun*, June 4, 1995).

Many newspapers reported the alleged accomplishments as fact. A recent *Washington Post* article (June 14, 1995) claimed that morale at EAI schools in Baltimore was up and that "there is little dispute that facilities are better, teachers have more classroom help, and students have more focused instruction."

EAI's advertising, however, turned out to be more fiction than fact. The long-awaited evaluation of the EAI experiment by UMBC reveals that EAI schools are more similar to than different from a comparison group of schools (i.e. the "new control group" of seven schools discussed in the testing section of this report). EAI schools show little difference from comparable city-run schools in parent involvement, staff development, safety, school pride, physical facilities, or even cleanliness. The UMBC researchers compared seven EAI elementary schools to seven comparable city schools.

Instructional Practices

Based on classroom observations, UMBC researchers found no difference between the seven EAI schools and the seven comparison schools in overall effectiveness (see Table 8). But observed teaching practices were different. EAI teachers spent only 45 percent of teacher time teaching the entire class, compared to 66 percent for comparison school teachers. Instead, EAI teachers taught a small group of students 35 percent of the time, compared to only 13 percent of the time by comparison school teachers. In EAI schools, some students were working at one of the four classroom computers 61 percent of the time in order to log the necessary computer time each week (UMBC evaluation, p. 101). EAI classrooms with computer usage close to 100 percent of the time were often those classes judged least effective

by observers. Observers found little difference between EAI schools and comparison schools in the amount of time students were engaged in learning activities or the amount of time without disruptive students.

Classroom observations in EAI schools were irregular. Principals often sat in on observations (UMBC evaluation, p. 44). The UMBC evaluators hypothesized that this practice was part of the "validation process" in EAI schools, an effort to "keep down" the number of observations, an effort to "sit in on the observer", or an effort to "make sure the observer sees a good lesson that would reflect well on the program."

Four of the comparison schools were open-space schools, compared to only one EAI school. Two of the three replacement schools in the new control group are open-space schools. Observers in open-space classrooms found high noise levels, minimal teaching space, crowded furnishings, and limited wall space.

EAI teachers were no more likely than control school teachers to give high marks to school pride, safety, classroom environment, homework practices, or the instructional program (see Table 8). Parents of children in EAI schools were also no more likely than control school parents to give high marks to school pride, safety, classroom environment, and homework practices. However, EAI parents were more likely to believe that their children were good readers and did well in math in schools that they were more likely to rate as well managed.

Physical Plant

According to the June 6, 1995 *Baltimore Sun* editorial on EAI, "The EAI experiment has proven beyond any question that the physical plants and school cafeterias are better maintained when they are contracted to outside specialists."

Classroom observations by UMBC researchers, however, found no difference between EAI schools and control group schools in the condition of school grounds, halls, offices, and classrooms. The researchers did note that the floors in EAI schools, "were striking with new carpeting and sparkling floor tile". UMBC evaluators observed no differences in heating plants or windows (UMBC evaluation, p. 52). EAI teachers, but not the parents, were more likely to believe that they had cleaner schools and more materials. Researchers noted that in the rest of the system, the chronic shortage of books and materials had been overcome by a substantial level of spending on instructional materials in 1992-93.

School Safety

Pointing to spending on video security cameras, EAI claims that the schools it runs are safer. According to UMBC surveys, however, parents in control group schools were no less likely to think that their children attended safe schools than parents of children in EAI schools. Similarly, teachers in control group schools felt

just as safe as teachers in EAI schools. UMBC researchers noted that "security was stringent at every elementary school, as it has been for years."

Personalized Education Plans

The Personalized Education Plan (PEP) is one of the key elements of EAI's program. It is supposed to specify the instruction to be provided to each individual child and to involve the parents in planning the child's educational program. Each child in an EAI school is supposed to have his or her own PEP, which is to be reviewed and revised regularly and approved by parents. According to the UMBC researchers, who interviewed teachers on this subject, less than half said they had specific training on the Personalized Education Plans. Most of this training focused on the parent meeting aspect of the PEP process, and the UMBC researchers raised the question of whether EAI ever intended for the PEP to be used to individualize instruction.

Most teachers waited until they met with parents to develop goals for the PEPs. Less than a third of the teachers indicated that they took student computer work into account in developing PEPs, even though coordination of computer work and PEPs by the regular classroom teachers is instrumental to the EAI Chapter 1 program. Researchers concluded that "the PEP does not appear to fulfill the goal of creating a comprehensive educational plan for each student"(UMBC evaluation, p. 79). The researchers saw the PEP as more of a goal-setting process whose primary purpose is to involve parents.

Parent Involvement

CEO John Golle contends that EAI parents will rally to his company's aid in Baltimore (*Baltimore Sun*, June 6, 1995). "There would be a mass rebellion, in my opinion, if they ever tried to take back from the parents that which they have now been given. The have-nots all of a sudden have something that the haves don't have -- good, clean, safe schools, technology . . . Just try to take that away from the have-nots. Just try, I dare you, just try." The *Sun* noted that EAI has yet to see anything resembling a "mass rebellion" on its behalf.

The UMBC review found no difference between EAI schools and comparison schools in the overall rating of parent involvement (see Table 8). EAI schools had more parent rooms and more events for parents. Comparison schools had academic materials more readily accessible to parents, stronger parent-teacher organizations, and more parent-initiated fund-raising activities. The number of parent conferences in comparison schools matched the number of PEP conferences in EAI-run schools. UMBC evaluators faulted EAI for not providing central staff support, oversight, or clearly articulated goals for parent involvement (UMBC evaluation, p.90).

Staff Development

In 1992-93, EAI spent as much as \$660,000 on staff development (Raffini, Howe, and Borders, 1994) -- about \$2,800 per teacher or \$2,400 per instructional staff member. Travel expenses for consultants and trainers exceeded \$100,000 in each of the first two years of the EAI contract.

Any significant differences in staff development practices, however, favored the control schools (Table 8). In comparison schools, teachers were more likely to believe that teachers provided input into staff development, enhanced professional skills, or learned material leading to the improvement of student achievement. No differences between EAI teachers and comparison teachers existed in the importance, relevancy, or practicality of staff development.

The day and time for staff development was the same in all EAI schools, Wednesday afternoons from 1:00 to 3:00 p.m. In the third year, some staff development time was used for planning. Most comparison schools also had staff development equal to one-half day a week. Observers of the Wednesday afternoon session felt that ideas were often general and, except for test preparation, not connected to a larger whole. Staff development was not coordinated with Baltimore City's curriculum. Handouts were a "mishmash of ideas from everywhere" (UMBC evaluation, p. 98).

Technology

EAI believes that drilling children for thirty minutes a day on the computer will significantly improve math and reading test scores (*Baltimore Sun*, June 4, 1995). The company claims that some teachers are not convinced that computer drills work as well as traditional methods, and some children don't get the time.

UMBC evaluators called the technology and hardware in EAI schools, "impressive," but then concluded that, "there is little about the computer-using experience that can be considered 'preparation for the age of technology'" (UMBC evaluation, p. 100). The mixed-drill software provides supplementary phonics drill and practice exercises, but is "antithetical to authentic activities or a whole language approach."

The Computer Curriculum Corporation's reading program did not improve reading scores. Evaluators also criticized the focus on students' "clocking" time on the computer, while being removed from regular classroom instruction. CCC's guarantee of a year's growth is contingent on a specific number of hours of computer use, and EAI personnel vigorously monitored teachers with CCC-generated reports on student usage. According to evaluators, there is an explicit expectation that CTBS results would closely correspond to CCC gain scores (UMBC evaluation, p. 102).

Classes went to the computer lab two or more hours a week, with Chapter 1 students getting two or three extra periods for "Chapter 1 time," missing the other instruction being provided by the teacher. Thus, Chapter 1 programs in EAI schools still operated with the disadvantages of a pull-out program -- namely, that students pulled out of class for extra instruction miss the material being covered in class while they're out. Computers were being used by students almost 100 percent of the time in some classrooms, and most classrooms had a published computer rotation schedule for the classroom computers.

UMBC evaluators noted that the comparison schools had acquired considerable technology over the past three years, largely with Chapter 1 funds (see Table 8). All comparison schools now have computer laboratories. Three comparison schools have Writing to Read labs and two have IBM's Stories and More networked software in computer labs. Jostens, Macintosh, Apple II, and Sylvan labs also existed. Four of the seven schools recently received donations of at least 50 IBM business computers.

EAI-run schools already had some computer labs and managers before EAI took over. Before EAI began managing the seven schools, five of the seven schools had Writing to Read computer labs and three still maintain these labs (labs at Browne and Edgewood were moved to non-EAI schools). Edgewood had computer labs featuring IBM's Teaching and Learning computer labs before EAI took over and the lab is still maintained. Many of the computer lab managers in EAI schools had been Writing to Read computer lab managers.

Each EAI classroom included a computer work station for teachers, which doubled as a student computer. UMBC evaluators, however, saw no evidence of teacher use of the computer. Personalized Education Plans and lesson plans were written by hand. Part of the problem is that only the computer labs have printers.

Interns

EAI replaced the paraprofessionals in its schools with interns hired through a temporary employment agency. EAI claimed that this was a way to put another "college-educated" adult in its classrooms. But UMBC investigators identified problems of low pay, high turnover, poor training, tough urban teaching settings, and lack of planning in the use of EAI's instructional interns. Based upon their experiences, a majority of teachers interviewed believed that having an intern in their classroom did not improve instructional effectiveness. The January 1995 Peter Hart survey of teachers in EAI-run schools revealed that teachers identified problems with interns as the number one problem in EAI-run schools.

Teachers interviewed by UMBC evaluators identified low pay and nonexistent benefits as the main reason for high turnover among interns. The nine teachers

interviewed had 21 interns among them the previous year. An additional problem identified by the teachers was that interns generally held their jobs only until they secured a job in their own field of study. Teachers indicated that how interns were used was "totally dependent on their [the interns] motivation, attitude, and proficiencies." Teachers reported that no staff development had ever been provided by EAI, the school district, or the local school designed to help them use their interns more effectively. Interns often received the same staff development as teachers, but none designed specifically for interns.

IV. How EAI Reshaped the Teaching Staff

EAI cut the number of teaching positions by 20 percent and has been able to select nearly half of the teachers in its schools, grooming a teaching force in which half of the teachers have less than four years of experience in the Baltimore school system. EAI and its defenders blame teachers for the disappointing results of the experiment, but not because of inexperience, high turnover, and increased workload.

"If the principal is basically the same principal, if the group of teachers are the same ones, and the curriculum is the same, I don't see why on earth anybody would expect test scores to rise," claims Samuel C. Stringfield of Johns Hopkins University (*Baltimore Sun*, June 4, 1995). "Too little is happening differently in the schools because [EAI] doesn't control teachers and they're not on top of it as much as they should be," says Robert G. Embry, president of the Abell Foundation, former president of the Maryland State Board of Education, and a key figure in bringing EAI to Baltimore. According to the *Baltimore Sun* (June 4, 1995), EAI President John Golle "complains bitterly that EAI manages the nine schools in name only. It has no authority to evaluate or replace principals or teachers." To succeed, Golle is quoted as saying, "We have to purge the system of those people who aren't equipped to teach and those that don't share the view that all children can learn."

Blaming teachers is simply a desperate EAI attempt to distract attention from its own failures. Clearly, in other schools in the system and in the control group schools, the same teachers using the same curriculum have improved test scores in their schools, while student achievement in EAI schools declined. EAI was also unable to produce better academic results at South Pointe Elementary School in Miami Beach, even with its hand-picked staff. Despite its complaints about staff, EAI itself did not put the question of authority to staff its schools on the table when it began to renegotiate the contract in June, 1995 (*Baltimore Sun*, June 26, 1995). Why? Because the EAI contract in Baltimore already gives EAI the power to reshape the staff of its schools (Article II, Section 2.02):

EAI shall have the authority to make recommendations directly to the Superintendent regarding selection, assignment and transfer of all personnel at Participating Schools. EAI shall have the authority to determine the required staffing levels at Participating Schools, subject to the final authority of the Superintendent. The Superintendent will make a good faith effort to accomplish and implement all such recommendations and determinations of EAI to the extent practicable.

In addition, EAI shall have sole authority to engage personnel not employed by the School System to assist School System personnel in the implementation and development of the Tesseract program.

EAI may participate in evaluating professional staff at Participating Schools (after obtaining any required consents), as appropriate, but shall not have authority to make decisions regarding professional staff with respect to employment within the School System. EAI and the Department recognize and agree that transfers into and from the Participating Schools are likely and that any such transfers shall be without stigma to affected personnel and shall be in accordance with collective bargaining agreements.

It should also be noted that each year EAI hired and could evaluate and fire at-will the nearly 225 temporary employees called "interns" (about 150 positions exist, but with a 50 percent turnover rate every six months according to the *Baltimore Sun* (June 5, 1994), about 225 different individuals rotate through the nine schools in any given year).

Will EAI launch an effort to "purge the system?" The staffing data in Figure 3 and Table 9 clearly show that EAI has already aggressively reshaped the teaching staff. Inheriting a staff of about 300 teachers, EAI reduced the number of teachers to 238 during the first year of the contract. Over the course of the first three years of EAI management, 219 teachers left EAI schools through voluntary and involuntary transfers, by moving to other school districts, or by leaving the profession.

By 1994-95, 48 percent of the teaching staff had been selected by EAI over the three years of the contract. With EAI's proclivity for choosing inexperienced teachers, the average experience level dropped from 14.5 years to 11.9 years. The teachers brought in by EAI -- nearly half of all its teachers -- averaged less than five years of experience.

In EAI's first year, 37 percent of the pre-EAI teaching staff did not return; in the second year, 29 percent; and in the third year, 22 percent. While EAI did not influence the decision of all teachers who left, EAI had some control over which

teachers were "returned" to the district for reassignment to non-EAI schools. One in ten teachers voluntarily transferred when EAI took over in 1992-93, followed by an 8 percent and 7 percent voluntary transfer rate in the subsequent two years.

During EAI's first year, 110 of 298 teachers left and more than 40 teachers new to the nine EAI schools were brought in for a net reduction of 67 teachers. The next year, 23 percent of teachers were new to EAI schools and in the third year, 27 percent were new. These new teachers averaged less than three years of experience in 1993-94 and less than four years of experience in 1994-95.

By any standard, the teacher turnover and hiring rates at EAI schools are excessive. According to the National Center for Educational Statistics, about 12 percent of US teachers do not return to the school they taught in the previous year (about 5 percent leave teaching and 7 percent move to another school or district). While African American teachers and teachers in predominantly minority districts are slightly more likely not to return to the school they taught in the year before, central city teachers are more likely to return to the same school.

EAI has more authority to reshape or "hand pick" a staff than other schools in Baltimore, and the data clearly show that it exercised this authority. EAI should have a staff that has high morale and believes in the effectiveness of both EAI and the Tesseract instructional program. But the Peter Hart Research survey paints a different picture. Only 22 percent of teachers in EAI schools thought that Tesseract had a positive effect on teacher morale, with 40 percent indicating a negative impact. Only 25 percent of teachers thought that EAI had a positive effect on academic achievement and 47 percent believed that there was a negative impact on the schools' ability to deal with special needs students. Just 31 percent thought that the Tesseract program had changed things for the better, and 47 percent thought that the way EAI has dealt with the Tesseract program in Baltimore had more of a negative impact. Only 20 percent of EAI teachers thought that Tesseract has lived up to the promises and claims that EAI originally made.

Hiring less expensive, inexperienced leaders has not yielded greater profits for EAI, because the school district charges EAI the average cost of a teacher in the district as a whole instead of the actual pay level.

V. The Costs of Contracting Out

After a review of costs of the EAI contract not included in the standard financial reporting (i.e., administration, inspection, conversion, and social costs), EAI's overstated claims about its capital investment are examined.

Contract Administration and Inspection. These costs refer to a list of new administrative costs, often unrecognized and seldom costed out. Examples of new administrative expenses associated with the contract include:

- Contract administration
- Legal support services for contract administration
- Labor contract administration costs, including a potential increase in grievance administration
- Inspection costs
- Monitoring and compliance enforcement costs

Public officials cannot simply turn control of operations over to a private contractor. The public services that officials are in charge of remain their responsibility, whether provided publicly or through a private contractor. This means that central administration and support costs are seldom reduced, even when contracting out the management of a program. Thus, management costs almost inevitably increase under contracting out, because new private sector managers are added to the public sector managers who must now also supervise the contractors. The EAI experience in Baltimore illustrates well the additional costs of contract administration

In Baltimore, EAI hired a project manager, a project accountant, a computer technician, a director of interns, a Maryland state coordinator, and paid for a school district liaison. Various EAI officials in Minneapolis charged time and travel to the Baltimore project. Lawyers billed \$278,000 in the contract's first year and \$159,000 in the second. Accountants cost \$280,000 the first year and \$134,000 in the second. The legal and accounting costs of the school district as a whole probably increased as a result of the EAI contract.

In addition, numerous school personnel contributed time to the project, especially with respect to administration, finance, student testing, evaluation, public relations, Chapter 1, and special education. Some of the monitoring costs are absorbed by EAI, which paid for two full-time school district employees assigned as liaisons, an expense EAI protested (Porter, 1993). EAI did not pay for a third full-time school district employee "loaned" to EAI.

Many argue that there has been insufficient monitoring of the EAI contract, and, thus, insufficient accountability on the part of EAI and the public officials responsible for the contract. Thus far, monitoring has consisted primarily of an internal educational evaluation for the contract's first year, no evaluation the second year, and a contracted third-party educational evaluation for subsequent years. The third-party evaluation is costing over \$200,000. The enormous controversy over EAI itself continues to generate contract administration costs in the form of extra legal, public relations, labor relations, educational evaluation, and testing costs.

Conversion Costs. These costs represent those one-time costs associated with transferring operations to a contractor. Even in the case of management services contracts, significant conversion costs may transpire:

- Labor-related conversion costs flowing from the transfer, retraining, or dismissal of public employees.
 - Severance pay
 - Accrued vacation pay and sick-leave cash-outs
 - Mandatory continuation of medical benefits
 - Retirement system costs
- Educational losses and inefficiency costs associated with the transition to contracting out.
 - Impact on morale and productivity of employees anticipating layoff
 - Costs of processing complaints
- Contract termination costs (performance bonds, termination penalties, cost of picking up leases, etc.)

A difficult-to-tabulate conversion cost is the productivity loss of employees. After one year in Baltimore, 40 percent of teachers in EAI schools thought that the Tesseract program improved teacher morale compared to 42 percent believing that teacher morale had declined (Peter Hart Research, 1995). During the third year of the contract, only 22 percent of teachers believed that EAI had a positive impact on teacher morale.

Productivity losses and a temporary decrease in efficiency may result as well in unpredictable risks. The substantial decline in student achievement during the first year (5 to 6 NCE's, according to matched student test data), described by EAI itself as a temporary implementation problem, could also be considered a conversion cost if it does represent a temporary decline. As demonstrated in other parts of this report, however, the achievement decline more likely represents a decline in service levels and educational quality.

Financial conversion costs in Baltimore included (Porter, 1993):

- EAI's transfer of paraprofessionals to BCPS, resulting in temporary surplus personnel (\$200,000).
- EAI's transfer of special education teachers to BCPS, resulting in temporary surplus personnel (\$684,000).

- Severance pay contribution absorbed by BCPS (\$121,000).
- Termination of an existing private cleaning contract (\$40,000).

While EAI promises that its contract can be terminated for any reason with 90 days' notice, termination is messy and costly. In Hartford, for example, John Golle reminded city officials that termination of the one-year-old contract would cost about \$4 million. That's how much EAI invested in city schools --investments that are reimbursable under the contract (*Hartford Courant*, May 28, 1995). Hartford's mayor and other city officials worried that the \$4 million bill would jeopardize recently enacted tax cuts.

Social Costs. Social costs, such as loss of public control and community input, usually cannot be assigned a dollar estimate, but social costs can include:

- Loss of full governmental responsibility for services.
- Loss of control over priorities and schedules.
- Diminished responsiveness to citizen concerns and complaints.
- Diminished public accountability for expenditures and results.
- The economic and social effects of neighborhood residents losing their work in neighborhood schools.
- The economic and social consequences of the loss of business for local suppliers.

In Baltimore, EAI has been allowed to operate with little public financial accountability. No budget has ever been made public. In May, 1995, the Baltimore City Council resorted to a subpoena to obtain details on out-of-town travel charged to the Baltimore contract, as well as other financial information.

Some would argue that replacing seasoned paraprofessionals, who come from school neighborhoods and provide much-needed stability in the lives of inner-city children, imposed a social cost on the schools. The interns -- in reality, temporary workers with low wages and few benefits -- had high turnover rates and usually did not live in the neighborhood. This increased instability in classrooms, as students lost relationships with familiar, trusted adults, and teachers were continually diverted from teaching to train new interns.

Capital Costs. In its marketing, EAI claims that it will make substantial "up front" capital investments with its own money, hoping for a return on capital investments in subsequent years. In Baltimore and Hartford, however, EAI has

“invested” taxpayer money, and EAI does not make structural repairs, fix roofs, replace boilers, or make other major capital investments.

In Hartford, school board member Elizabeth Noel claimed that EAI offered the board a budget that allocated money for the items EAI had promised to invest in up front (*Hartford Courant*, May 25, 1995). Hartford school board member Ted Carroll asserted that EAI did not keep its promise to make a first-year capital investment of \$14 million (*Hartford Courant*, June 15, 1995).

EAI claims to have "invested \$9.5 million of our own capital" in Baltimore schools over the first two years of the contract (Golle, 1995). But the Minneapolis *Star-Tribune* (June 4, 1994) revealed that EAI is not investing private capital; it is "merely committing school funds for computers." In the article, Golle acknowledged that the promised \$20 million investment in Hartford also would actually be school funds, not EAI capital, to be used for buildings and computers.

The \$9.5 million figure in Baltimore referenced by Golle means that EAI spent about \$2.1 million on school improvements (\$268,000), wiring and cabling for computers (\$1,000,000), security cameras (\$470,000), lighting improvement (\$275,000), and phone system upgrades (\$30,000) over the first two years of the contract. Another \$7.3 million will be spent on computer and equipment leases over the five-year term of the contract. Revenues from the contracts pay for these capital investments. Furthermore, during the contract's first year, federal Chapter 1 funds were used to pay for a good deal of the technology leases, which EAI claimed as its own capital investment. According to the contract, EAI does not pay for structural repairs, roofs or other major capital investments.

VI. How EAI Makes Money In Baltimore

EAI's corporate operations and selling expenses of over \$4 million during 1994 were financed largely by earnings in Baltimore (*EAI Annual Report*, 1994). During 1994-95 in Hartford, EAI has had trouble getting reimbursed for expenses. The company has had investment earnings derived from investing the proceeds of a public stock offering, but with its derivatives-laden long-term securities locked up to prevent a paper loss from turning into a real loss, earnings from the contract in Baltimore will be almost the sole source of EAI funds for selling, legal, and political spending. This section details how EAI makes money in Baltimore.

EAI reaps all costs savings from the contract. EAI makes money by spending less than the revenue they collect, not by improving educational achievement. The major source of EAI's profits is the reduction of labor costs. EAI has contractual control over staffing levels in Baltimore. This profit-making opportunity is disguised

by company rhetoric emphasizing inefficiencies, bureaucracy, cost-saving capital investments, and private-sector know-how.

EAI received only a fixed management fee at South Pointe Elementary in Miami Beach and for two schools in Baltimore added subsequent to the original nine schools. EAI's management fee for South Pointe was paid by private donations raised by the corporation, and in 1993-94, EAI realized revenues of only \$18,000 in Miami Beach (*EAI Annual Report*, 1994). In comparison to EAI's substantial revenues in Baltimore, Public Strategies, Inc., the small management consulting firm doing the work of the school superintendent in Minneapolis, receives a basic fee of about \$200,000 per year, and can receive bonuses of up to \$250,000 related to successful contract implementation

Profit is built into the markup on equipment and supplies. EAI charges some of their own instructional products and training to the Baltimore contract. EAI also leases computers and business machines. Part of the cost of supplies, training, and equipment certainly figure into EAI margins. EAI's commitment to teacher inservice and training, as well as ample instructional supplies, is another way to make money, since EAI buys training and supplies from itself.

Sharing Cost Savings with Subcontractors. EAI and its subcontractor Johnson Controls World Services (JCWS) set an annual "target cost", including corporate, general, and administrative expenses. EAI and JCWS split the first \$100,000 in savings from the target cost. EAI keeps 60 percent of the next \$100,000 in savings, 70 percent of the third \$100,000 and so forth. In 1992-93, EAI paid JCWS a \$100,000 "contractual incentive fee."

Investment Earnings and Derivative Losses. EAI sold stock allegedly to fund working capital requirements, product development and potential acquisitions. Investment income of \$2.8 million in 1993-94 made EAI profitable even with a net operating loss of \$300,000. The securities portfolio also collateralizes lease obligations and letter of credit obligations in Baltimore and Hartford. Until used, proceeds of the stock sales were to be invested in short-term government securities (Form S-1 filed with Securities and Exchange Commission).

EAI engaged in high-risk investments with little diversification, and its investment portfolio, composed almost entirely of financial derivatives, suffered stunning losses during 1994. In percentage terms, EAI losses dwarf the derivatives-inspired financial disaster in Orange County, California (Minneapolis *Star-Tribune*, December 18, 1994). Based on the purchase cost of \$36.7 million, the September 30, 1994 value of EAI's marketable securities of \$23.5 million represents a paper loss of 36 percent. EAI's derivatives crisis has locked up its investment portfolio. Many of the derivative investments were in securities with maturities of more than 10 years. As a result, corporate operations and selling expenses (which includes the selling of the Hartford contract) of over \$4 million during 1994 were, according to EAI's annual

report, financed almost entirely by earnings in Baltimore. The state of EAI's investment portfolio puts even more pressure on the company to ensure that its public-school contracts are profitable in the short term.

Stock Options and Insider Trading. EAI has experienced a positive net operating income during only one year of its history -- about \$700,000 in 1992-93. As a result of the Baltimore contract, however, the value of the stock rose from about \$5 a share in the initial stock offering in 1991 to a high of nearly \$50 a share during late 1993. Stock options are an important part of the compensation of EAI's board of directors and executive officers. Stock options are awarded at an "exercise" price. If the value of the stock climbs, the holder of the stock option can purchase the stock at the exercise price and sell at the market price. Stock options are valuable only if the company's stock value increases.

Stock sales by directors and executive officers are called insider trading and such transactions must be reported to the Securities and Exchange Commission. While a complete analysis of stock option earnings has not yet been made, transactions reported in newspapers have netted John Golle about \$5 million --more than seven times the company's net operating income in the only year it did not suffer a loss.

The *Baltimore Sun* (March 6, 1994) reported that Golle sold 100,000 shares in late 1992 at about \$20 a share for a gain of close to \$2 million, and 50,000 shares in October, 1993 at over \$30 a share for an estimated gain of \$1.5 million. In December, 1994, Golle made another \$400,000 from stock options (*Finance and Commerce*, January 21, 1995). During March 1995, Golle earned another \$300,000 from selling shares purchased at \$1 each (*Minneapolis Star-Tribune*, April 24, 1995).

In October, 1993, the Tesseract Development Corporation, which manages the two money-losing Tesseract private schools and is half owned by Golle, also sold 50,000 shares for a profit of about \$1.5 million. The *Baltimore Sun* also reported that former company president David Bennett made \$500,000 from stock options in 1994, and the April 24 *Minneapolis Star-Tribune* reported that Bennett liquidated his holdings in EAI by selling about \$130,000 worth of stock. In addition to making a profit by cutting labor costs and services to students, EAI principals are earning substantial sums from stock trades that have nothing to do with improving student learning.

Baltimore contract gives EAI more money than other schools. The EAI contract in Baltimore was based on the average cost of educating all students including high school students, vocational education, the severely handicapped, and other high-cost students. Under the original contract, EAI runs eight elementary schools and a single middle school. This contract specifically identified \$2.7 million in "enhancement expenditures" that exceeded the pre-EAI operating expenditures in the nine schools in the contract (Porter, 1993). In March, 1994, EAI obtained a

contract to operate Lemmel Middle School, funded on the same basis as the original nine Tesseract schools. Like most middle schools in Baltimore, Lemmel has no expensive Chapter 1 programs. As in its other schools, EAI received the average cost per pupil in the system as a whole and in four short months accrued a gross profit of \$705,000, according to the Arthur Anderson audit.

EAI cut instructional staff. In Baltimore, EAI diverted funding from classrooms into facilities, administrative overhead, legal and accounting services, corporate travel, and profit. In 1992-93, EAI devoted only 48 percent of its spending to instructional staff (including interns), compared to 65 percent in the typical Baltimore school. During the second year of the contract in 1993-94, spending on instructional staff remained about the same at 47 percent. Spending on physical plant doubled, funded by cuts in the instructional program.

At EAI elementary schools over the first two years of the contract, 56 of 205 teaching positions were cut, and 58 of 81 paraprofessional staff were shifted to other schools (see Table 10 and Figure 3). In EAI's second year, all eight elementary schools were served by 1.5 full-time equivalent (FTE) art teachers, 1.0 FTE music teachers, and 2.5 FTE physical education teachers. No programs for gifted and talented students existed. Instructional support staff such as librarians, guidance counselors, and social workers had been cut from 16.1 to 4.2 positions for all eight schools. The certified-teacher-to-pupil ratio in EAI elementary schools rose from 1 to 16.5 to 1 to 22.0. These teacher-to-pupil ratios include all special education teachers and counts pre-K and kindergarten students as half-time students. At Harlem Park Middle School, the teacher-to-pupil ratio increased from 17.3 to 20.6 over EAI's first three years in the school.

During 1994-95, the third contract year, EAI added one elementary, two special education, one art, and one physical education teacher to the eight elementary schools, dropping the estimated teacher-to-pupil ratio to 21.2. Across the eight schools, EAI increased the number of librarians in 1993-94 from 2.7 FTE's to 4.9 FTE's and reopened many libraries. The number of elementary guidance counselors increased from 1.5 to 2.5 FTE's.

EAI uses temporary workers. EAI's reduction in the certified teaching staff provides one reason for the student achievement drop. At the same time EAI cut teachers and paraprofessionals, it used part-time workers employed through a temporary employment agency. While most of the temporary workers had college degrees, few had teacher preparation or training. Touted as a means to improve the adult-to-student ratio and to bring more "college-educated" personnel into the classroom, the interns provided a low-cost way to restore adults to the system after cutting teachers, paraprofessionals, and instructional support personnel.

According to EAI's contract with Remedy Personnel Services, the so-called interns are "temporary, at-will employees." Remedy is paid by the hour, at a rate

which was \$8.76 an hour in 1992-93, to cover all costs including benefits, workers' compensation insurance, administrative costs, and profit. The hourly pay received by interns is close to the minimum wage. EAI also pays half of the cost of a recruiter at about \$30,000 a year.

Hiring problems and turnover among interns plagued EAI during the contract's first year. Spending on interns increased from \$1.0 million in 1992-93 to \$1.7 million in the second year. Nevertheless, the percentage of teachers who found that "the availability of well-trained support staff to assist you in the classroom" had improved under EAI did not change between June, 1993 (36 percent) and January, 1995 (37 percent), according to Peter Hart Research. According to the BCPS first-year evaluation, some classes had as many as four interns in a single year (Raffini, Howe and Borders). In 1994-95, half of the interns had left by March (*Baltimore Sun*, July 5, 1995). Teachers have had to divert their time and energy from teaching to train a succession of interns.

Problems with the interns topped the list of teacher complaints during EAI's third year. When Peter Hart Research asked teachers, "What would you say are the shortcomings of the Tesseract program or the specific way it has changed things for the worse in your school," 27 percent of teachers mentioned unskilled interns and other characteristics of interns. Too much paperwork registered a distant second among teacher complaints at 12 percent.

EAI diverted money from classrooms to overhead and facilities. The EAI proposal (June, 1992) promised to "create a new paradigm of excellence and allow the Baltimore City public schools to save money on noninstructional services and redirect those dollars back into the classrooms to fund education for the children of Baltimore." John Golle claimed that "If we spend more than we receive (and we've done that in Baltimore schools because the facilities were in such terrible condition), we take it out of our own pocket, hoping for a return" (*Congressional Quarterly*, March 25, 1994). In fact, this portrayal of corporate largess could not be further from the truth.

The first-year EAI contract totaled \$26.7 million (see Figure 5). Of this amount, \$3.4 million went back to the school district for "central support services," \$2.7 million was designated for "school-based enhancements," and the balance of \$20.6 million was targeted for the "current direct expenses" of the nine schools. The \$2.7 million figure represents spending in excess of the amount that these particular schools would have received without EAI (identified by school officials and specified in the contract). According to the contract, EAI was supposed to raise new outside funding revenue or identify cost savings in non-EAI schools to fund the \$2.7 million in enhancements.

In 1993-94, the payback for central support services fell from \$3.4 to \$2.3 million, even though it is unlikely that the total cost of central support services

decreased in the district. This reduction contributed to the gross profit of \$3.6 million on \$29.2 million in revenues for the original nine EAI schools, up from \$2.6 million in the first year. The Lemmel Middle School contract added another \$700,000 in profit.

EAI did not fulfill its promise to save money on noninstructional services and redirect those dollars back into the classrooms. In fact, EAI did just the opposite. EAI cut instructional staff and then allocated these resources to such noninstructional items as legal and accounting services, project administration, corporate travel, improvement in the physical plant, and profit (see Figures 5 and 6). While salaries and benefits for instructional staff comprise more than 65 percent of Baltimore's school budget, according to federal government statistics (National Center for Education Statistics, Common Core of Data), instructional staff salaries and benefits made up only 44 percent of the EAI contract in 1992-93 (the temporary workers EAI used would add another 4 percent if counted as instructional staff). In 1993-94, instructional staff salaries and benefits slipped to 41 percent, with spending on interns going up to 6 percent of costs.

The school district's internal review (Raffini, Howe, and Borders, 1994) found that EAI spent only 62.5 percent of its budget on regular instruction, compared with 72.3 percent in the BCPS budget for the nine EAI schools. Nevertheless, EAI continues to argue that it has increased spending on instruction from 47 percent (allegedly based on data from the Educational Research Service) before it took over the schools to 55 percent in 1992-93 and 57 percent in 1993-94 (Golle, 1995). According to discussions between AFT and Educational Research Service officials, however, the 47 percent pre-EAI figure probably excludes special education and school site leadership costs, and may represent only "classroom instruction" expenditures composed exclusively of classroom teacher and paraprofessional compensation costs. This makes it a misleading basis for comparison.

The data in Figure 6 and Table 11 classify spending according to definitions of the Educational Research Service:

School Site Instruction and Leadership. School administration and school instruction data cannot be separated in the data available for this report. This category includes teachers and paraprofessionals in regular and special education instruction. Textbooks, library books, audiovisuals, and computers are included as well as counselors, librarians, support staff, and principals. Tesseract training and materials, as well as the lease cost of computers and the costs of technology consultants are included.

Executive Administration and Central Support Services. Includes overhead payments for executive administration and central support services, and EAI project administration costs.

The breakdown in Table 10 does not match ERS exactly because much of the BCPS overhead would cover instructional expenditures at the central level.

Before EAI took over, about 66 percent of spending went to school site instruction and school site leadership compared to 51 percent after EAI took over. The reduction in instructional spending went to physical plant, which increased from 8 percent to 15 percent of the budget, and gross profits at 9 percent of spending in 1992-93 and 13 percent in 1993-94. Instructional spending increased from 51 percent in the first year of the contract to 55 percent in the second year, but this shift resulted primarily from a reduction in EAI payments for BCPS overhead from 12 percent to 7.5 percent. Rather than reducing bureaucracy, EAI is just not paying its fair share of the central support service cost.

The data in Table 11 show that in 1992-93, EAI received \$5,990 per pupil compared to the \$5,557 average for all Baltimore schools. In 1993-94, EAI received \$6,093 per pupil compared to the city average of \$5,871. Before EAI took over, its nine schools had an average per-pupil cost of \$5,192 in 1991-92, well below the city average of \$5,412.

These per-pupil cost figures are based on the official pupil count reported to the state of Maryland for statistical and state aid purposes. Preschool students and kindergarten students are counted as half a student. The EAI contract was initially based on an estimated average cost in all Baltimore schools of \$5,549 -- a calculation that counts preschool costs but does not count preschool students. The district, however, pays EAI for about 400 preschool students. EAI was also paid for 4,815 FTE students in 1992-93, even though the official enrollment was only 4,565. The lower student count also pushes EAI per-pupil spending over the city average. EAI complained about the enrollment figures, but after a system audit by the Maryland State Department of Education, the official enrollment count changed by only three students.

VII. Using Federal Programs To Make Money

Federal programs played a key role in EAI's money making in Baltimore. Almost all personnel in Chapter 1 programs (for low-achieving disadvantaged students) were cut, as well as half of the special education teachers and nearly all of the special education paraprofessionals. Chapter 1 funds are intended to provide additional resources for children, but in EAI schools Chapter 1 programs were replaced by computer labs and little else. For most of the first year of the contract, when the computer labs were not yet in place, EAI provided few Chapter 1 services, yet it took all of the Chapter 1 money. Under the guise of a full-inclusion model, which attempts to integrate special education students into regular classrooms, EAI cut its special education costs in half during the first year of operation and by 60

percent in its elementary schools after two years. Since most experts believe that full inclusion does not save money and can cost more, EAI's philosophy of full inclusion was probably used to cover up a general reduction in services for handicapped children.

EAI was investigated by both state and federal officials and is operating under Corrective Action Plans in both areas as a result (see the AFT report, EAI's Mismanagement of Federal Education Programs: The Special Education and Chapter 1 Track Records in Baltimore).

Chapter 1 Programs

Though the most concrete example of the misuse of funds in the EAI operation of Chapter 1 programs is the \$94,000 in general legal costs EAI assessed to Chapter 1 that the state of Maryland is seeking to recover, the absence of school-level Chapter 1 budgets and proper school improvement plans constitute more serious violations. Technical violations of rules and regulations, however, are less important than EAI's systematic application of a one-size-fits-all model of education to each of its schools and diversion of funds and staff from schools with high concentrations of Chapter 1 students to schools with fewer Chapter 1 students.

Schools receive Chapter 1 funding as "schoolwide projects" or "local project schools." In local project schools, federal funds flow only to Chapter 1 students, who are usually pulled out of regular classrooms for specialized services. Schoolwide project schools, where Chapter 1 programs are designed to improve the entire school, must have high concentrations of Chapter 1 children. Because Chapter 1 funds have to be tracked only to Chapter 1 programs in schoolwide project schools, not to specific Chapter 1 students, EAI converted two local project schools (where funds must be spent only on Chapter 1 students) to schoolwide project schools.

The allocation of Chapter 1 funds in EAI schools is literally an accounting maneuver by EAI, not a real allocation of resources to specific Chapter 1 programs. In the five schoolwide project schools, EAI considered its regular education program, the Tesseract program, a qualifying Chapter 1 program because schoolwide project regulations discouraged pull-out programs and encouraged the integration of non-Chapter 1 students. Principals at EAI schools complained that they did not have Chapter 1 budgets, did not know the amount of Chapter 1 funds allocated to their schools, and could not determine the source of funding for Chapter 1 services or what equipment had been purchased with Chapter 1 funds (Raffini, Howe and Borders, 1994).

Before EAI took over, the five schools with the highest concentrations of Chapter 1 students spent over \$4,500 per pupil at the school site (an amount that excludes overhead payments for central support services of \$1,075. See Table 13).

The other three elementary schools (Edgewood, Roach, and Rodman) spent about \$3,500 per pupil or less, and the pupil-to-teacher ratio was significantly greater than in the schoolwide project schools (see Table 13). The school-site spending disparities reflect the intentions of Congress to provide more federal funds for schools with the most disadvantaged students.

Under EAI, however, the spending advantage of the five schools with high concentrations of Chapter 1 students diminished considerably. The teacher-pupil went up markedly in four of the five schoolwide project schools (by at least eight students at Browne, Harlem Park Elementary, and Graceland Park). The number of instructional support personnel fell to a single guidance counselor at one of the five schools. One school had a librarian for one day a week, and another had a half-time librarian. None of the schools had a social worker. Despite the remarkable increase in the pupil-teacher ratio and the decline in instructional support personnel at the schoolwide project schools, Chapter 1 funds paid for at least half of the instructional personnel costs at Browne, Monroe, and Harlem Park Elementary, and at least 40 percent at Malcolm X and Graceland. In effect, EAI was using federal money to pay for regular classroom teachers without reducing class size.

During the contract's second year, the district complied with EAI's request to replace Chapter 1 funds with local funds. Chapter 1 funding fell to \$2.0 million and was replaced by \$1.7 million in local dollars. Local dollars come with no strings attached and can be used more flexibly than federal funds, including, among other things, contributions to EAI's gross profit.

Financial data reveal a substantial reallocation of funds to the three schools with the lowest concentrations of Chapter 1 students rather than coming from the schools with a lot of Chapter 1 students (see Table 12 and Figure 7). This means that the schools with the most disadvantaged, low-achieving students got fewer resources with which to help those students, while more local funding, which can be used for a variety of purposes, went to schools with fewer such students.

- Unrestricted funding for instructional personnel in each of the five schools with the highest concentrations of Chapter 1 students fell dramatically. Unrestricted funding for instructional personnel decreased from \$1,936 per pupil before EAI to \$1,102 in 1992-93 and to \$1,328 per pupil in the contract's second year.
- Unrestricted funding for instructional personnel in each of the three schools with the lowest concentration of Chapter 1 students increased substantially--from \$1,625 per pupil to \$2,257 per pupil--under two years of EAI stewardship.

- Special education spending fell by \$275 per pupil in schools with high concentrations of Chapter 1 students, compared to a \$100 decrease for the three schools with lower concentrations of Chapter 1 students.

Some of these maneuvers drew the attention of the city auditor in the May, 1994 Federal Program Compliance Audit for 1992-93. Browne, Harlem Park Elementary and Malcolm X were initially determined to be out of compliance with federal comparability of service requirements as measured by staff ratios. However, the temporary employees of Remedy Personnel Services used by EAI as interns were counted as locally funded staff. This practice was approved by the Maryland State Department of Education and is a clear example of how EAI is allowed to replace certified teachers with minimum-wage workers for some purposes. EAI can pay for five temporary workers for the same cost as a single teacher.

Chapter 1 compliance issues illustrate why the temporary workers are not funded with federal money and why EAI did not want all of the Chapter 1 money allocated by the school district. EAI needed a large number of low-paid people to elevate the number of locally funded staff to meet federal maintenance of effort and comparability requirements. EAI also needed to concentrate Chapter 1 money in schoolwide project schools where fewer restrictions on its use exist. On the other hand, EAI had to meet the federal requirement that state and local expenditures could not decrease in any given school from one year to the next, which is why it urgently wanted to replace federal funds with local funds in some schools.

Special Education

EAI's inability or unwillingness to comply with federal and state laws is well documented. The school district's own Early Implementation of Tesseract 1992-93 Evaluation Report revealed that 136,000 compensatory hours were awarded at a single EAI school, Harlem Park Middle School, accounting for 89 percent of the compensatory hours awarded to students in all Baltimore schools for the 1992-93 school year under a federal court's consent decree. The court awarded one compensatory hour for each hour of service, specified in the child's Individualized Education Plan (IEP), not delivered by EAI.

When EAI took over in August, 1992, the Maryland State Department of Education approved EAI's special education program of serving more special education children in regular classrooms subject to several conditions. Interim placements required parental approval; the Individualized Education Plan (IEP) would be incorporated into the student's Personalized Education Plan (PEP), a plan that every student in an EAI school is supposed to get; and a formal Admissions, Review and Dismissal (ARD) meeting on each child was to be held within 90 days.

At Harlem Park Middle School, according to court records from Vaughn G. v. Amprey, the Baltimore special education case in federal court:

- All special education students were placed in regular classrooms, even when parents had denied consent or not responded. Of the 396 special education students placed in regular classrooms on the opening day of school at Harlem Park Middle School, only 16 parents had given consent.
- By October 19, approximately 135 students had been returned to self-contained classrooms. Because most special education teachers were needed in the self-contained classrooms, most other special education students were left without services.
- IEP's were not implemented, in part, because the PEP's were not implemented.
- The federal court's ombudsman awarded compensatory hours to 336 students whose IEP's were not implemented by EAI.
- In March, 1993, 74 students were awaiting placement in self-contained classrooms, and 8 students were awaiting resource services.
- At least 50 students received an ARD hearing without a multidisciplinary team being present, as required by law.
- Ten-day notice of the ARD meeting was not being given to parents.

The eight EAI elementary schools stayed out of trouble in 1992-93 partly because EAI was less aggressive about staff reductions in the area of special education, and partly because the elementary schools were not under the scrutiny of the federal court to the same extent as the middle school.

New data for the EAI elementary schools, however, show that while the federal court and state department of education focused a great deal of attention on Harlem Park Middle School, the following situation developed at the EAI elementary schools (see Table 14):

- The number of special education teachers serving the eight schools, with a combined enrollment of about 3,400, declined from 33.8 to 14.5 teachers.
- Spending on special education instruction (fund 131) fell from \$1,259,323 to \$507,665 -- a 60 percent reduction.
- In 1994-95, the court-monitored EAI middle school had more special education staff than all eight elementary schools combined.

- Reductions in special education instruction spending of \$752,000 (60 percent) at the elementary schools and \$551,000 (53 percent) at Harlem Park Middle School provided one-third of the \$3.6 million in net revenue EAI grossed from the Baltimore contract in 1993-94.
- The number of elementary students with disabilities declined by 28 percent under two years of EAI management.
- The number of students served at Intensity Level IV (3 or more hours of special instruction daily) declined from 178 to 69 students under EAI stewardship.
- Two EAI schools have no self-contained classrooms, and the other six schools -- ranging in size from less than 250 K-12 students to 600 students -- have one self-contained classroom each to serve special needs children of all disabilities, ages, and grades who need a self-contained program.

Staffing data for the 1994-95 school year show little change from the previous school year. Fewer than 15 special education teachers serviced a poor, urban elementary school population of 3,400 students. In 1994-95, among the eight EAI elementary schools, the number of self-contained special education teachers declined to 6.0 from 19.0 in 1991-92. While the need for classroom support teachers obviously increased under the EAI policy of inclusion, the number of elementary level speech teachers decreased from 3.8 to 0.0, and resource teachers fell from 8.0 to 7.5.

Probably as a result of intense public scrutiny, a total of 17.8 special education teachers are now helping students at Harlem Park Middle School, compared to 12.0 in 1993-94 and 11.0 in 1992-93.

VIII. Conclusion

The debate over private management of public schools must move beyond ideology and focus on standards of good management and results, regardless of whether management is public or private. Neither public nor private managers always act in the public's best interest. Moreover, the debate needs to focus on evidence, of which there is an increasing amount, on the effectiveness of private management. No longer can private management of public services be treated as simply a new, untried idea, an experiment undertaken because "things can't get any worse." Private companies like EAI are building a track record, and they should be judged on it, just as public managers are judged on theirs.

Since the performance of contractors seldom exceeds their self-interest, a good contract should contain a "bushel basket" clause. This clause states that the

contractor's cooperation is required to perform all those functions incident to the proper performance of the contracted functions, whether or not specifically defined.

EAI turned the "bushel basket" concept upside down. The Baltimore contract gives EAI the authority and powers necessary to perform its obligations, while it requires the school district's prompt attention to data and information needs. According to the contract, the school board cannot take a position in any administrative, judicial, or legislative proceeding that is inconsistent with the contract, policies, or programs of EAI, without prior discussion. The school board is required to review and evaluate all of its policies and adopt revised written policies in light of the contract and the recommendations of EAI. Instead of requiring EAI's cooperation in performing the functions of the school board, the contract requires the school board to modify its policies and programs to suit EAI's needs.

This report illustrates how private management works in one urban school system. Results thus far show that the citizens of Baltimore are getting less for more money under EAI, and that student achievement is being damaged, not improved. And, as the recent UMBC evaluation of EAI in Baltimore also shows, private contractors do not necessarily improve facilities, advance technology, promote staff development, or provide safer schools.

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Appendix C

Test Data Do Not Support BCPS Explanation of Test Score Discrepancy In EAI-Run Schools

According to the Baltimore Sun (October 19, 1994), "The city school system, meantime, explained last night that it had overstated gains at EAI-run schools last spring because 1991 data had been used instead of 1994 data in making comparisons between results from last spring and the previous one." A subsequent editorial said, "This error--if it was an error--is particularly troubling because of some recent developments involving EAI." The clerical error explanation has been widely used in follow-up stories.

Actual test data for 1991 analyzed by AFT, however, fails to support the contention that 1991 data were mistakenly used to describe 1994 spring test results:

	91	93	94**
Reading Comprehension			
Reported in June		37.6	37.8
Actual CTBS Average*	37.3	37.7	
Math Comprehension and Analysis			
Reported in June		37.3	39.3
Actual CTBS Average*	36.5	37.3	

* Based on attached calculations from 9/9/93 printout.

** Reported as 1994 scores in June, but now described as 1991 data.

The data come from the school district's own tabulations of school-by-school CTBS scores (attached). The actual CTBS average is calculated by AFT and represents the average of all eight schools weighted by the number of students in each school.

Measured in Normal Curve Equivalent (NCE's), the 1993 data are exactly the same for Math (37.3) and almost the same for reading (37.7 compared to 37.6), indicating that 1993 test results were reported accurately. The math score of 39.3, reported in June as the 1994 math score, which is now claimed to be the 1991 score, differs greatly from the true 1991 score of 36.5.