



Good for Kids

or

Good for Carl?

*Who Really Benefit\$
from Turning Public Schools
into Privately Run Charter Schools?*



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Executive Summary

Carl Paladino's Companies: Charter Schools a Money-Making Opportunity

Carl Paladino is the chairman of Ellicott Development, one of the largest property developers focused on the Buffalo area.¹ Paladino's companies are the leading charter school developers in Buffalo. Ellicott Development has worked with the private operators of at least five Buffalo charter schools, either flipping property to the private operators of those schools or financing school construction through pricey "leaseback" deals. These leaseback deals lock charter schools into long term leases with Paladino's company, in exchange for renovations of charter school facilities. As the preferred real estate developer for Buffalo's charter schools, Paladino is well-positioned to secure more business for himself as a result of using his position on the school board to bring more privately-run charter schools to Buffalo. Exactly how much money is Carl Paladino making off being the developer of choice for Buffalo's private operators of charter schools? As a school board member he should publicly disclose exactly how much money he is making off taxpayer financed, privately operated charter schools.

Paladino can also Profit by Investing in Nearby Properties, whose Property Values are Enriched by the Opening of these New Schools in the Neighborhood

New schools increase the value of properties in nearby neighborhoods. In a series of land deals, Paladino purchased twenty-two properties in Buffalo's East Side, ultimately selling or leasing two of the properties to Health Science Charter School.² After developing these school properties as privately-run, taxpayer funded charter schools, Paladino's company is developing nineteen apartments nearby,³ and the company's website is listing four development opportunities in a three block radius.⁴ The public deserves to know exactly how much earning potential exists for Paladino's companies as a result of real estate deals on properties located near new charter school.

While campaigning for school board Carl Paladino promised to recuse himself from votes about charter schools.⁵ He has a conflict of interest.

Instead of recusing himself, Paladino actually is the most vocal proponent of charter schools on behalf of the majority of the school board. He recently led the way when the majority members of the school board passed a resolution in support of immediate conversion of four public schools into privately-run

¹ <http://www.ellicottdevelopment.com/about-us/key-people/>

² <http://www.buffalonews.com/city-region/development/a-breakdown-of-development-on-the-medical-corridor-20140728>

³ <http://buffalorising.com/2014/03/nineteen-apartments-planned-for-midtown-site/>

⁴ <http://www.ellicottdevelopment.com/portfolio/commercial/vacant-land/>

⁵ <http://www.carlpaladinoforschoolboard.com/carl-paladino-wins-buffalo-school-board-seat/>

charter schools and even offered an amendment that would set the stage to potentially convert all of Buffalo public schools into privately run charter schools.

Carl Paladino's real estate development company has received nearly \$685,000 in taxpayer subsidies for charter school development.

Not only is Paladino positioned to make money off the public dime in his deals with privately run charter schools, he is getting enormous tax breaks in the process. With just three charter school deals, Paladino's real estate firm netted \$685,000 in tax breaks.⁶ This is in addition to any money Paladino's firms makes on financing charter construction, or flipping properties to charter schools.

Section 1: Charter Schools Produce Millions in Revenues for Paladino's Companies

Carl Paladino operates and interconnected web of development companies that are involved in charter school deals. These include Ellicott Development company, 1291 Main Street LLC, 1285 Main LLC, the Lafayette Group, 2468 Group, Inc., Shoshone Group, LLC, 1238 Group, LLC, and 7170 Group, LLC., among others. This complex web of corporate entities obscures the extent of Paladino's financial stake in the expansion of charter schools. We have documented his companies' role in the development of five of Buffalo's thirteen charter schools. While we cannot document exactly how large much in profits Paladino's companies are making off publicly financed privately-run charter schools, there clearly exists an overwhelming financial incentive for him to use his position on the school board to convert Buffalo public schools into privately run charter schools. Below is a review of the publicly available information about how Paladino's companies are generating revenues off taxpayer funds in privately operated charter schools (details and citations included in Section 4 below).

- 1291 Main LLC, a subsidiary of Ellicott Development, is scheduled to receive \$16.2 million in lease payments from Health Science Charter School over the 25 year of the lease for the property at 1140 Ellicott St.
- Ellicott Development sold the property at 1291 Main Street to Health Science Charter School for \$1.525 million.
- The Lafayette Group, another Ellicott Development subsidiary, sold the property at 113 Lafayette Avenue to West Buffalo Charter School for \$1.5 million.
- Ellicott Development receives \$570,000 a year in leaseback payments from Tapestry Charter School for the 65 Great Arrow Avenue property. Tapestry Charter School also paid \$1.2 million to 1238 Group, LLC, a subsidiary of Elliott Development Corp., for construction costs.

⁶ <http://www.ecidany.com/news/article/current/2010/10/18/100046/erie-county-industrial-development-agency-board-approves-2.68-million-in-incentives-to-leverage-nearly-26-million-new-local-investment>
<http://www.bizjournals.com/buffalo/news/2012/07/16/ecida-agrees-to-help-charter-school.html?page=all>
<https://www.ecidany.com/app/file/89>

- Charter School for Applied Technologies leases the 1902 Hertel Avenue property, a building Shoshone Group, also an Ellicott Development subsidiary, purchased in 2013. The exact terms of the lease are unknown. Paladino's company has received substantial investments in this building from other developers while maintaining a major stake.
- The 7170 Group, LLC, yet another Ellicott Development subsidiary, owns the property at 15 Jewett Parkway which they lease to the Aloma D. Johnson Fruit Belt Community Charter School, but the exact terms of the lease are unknown.

Section 2: Property Development in the Surrounding Neighborhood

Paladino is a leading developer in the Buffalo area and has the capacity to put together multiple real estate deals in ways that maximize potential profits. Opening a new school in a neighborhood is one way to make surrounding real estate values appreciate.

A multi-layered deal was orchestrated on April 27, 2011. Three properties were purchased on the same date all from real estate firms that are part of Cash Cunningham's real estate interests. While these transactions could be viewed as isolated instances, they should really be understood as arising from a significant investment made by Ellicott Development in the area around the schools. Two of these parcels were sold or leased to Health Sciences Charter School, at a significant markup. The third was held as part of Ellicott Development's broader investment in the area which has involved the purchase of several tracts of land. In addition to the tangible profits made by Ellicott Development on the charter school deals, the company stands to benefit from appreciation to its holdings of surrounding property. Through a carefully orchestrated series of transactions Paladino was able to make sure he was poised to capitalize financially on the opening of this new school.

On April 27, 2011, 1140 Ellicott Street was purchased by Health Sciences Charter School. On the same date they leased this building to Ellicott Development for one dollar a year and entered into a leaseback agreement detailed in Section 4. That same day, an Ellicott Development subsidiary purchased 1291 Main Street which it sold to Health Sciences Charter School at a later date. Ellicott Development is also developing the land surrounding 1140 Ellicott Street and 1291 Main Street. As part of the April 27, 2011 transactions, an Ellicott Development subsidiary acquired 1105 Ellicott Street from a Cunningham company⁷ for \$218,500.⁸

⁷It was purchased from Bailey Robinson, Inc., which has a service address of 1295 Main Street in Buffalo, the address of Cash Cunningham's Cash Realty & Auction. According to the New York Department of State, Bailey Robinson, Inc.'s chief executive officer is Sally Cunningham DOS ID: 2664105, http://appext20.dos.ny.gov/corp_public/CORPSEARCH.ENTITY_INFORMATION?p_nameid=2693443&p_corpid=2664105&p_entity_name=Bailey%20Robinson&p_name_type=A&p_search_type=BEGINS&p_srch_results_page=0

⁸ Erie County Clerk of Courts, Book/Page: 11202/3614, File no.: 2011086379

In addition, in 2013, Ellicott purchased 1285 Main Street from Hein Building, Inc.,⁹ with the intention of developing nineteen apartments.¹⁰ The property was purchased by 1285 Main LLC, a subsidiary of Ellicott Development.¹¹

On June 19, 2013, 1285 Main LLC, an Ellicott Development subsidiary, purchased 38 Northampton Street for \$84,000.¹²

These investments add to the other nearby holdings of Paladino and his related companies. Paladino directly owns 1041 Ellicott Street, and owns three other nearby properties through 84 Group, Inc., a related corporation. Those three properties: 1061 Ellicott Street, 1063 Ellicott Street and 1199 Michigan, are all located within three blocks of the 1140 Ellicott Street parcel. All four parcels are listed as developable vacant land on the Ellicott Development company website.¹³

In all Paladino and his companies are reported to have accumulated at least twenty-two properties on Buffalo's East Side.¹⁴

Section 3: Paladino's Companies Benefit from Taxpayer Subsidies

Paladino is benefiting from local, state and federal dollars that are diverted away from public schools and into privately run charter schools. But that is not all. He also receives substantial taxpayer subsidies through the Erie County Industrial Development Corporation. His companies received \$685,000 in these taxpayer subsidized tax breaks. This includes a \$324,000 tax break for the Ellicott Development subsidiary involved in the renovation and leaseback of the Tapestry Charter School,¹⁵ \$239,000 in sales and mortgage tax incentives for the construction of the Health Science Charter School,¹⁶ and \$122,000 in sales tax and mortgage-recording tax breaks pocketed by the Lafayette Group in connection with the West Buffalo Charter School.¹⁷ All of these taxpayer subsidies were financed through the Erie County Industrial Development Agency.

Section 4: Detailed Accounting of Paladino's Charter School Real Estate Transaction

⁹ Erie County Clerk of Courts, Book/page: 11245/9786, File no.: 2013115246

¹⁰ <http://buffalorising.com/2014/03/nineteen-apartments-planned-for-midtown-site/>

¹¹ DOS ID #: 4282660

http://appext20.dos.ny.gov/corp_public/CORPSEARCH.ENTITY_INFORMATION?p_nameid=4287062&p_corpid=4282660&p_entity_name=1285%20Main&p_name_type=A&p_search_type=BEGINS&p_srch_results_page=0

¹² Erie County Clerk of Courts, Book/page: 11248/1961, File no.: 2013143556

¹³ <http://www.ellicottdevelopment.com/portfolio/commercial/vacant-land/>

¹⁴ <http://www.buffalonews.com/city-region/development/a-breakdown-of-development-on-the-medical-corridor-20140728>

¹⁵ <http://www.ecidany.com/news/article/current/2010/10/18/100046/erie-county-industrial-development-agency-board-approves-2.68-million-in-incentives-to-leverage-nearly-26-million-new-local-investment>

¹⁶ <https://www.ecidany.com/app/file/89>

¹⁷ <http://www.bizjournals.com/buffalo/news/2012/07/16/ecida-agrees-to-help-charter-school.html?page=all>

Health Sciences Charter School

Health Science Charter School has two transactions with Ellicott Development's subsidiary, 1291 Main Street LLC. Ellicott Street Property: 1140 Ellicott St. The property is owned by Health Sciences Charter School, which purchased the property¹⁸ on April 27, 2011 for \$849,000.¹⁹

According to an audited financial statement from FY2012, Health Sciences Charter School entered into a lease with 1291 Main LLC, a subsidiary of Ellicott Development, to lease the property to 1291 Main LLC for \$1 per year, on the same date that they purchased the property.²⁰ Simultaneously Health Sciences Charter School leased the property back from 1291 Main Street on a "triple net" basis—meaning that they are required to pay upkeep, taxes, and utilities costs. While we do not have a copy of the lease, the 2012 audit contains some key provisions. The school is leasing back their property from 1291 Main LLC for a twenty-five year term, with an option to terminate the lease and own the property outright after August 2016. Lease payments on the property will total \$16.2 million over the term.

Without full public disclosure by Paladino and his private business associates who are running charter schools the public cannot know exactly how much money Paladino is making off of his charter school business ventures. The triple-net leaseback structure is a little uncommon, but usually used as an expedient financing method for the purchase and renovation of the property. The leaseback usually includes the renovations and a cost plus option to buy out the lease under which the private operator of the charter school will pay off any mortgage (including renovation costs) and provide a set payment of a substantial sum which the developer can usually pocket as profits. The audited financials show that part of Health Sciences Charter's purchase option involves paying off the outstanding mortgage of 1291 Main Street—a provision which is consistent with a cost plus buyout arrangement. A *Buffalo Rising* article about the building notes that the school did around \$5 million in renovations that year.²¹ The mortgage on the property, which may have been used to finance renovations, appears to be a \$4.75 million mortgage note granted to 1291 Group, Health Services Charter School, and Erie County Industrial Development Agency.²²

Main Street Property: 1291 Main Street

Ellicott Development, using the subsidiary 1291 Group, LLC, purchased the parcel at 1291 Main Street

It was purchased from Bailey Robinson, Inc., which has a service address of 1295 Main Street in Buffalo, the address of Cash Cunningham's Cash Realty & Auction. According to the New York Department of State, Bailey Robinson, Inc.'s chief executive officer is Sally Cunningham DOS ID: 2664105

http://appext20.dos.ny.gov/corp_public/CORPSEARCH.ENTITY_INFORMATION?p_nameid=2693443&p_corpid=2664105&p_entity_name=Bailey%20Robinson&p_name_type=A&p_search_type=BEGINS&p_srch_results_page=0

¹⁹ Erie County Clerk of Courts, Book/page: 11202/3608 File No.: 2011086377

²⁰ Note 7, page 26. <http://www.p12.nysed.gov/psc/documents/2012.13AlomaARRedacted.pdf>

²¹ <http://buffalorising.com/2013/11/health-science-charter-school-expands-in-midtown/>

²² Erie County Clerk of Courts, Book/page: 13532/4331, File No.: 2011086391

for \$121,000 on April 27, 2011.²³ The parcel was purchased from a Cunningham business according to the New York Department of State.²⁴

In 2013, Health Science Charter School purchased 1291 Main Street from Ellicott Development for \$1.525 million.²⁵ The property is adjacent to the 1140 Ellicott Street property.²⁶

West Buffalo Charter School:

113 Lafayette Avenue²⁷

West Buffalo Charter School purchased the property on August 7, 2012 from the Lafayette Group, a subsidiary of Ellicott Development, for \$1.5mn.²⁸ It is unclear who the Lafayette Group acquired the property from originally—the last recorded sale was from another Ellicott Development subsidiary, 2468 Group, Inc., in 1997.²⁹

Charter School for Applied Technologies

Hertel Avenue property: 1902 Hertel Avenue

Purchased by the Shoshone Group, LLC, a subsidiary of Ellicott Development, for \$3 million on December 2, 2013.³⁰ In December 2013, it was announced that McGuire Development had a 50% stake in the building³¹ (this may have provided an additional opportunity for profits based on the impending charter school lease). In April 2014, it was announced that Charter School for Applied Technologies is going to be occupying the building.³² The current lease amount is not known. The expansion of Charter School for Applied Technologies (CSAT) did not include lease documents or descriptions,³³ and the New York State Education Department charter school office only has audited financials through fiscal 2012-13.

Tapestry Charter School³⁴

²³ Erie County Clerk of Courts, Book/page: 11202/3618, File no.: 2011086380

²⁴ DOS ID #: 1779888

http://appext20.dos.ny.gov/corp_public/CORPSEARCH.ENTITY_INFORMATION?p_nameid=1848419&p_corpid=1779888&p_entity_name=270%20WEST%20MAIN&p_name_type=A&p_search_type=BEGINS&p_srch_results_page=0

²⁵ Erie County Clerk of Courts, Book/page: 11256/9244, File No.: 2013272314

²⁶ <http://buffalorising.com/2013/11/health-science-charter-school-expands-in-midtown/>

²⁷ <http://buffalorising.com/2012/03/charter-school-finds-home-on-lafayette-avenue/>

²⁸ Erie County Clerk of Courts, Book/page: 11227/6851, File no.: 2012178607

²⁹ Erie County Clerk of Courts, Book/page: 10913/8805, File no.: 199703170738

³⁰ Erie County Clerk of Courts, Book/page: 11257/540, File no.: 2013274347

³¹ <http://www.buffalonews.com/business/mcguire-joins-with-paladino-to-find-academic-reuse-for-former-holy-angels-academy-20131203>

³² <http://www.buffalonews.com/city-region/schools/tonawanda-charter-school-expanding-to-former-holy-angels-site-20140428>

³³ <http://www.regents.nysed.gov/meetings/2014/April2014/413p12a7Revised.pdf>

³⁴ <http://www.bizjournals.com/buffalo/print-edition/2014/02/07/a-place-to-teach.html?page=all>

65 Great Arrow Avenue

Ellicott Development managed the \$6.4 million development project in 2009.³⁵ According to a 2011 report submitted to the New York State Education Department, Tapestry financed this construction with a leaseback scheme similar to that used in the Health Sciences Charter School.³⁶ Under the Tapestry arrangement, Tapestry leases their Great Arrow property to Ellicott for \$1 per year, and then leases the property back from Ellicott for around \$570,000 per year.³⁷ According to IRS records, Tapestry Charter School also paid 1238 Group, LLC, a subsidiary of Elliott Development Corp., \$1.2 million for construction between 2009³⁸ and 2011.³⁹

Aloma D. Johnson Fruit Belt Community Charter School

15 Jewett Parkway

The parcel is owned by 7170 Group, LLC, a subsidiary of Ellicott Development. In May 2013, it was announced that Aloma D. Johnson Fruit Belt Community Charter School was relocating to this property.⁴⁰ The property was acquired by 7170 Group LLC from Mount St. Joseph Academy for \$820,000 on October 31, 2011.⁴¹ The previous facilities used by the Aloma Johnson Fruit Belt Community Charter School were the subject of a 2012 audit by the State Comptroller's office.⁴²

³⁵ <http://buffaloring.com/2009/12/tapestry-charter-school-starts-work-in-north-buffalo/>

³⁶ http://cpr.maxwell.syr.edu/efap/Papers_reports/Bifulco/Report_2.pdf see page 28 (as PDF paginated)

³⁷ http://cpr.maxwell.syr.edu/efap/Papers_reports/Bifulco/Report_2.pdf see page 29 (as PDF paginated)

³⁸ <http://www.guidestar.org/FinDocuments/2010/161/604/2010-161604750-06d26a7e-9.pdf> (see page 8)7

³⁹ <http://www.guidestar.org/FinDocuments/2011/161/604/2011-161604750-080a0848-9.pdf> (see page 8)

⁴⁰ <http://news.wbfo.org/post/fruit-belt-charter-school-moving-former-mount-st-joes>

⁴¹ Erie County Clerk of Courts, Book/page: 11210/9670, File no.: 2011218646

⁴² <http://www.osc.state.ny.us/localgov/audits/schools/2012/fruitbeltcharter.pdf>

About AQE

The Alliance for Quality Education is a coalition mobilizing communities across the state to keep New York true to its promise of ensuring a high quality public education to all students regardless of zip code, income or race. Combining its legislative and policy expertise with grassroots organizing, AQE advances proven-to-work strategies that lead to student success and echo a powerful public demand for a high quality education.

www.aqeny.org

About Citizen Action NY

Citizen Action of New York is a grassroots membership organization taking on big issues that are at the center of transforming society – issues like: quality education and after-school programs for all our kids, guaranteed quality, affordable health care, public financing of election campaigns, dismantling racism and promoting racial justice and more progressive tax system.

www.citizenactionny.org

About Center for Popular Democracy

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

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