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Schools for the 21st Century Fall 1995



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*File
ATTN Education*

THE WHITE HOUSE
WASHINGTON

June 15, 1994

John Golle
Chief Executive Officer
Educational Alternatives, Inc.
7900 Xerxes Avenue South
Minneapolis, MN 55431

Dear Mr. Golle:

The enclosed was sent to our office in a complaint about the unauthorized use of the First Lady's name, image and words to promote a commercial service.

This advertisement violates a long-standing White House policy against the use of the President or First Lady's name, likeness, words or activities to suggest an endorsement or approval of a product or service, regardless of its merits. Your advertising improperly suggests that the First Lady endorses your educational service.

We therefore ask that you immediately cease and desist from all such unauthorized uses of the First Lady's name, image and words. Enclosed for your information is a copy of the White House policy as well as guidelines developed by the Council of Better Business Bureaus. Thank you for your immediate attention to this matter.

Sincerely,



Marvin Krislov
Assistant Counsel to the President



Hillary Rodham Clinton and second grader Teresa Douglas worked together on a computer assignment during the First Lady's visit to Sarah M. Roach Elementary School in Baltimore on April 18. "We want every school district to try different things," Mrs. Clinton said at the end of her visit. "We want to learn what works better for our kids and that's what I see happening here."

Sarah M. Roach Elementary is one of 12 Baltimore City Public Schools that are being privately managed by Minneapolis-based Education Alternatives, Inc. in conjunction with the Alliance for Schools That Work.

Editors Note: Color photos are also available. Contact David Hakensen at 612/871-8877.

Management under Executive Order 10927 of March 18, 1961, and sponsored or approved by the occupant agencies; (b) concessions or personal notices posted by employees on authorized bulletin boards; (c) solicitation of labor organization membership or dues authorized by occupant agencies under the Civil Service Reform Act of 1978 (Public Law 95-454); and (d) a lessee, or its agents and employees, with respect to space leased for commercial, cultural, educational, or recreational use under the Public Buildings Cooperative Use Act of 1976 (Title 40, U.S. Code 490(a)(16)). Public areas of GSA-controlled property may be used for other activities permitted in accordance with Subpart 101-20.7.

§ 101-20.310 Photographs for news, advertising, or commercial purposes

Photographs may be taken in space occupied by a tenant agency only with the consent of the occupying agency concerned. Except where security regulations apply or a Federal court order or rule prohibits it, photographs for news purposes may be taken in entrances, lobbies, foyers, corridors or auditoriums when used for public meetings. Subject to the foregoing prohibitions, photographs for advertising and commercial purposes may be taken only with written permission of an authorized official of the agency occupying the space where the photographs are to be taken. [End of text]

USE OF THE NAME OR LIKENESS OF THE PRESIDENT OF THE UNITED STATES

236 Use of the President's Name or Likeness

President Clinton is adhering to a long-standing policy of refusing permission to use the name or likeness of the President of the United States, or of the First Lady, in advertising or commercial promotion in any way that suggests a connection between the President or First Lady and such advertising or promotion, notwithstanding the merits or reasons that accompany the request. The reproduction of the President's or First Lady's name or likeness for sale as such, or inclusion in an educational game, book, collection of portraits and/or biographies shall not be considered advertising or promotion if there is no indication or suggestion of endorsement or approval by the President or First Lady of a commercial product, service or enterprise.

The Counsel to the President has advised the Council of Better Business Bureaus, Inc. (CBBB) that exceptions to this rule, which has been adhered to by all Presidents, can be granted only after a request in writing has been submitted to and approved by the Counsel to the President.

The policy applies with equal force to the use of the name or likeness of the President, or of the First Lady, for any promotion or similar publicity purposes. The only instances where permission has been granted have been in connection with fund-raising campaigns sponsored by the federal government, or conducted under government auspices, such as those of the American National Red Cross. Even to such organizations, no overall permission is granted. Each individual case must be brought to the attention of the White House for approval and such exceptional cases could be considered only on their individual merits.

Exception may also be made with respect to advertisements promoting books or articles about the President authored by him or radio-TV programs featuring him, but only if such advertisements are submitted to the Counsel to the President for approval in advance. This procedure must also be followed in connection with similar advertisements

proposing to make use of the name or likeness of the First Lady. (See also 2-394.)

For additional guidance, contact the Office of the Counsel to the President, the White House, Washington, D.C. 20500; telephone (202) 456-7900.

Use of the Presidential Seal

It is not permissible to use the Seal of the President of the United States in advertising copy. The Presidential Seal may be used only as authorized by Federal statute or by the Counsel to the President. (18 U.S.C. Sect. 713 and Executive Order No. 11649 (1972))

Use of the Vice President's Name or Likeness

Counsel to Vice President Gore has informed the Council of Better Business Bureaus that the Vice President and his family would ask that their names and likenesses not be used for advertising commercial enterprises. The Vice President has adopted exactly the same policy on use of his or his family's name or likeness as maintained by the President.

Council of Better Business Bureaus' Recommendations

The Council of Better Business Bureaus recommends to advertisers and advertising agencies that if any use of the President's or Vice President's name or likeness, or those of their families, office or staff, or of the Presidential Seal, is contemplated for advertising or commercial purposes, it be submitted in advance to the Counsel to the President or Vice President for approval.

CBBB recommends to media that they require all advertisers offering advertising which uses the name or likenesses of the President, Vice President, their offices, seals or staff, or members of their families, to submit evidence of authorization of such use.

236a

236b

236c

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR WHITE HOUSE AND EXECUTIVE BRANCH STAFF

FROM: Francis Thomas Sobol
Special Counsel To The President

SUBJECT: Policy Guidance on Non-White House Uses of the President's and First Lady's Likeness, Words, or Activities as well as Images of the White House and the Presidential Seal

Background

The President receives many requests from individuals, businesses, educational institutions, and others to use his name, likeness (pictures or video tape), activities, or words to promote a variety of endeavors. Businesses, individuals, and communities often propose to use pictures or references to the President's visits or words to promote their products, services, or potential. Various companies desire to use a likeness of the President, the First Family, the White House or the Presidential Seal to capture the attention of the public for their advertising and in the process create a linkage (intentionally or otherwise) between their products or services and the President.

White House Policy Against Commercial Entanglements for the President

The White House's long-standing policy is to refuse permission to use the name, likeness, words, or activities of the President, his family, or the White House itself, in advertising or commercial promotions in any way that suggests a connection between the President, his family, or the White House, and the advertising or promotion, notwithstanding the merits or reasons that accompany the request. The Vice President also subscribes to this policy and its implementing procedures.

Exceptions to the Policy

The reproduction of the likeness, words, or activities of the President, his family, the White House, or the Presidential Seal in educational materials or presentations may be allowed by the White House on a case by case basis. The test for approval is whether the use avoids creating an impression of a Presidential endorsement or approval of a commercial product, service, or enterprise. In addition, permission may be granted to use the President's likeness or that of the White House in fund raising activities conducted under Government auspices or involving a worthwhile charitable or philanthropic endeavor after a case by case review of the merits of the request.

Procedure for Policy Enforcement

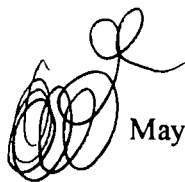
Prior written approval must be obtained from the Counsel to the President for all non-White House uses of the likeness, name, words, or activities of the President, his family, or the White House itself. The same policy applies to proposed uses of the Presidential Seal; however, uses of the Seal are also governed by Federal law as codified at 18 U.S.C. § 713.

Violations of these policies will lead to appropriate legal action by the Office of the Counsel to the President.

All requests should be in writing and sent to the Office of the Counsel to the President, the White House, Washington, DC 20500.

April 13, 1993

*Free
Education*

A handwritten signature in cursive script, appearing to be 'Joan Baggett', with a large, stylized initial 'J'.

May 2, 1994

MEMORANDUM TO MAGGIE WILIAMS AND BILL GALSTON

FROM: JOAN BAGGETT

SUBJECT: AFT

FYI- some concerns AFT wanted us to be aware of with EAI. Thanks.

COMPANY **CFRA** **REPORT**

FINANCIAL STATEMENT ANALYSIS
EDUCATION ALTERNATIVES, INC.

Dr. Howard M. Schilit, C.P.A.
Center for Financial Research and Analysis
October 26, 1993

EXECUTIVE SUMMARY

Education Alternatives, Inc. (EAIN), provides school management and consulting services and has under development its own line of proprietary educational products, which it plans to market to both public and private schools. In 1992, EAIN entered into a five-year contract with The Baltimore City Public Schools, under which The Company assumed full management responsibility for the operation of eight elementary schools and one middle school. EAIN is responsible for reimbursing the school district for any expenses beyond the approved budget, but may retain any surpluses. Our analysis of Education Alternatives focuses on five major themes: (1) Baltimore contract; (2) profitability; (3) quality and source of assets; (4) valuation; and (5) corporate culture. Findings in these five areas include the following:

Baltimore Contract: In fiscal year 1993, EAIN received a disproportionately high share of its revenue (89%) from the Baltimore contract, leaving it in a somewhat tenuous position. Furthermore, a significant portion of the Baltimore contract comes from restricted federal and state funds, subject to further audit.

Profitability: Major concerns include the likely backlash by the public if EAIN displays success in cutting costs, and the possible threat to Eain profitability from the potential entry of competitors into the market, which has no significant barriers to entry. In addition, EAIN has employed several questionable accounting practices that have inflated its profits and understated its liabilities, such as using the percentage of completion method for recording quarterly revenue; capitalizing the costs of equipment and building improvements; and failing to record a June 1993 prepayment of \$2.2 million as a current liability on the balance sheet.

Quality and Source of Assets: EAIN has no real assets of which to speak. As of June 1993, 94% of its assets were in cash and marketable securities. Most of that amount derived from a stock offering and from advances paid by Baltimore's school system.

Valuation: Valuation of the Company's stock (at over \$250 million) is outrageous, considering the Company's past revenue, its accumulated deficit, and likely future competition from Whittle Communications and others.

Corporate Culture: Concerns include outside board members who either are not independent and/or received fees and special deals from the Company; EAIN's involvement in several related-party transactions with officers and executives, raising questions about self-dealing; and recent insider stock sales by EAIN's President and one of its directors.

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BACKGROUND

Education Alternatives, Inc.
1300 Xerxes Avenue South
Minneapolis, MN 55431
(612) 832-0092

Exchange: NASDAQ
Ticker Symbol: EAIN
Primary SIC Code: 8741: School Management and Consulting Services
Fiscal Year-End: June 30
Revenue, 1992: \$2,944,000
Net Income, 1992: -\$1,551,000
Revenue, Nine Months Ended March 31, 1993: \$21.8 million
Net Income, Nine Months Ended March 31, 1993: \$501,852
Closing Share Price, 10/25/93: \$41
Approx. Market Capitalization: \$260 million
Trading Range, Prior Month: \$35 - \$44
Auditor: Arthur Andersen & Company

Education Alternatives, Inc. (EAIN), based in Minneapolis, Minnesota, was incorporated on July 2, 1986. The Company provides school management and consulting services and has under development its own line of proprietary educational products, which it plans to market to both public and private schools.

EAIN was originally organized to design, develop, market, and operate a network of for-profit private preschool and elementary schools under the trademark "TESSERACT." The Company began operating a prototype school in Minnesota in 1987, and permanent schools in Minnesota and Arizona (one in each location) in 1988. In June 1990, EAIN contracted with the School Board of Dade County, Florida, to develop and assist in the management of a new elementary school.

In connection with EAIN's change in strategic focus to school management and consulting services and the development and marketing of proprietary educational products, the Company entered into agreements in 1991 with the Tesseract Foundation (a non-profit corporation which has applied for tax-exempt status) and the Tesseract Development Company (a partnership in EAIN CEO John Golle is a 50% general partner), under which EAIN would provide management and educational services to the Minnesota and Arizona schools—but would relinquish its right to operate those two schools.

SECTION I: BALTIMORE CONTRACT

In July 1992, EAIN received final approval for a five-year contract with The Baltimore City Public Schools. Under the agreement, the Company assumed full management responsibility for the operation of eight elementary schools and one middle school in Baltimore, whose total operating budget is approximately \$133 million over the five-year period. EAIN is responsible, under the contract, for reimbursing the school district for any expenses beyond the approved budget; but the Company is entitled to retain any surpluses over budgeted amounts. The contract is cancelable by The Baltimore City Public Schools at any time.

TURN-OFFS

Market Base: A company that receives a disproportionately high share of its revenue from one client is in a tenuous position. For fiscal year 1993, EAIN received 89 percent of its revenue from the Baltimore contract.

Possible Audit: A significant portion of the Baltimore contract comes from restricted federal and state funds, subject to further audits by those agencies.

SECTION II: PROFITABILITY

TURN-OFFS

Potential Public Backlash: One of our biggest concerns is the likely backlash by the public (whose taxes are fueling EAIN's growth) if the Company displays success in cutting costs. Specifically, according to its Baltimore contract, EAIN receives \$5900 per student. If it finds a way to cut costs, so that it spends only \$4400 per student, taxpayers will likely demand that funding per student be cut substantially. Taxpayers rebel when they become aware of gouging.

Competition: If political pressures from taxpayers don't torpedo EAIN's profit margins, then competition will certainly do the trick. A company that in two years grows from \$3 million in sales to \$100 million (as EAIN is projecting) will doubtless attract many new players into the market. Since the barriers to entry are virtually nil, such factors as political contacts and low bid will dictate who gets the contract.

Accounting Policy: The Company employed questionable accounting practices that inflated its profits and understated its liabilities, such as the following:

- Use of the percentage of completion method for recording *quarterly* revenue is inappropriate for EAIN. The percentage method generally is appropriate for long-range construction contracts, for which costs can be reasonably estimated and collection is virtually assured. In this case, EAIN has no experience in estimating costs; and the Baltimore contract *can be canceled with 90 days notice without cause.*
- Capitalization of costs of equipment and building improvements, while generally appropriate, is not suitable in this case. Under the Baltimore contract, EAIN receives approximately \$5,900 for each student, and it spends whatever it deems necessary and appropriate to operate the schools for the year. Under this management contract, the computers bought, telephone lines installed, and other equipment acquired should be considered operating expenses of the period.
- The Baltimore contract calls for EAIN to be paid in advance for the expected expenditures during the forthcoming months. Based upon that payment scheme, the prepayment for June 1993 of \$2.2 million should appear as a current liability on the balance sheet.

SECTION III: QUALITY AND SOURCE OF ASSETS

TURN-OFFS

EAIN has no real assets of which to speak. Of the \$39.6 million on the balance sheet as of June 1993, \$37.3 million are cash and marketable securities. These assets are not the result of providing a service; instead, they represent \$31.9 million from a stock offering and over \$2 million in advances from Baltimore's school system.

SECTION IV: VALUATION

TURN-OFFS

Valuation of the Company's stock (at over \$250 million) is outrageous, considering the following:

- Until fiscal 1993, EAIN had revenue of less than \$3 million and an accumulated deficit of \$8.8 million.
- Its current stock price is over 200 times earnings and over ten times sales.
- Competition from Whitte Communications and others virtually guarantees that profit margins will shortly disintegrate.

SECTION V: CORPORATE CULTURE

TURN-OFFS

Board of Directors: Outside members of the board of directors either are not independent and/or received fees and special deals from the Company. For example:

- Robert Karon is a partner in the Company's outside accounting firm.
- Gale Mellum is a partner in the Company's outside law firm.
- Richard Burke received 50,000 stock options for consulting services provided.
- John Walton bought 100,000 shares in a private transaction from the Company at a price less than is traded on the NASDAQ.

Related-Party Transactions: The Company is involved in several related-party transactions with officers and executives, raising questions about self-dealing. Specifically:

- The Company leased office space and received other services from GHCE, an entity 40 percent owned by EAIN chief executive John Golle.
- EAIN operated schools in Minnesota and Arizona that were leased to the Company by Tesseract Development Company (TDC), a partnership 50 percent owned by John Golle.
- EAIN had a 1991 agreement with the Tesseract Foundation, transferring the right to the Foundation to operate a school in Minnesota and Arizona.

Insider Trading: Recent insider stock sales were recorded for David Bennett, President (15,000 shares) and Gale Mellum, Director (4,000 shares).

FINANCIAL SHENANIGANS:

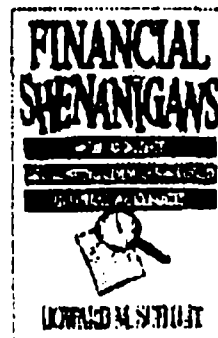
How to Detect Accounting Gimmicks and Fraud in Financial Reports

By Howard M. Schilit

Would a company with serious financial problems want to broadcast that fact in its corporate reports? Of course not! Prospective investors and lenders should understand that some companies in hot water try to hide the fact with "creative accounting" techniques that provide a distorted picture of their financial health. Other companies, not on the skids, can be tempted to paint a rosier picture than justified by the facts. Fortunately, there are equally sophisticated methods for spotting the signs of accounting chicanery in virtually any financial report. Now comes a book that provides investors and lenders with 50 powerful tools for uncovering accounting gimmicks to get a true reading of a company's financial condition.

Financial Shenanigans shows investors, lenders, auditors, regulators, and others how to immediately spot such misleading accounting tricks as:

- Recording revenue prematurely
- Recording bogus revenues
- Boosting income artificially with one-time gains
- Shifting current income to a later period
- Shifting future expenses to the current period



208 pages
770,000 printed
0-07-056731-1
\$22.95

Plus, there are tips on checking the balance of inventory, sales, and receivables . . . scrutinizing statements of cash flows . . . and much more!

ABOUT THE AUTHOR: A noted authority on accounting and financial controls, Howard M. Schilit is a specialist in the accuracy of financial statements. In the past six months alone, Schilit's reactions to creative corporate accounting techniques have been quoted on the front page of the *Wall Street Journal*, as well as in the *New York Times*, *Business Week*, and *Fortune*. He is the co-author of *Blue Chips and Hot Tips*, and he is a professor of accounting at American University.

"Is there any way an ordinary investor can protect against being torpedoed by financial scams and gimmicks? . . . The answer lies in investors, large and small becoming more skeptical and informed consumers of glowing financial reports, and efforts like Schilit's may help us get there."

—Louis Rukeyser
Wall Street Week

"Indispensable to investors who are so often victimized by 'cooked books,' as well as those attorneys, forensic accountants and government regulators whose work involves the discovery and pursuit of financial statement fraud."

—William S. Lerach
Partner, Milberg Weiss Bershad
Specter & Lerach

"Howard Schilit clearly explains how to do and interpret earnings quality assessments to improve investment returns."

—David Hawkins
Professor of Business Administration
Harvard University

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CROSS CITY CAMPAIGN

For Urban School Reform

407 S. Dearborn St.
Suite 1725
Chicago, IL 60605
(312)322-4880
Fax (312)322-4885

June 5, 1995

Dear Maggie:

I thought I'd take this work-related opportunity to drop you a note.

Enclosed is a copy of Cross City's first major publication, ***Reinventing Central Office: A Primer for Successful Schools***. It is an interesting piece because it develops a vision of truly decentralized and effective schools based on research and successful practice currently in place in a number of cities.

As you may have heard, I was temporarily in Washington this past fall. The idea was David would follow once he found the right job. It was not my favorite three months. We got married October 29 which was wonderful but within 24 hours we were back to our respective cities. In the end, we decided to stay in Chicago so I came back earlier this year.

I am now working with the Cross City Campaign for Urban School Reform on a contractual basis and will hopefully be offered something more permanent. I was brought on to develop a communications and marketing plan.

Cross City is an interesting group because the notion is to bring together people struggling with urban school reform and provide a venue for mutual support of each city's local work and cross city learning.

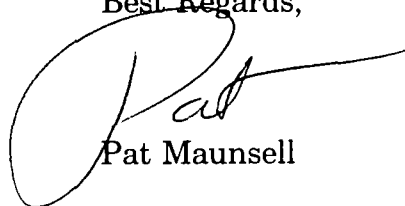
How are you doing? From out here in the "sticks" the Administration is looking good. It's great that the President is standing up to the madness taking place up on the Hill. I am quite sure I know the answer to this but are you getting any break? Everyone is so proud of you and know you are doing an amazing job but worry that you don't have time to take care of yourself. Any luck you'll get some vacation time over the summer?

Have you seen Ed and Joe lately? I talked to them a bit last fall but haven't heard from them in awhile. Their new house sounds great.

Speaking of people we know -- did you hear about Shelley? She's pregnant! She's due in late September -- she's feeling great and looks as thin as ever with the exception of her tummy -- figures she'd stay thin!

Tell Pam and Melanne I said hi. Please take care and get in touch when you can.

Best Regards,

A handwritten signature in cursive script, appearing to read 'Pat', with a long horizontal flourish extending to the right. The signature is written in black ink.

Pat Maunsell

EDUCATION WEEK

American Education's Newspaper of Record

Volume XIV, Number 36 • May 31, 1995

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Report Advocates More Authority For Urban Schools

By Ann Bradley

Urban school systems should give all operating funds and the authority to spend that money to individual schools, which would in turn pay taxes to support a streamlined central office, a new report recommends.

The report, released this month, was prepared by the Cross City Campaign for Urban School Reform, a coalition of reform leaders who are working in major cities to move authority, resources, and accountability from the central office to the school level.

The recommendations are drawn from the reformers' experiences trying to rethink the role of school districts in Chicago, Denver, Los Angeles, New York City, Philadelphia, and Seattle.

"For schools to be accountable for results," the report says, "schools and their communities need authority. They need to be able to decide what and how they will teach to meet high district standards, who will be hired, and how they will spend their funds and use their buildings."

The recommendations, based on research and the lessons learned in these districts, cover governance, budgets, curriculum and instruction, personnel, facilities and services, and accountability.

School districts in all of the cities represented by the Cross City Campaign are pursuing elements of this agenda, the report notes, although no district has embraced every idea.

While "rhetorical pleas for decentralization are commonplace," the report says, in practice many school districts have given little real authority to schools.

School Councils

Rather than debating which specific tasks should move to schools, the report recommends that almost all functions be car-

ried out at schools under the authority of democratically selected school councils. These councils then would decide whether to purchase services from the central office, from clusters of cooperating schools, or from outside groups.

As is now done in Chicago, the report calls for the school councils to hire and evaluate principals, draw up school-development plans, and control the school budget.

New Authority

The central office, while pared down, should be the site for important functions, it says, including setting goals and standards, insuring equity, assisting failing schools, providing schools with money, connecting schools to a management-information system, providing legal assistance, and handling background checks

and recruitment of personnel.

Transportation, food, and payroll services could be made available if schools wanted them and if the central office could supply high-quality services efficiently, it says.

Although it might require a change in state law to send operating funds directly to schools, the report asserts that this strategy would give schools the tools they need to get the job done.

The change in budget authority should allow schools to use money across budget categories and across years, the report says, rather than requiring them to spend all their money each year. In the case of a citywide shortfall, schools, rather than the central office, would determine their own cuts.

In exchange for this far-reaching control over money, schools

would provide "readable budgets and finance reports," the report says.

Schools also would pay for annual audits and report payments made to vendors and the race and gender of those vendors.

Smaller Schools

Under such a system, school budgets would have to be reformatted to be easily readable, the report says, and funds would flow to schools based on a weighting system that would funnel more money to low-income students.

Categorical funds—money awarded for special purposes such as special or bilingual education—would be pooled when possible, and the equity department of the central office would insure that students who generated additional special funds

For More Information:
Copies of "Reinventing Central Office: A Primer for Successful Schools" are available for \$6 each from the Cross City Campaign for Urban School Reform, 407 South Dearborn St., Suite 1725, Chicago, Ill. 60605; (312) 322-4880.

were benefiting, the report says.

To make urban systems work for students, the report recommends that no school have more than 500 children.

Communities of teachers, principals, and parents should make decisions about what to teach within a framework of high academic standards, it says.

School-development plans created by the school councils would "foster a climate of continuously

improving curriculum, instruction, and professional development," the report says.

But to meet the challenges of urban schools, teachers would need the flexibility to design a schedule that allowed them to meet regularly for professional development.

Teachers also should devise methods to assess students in several ways, including portfolios, journals, observations, and discussions with parents, the report recommends.

Small schools work best, the report says, when they are linked with other schools through networks that allow them to share resources and ideas.

Personnel Decisions

To carry out their missions, schools should be staffed with people who want to be there.

But heavily centralized personnel systems now "distance staffing decisions from school needs" and

are slow and complex, according to the report.

It recommends that schools carry out all substantive personnel functions.

Each school district should negotiate "master contracts" that give individual schools a range of options on operating details. The report says such details should include class size, the number of teacher-preparation periods, the number and extent of nonteaching duties, scheduling, and transfer policy.

Finally, the group's report urges school systems to create accountability mechanisms that provide understandable, reliable information.

"One of the district's major responsibilities is to collect a wide range of school data, compile it, and make it available to every school," it says.

The district's role in such a system would be oversight and support for schools.

COMMENTARY

Public Will, Political Context, And Public Education

By Norm Fruchter

When opinion polls report increasing loss of faith in American public education, the public's perception of the failure of city schools is often the primary cause. Yet city schools are doing better than at any time since urban public systems were reorganized on factory models in the early 20th century. Most urban school systems graduate at least half their entering students, and significant numbers of those graduates (perhaps 30 percent?) leave with more than 8th-grade basic skills, which means they can gain admission to college, matriculate without having to take remedial courses, and have a decent shot at graduating from college with reasonable employment prospects within four or five years.

It is the great majority of "other" students, the 70 percent of graduates with less than 8th-grade skills, or the 50 percent who fail to graduate at all, whose needs city schools aren't meeting and have never managed to meet. Yet in past decades, when these students dropped out or graduated with inadequate skills, there were jobs with futures in the industrial economy, the service sector, even the armed forces. Today those jobs are gone, and exiting school without a diploma and skills too often involves a one-way ticket to the underground economy, early pregnancy, drug dependency, and incarceration.

In the current debate about the effectiveness of American public education, many experts point to varieties of evidence, such as the narrowing of the achievement gap between African-American and white students, to argue that public schools are improving. But as reformers we cannot respond to the increasing disenchantment with public education by defending its achievements because we are so deeply involved in trying to counteract its failures. In the recent past, we were the chief critics of urban public education; our research and studies developed much of the data and analyses opponents of public education now use to attack it. The difference is that while we want the political space, resources, authority, and time to improve public schooling, opponents want to destroy it through privatization, vouchers, and other schemes to replace public control with market forces.

Our difficult task is to fight for the preservation of public education by insisting on the necessity to transform it. Yet the reforms we're committed to won't produce results quickly. We can point to successful schools but not to successful urban school systems, and the need to transform schools "one at a time" intensifies the difficulties of systemic improvement. Moreover, we are facing several national trends that complicate our task:

- In an economy hostile to cities, the growing urban tax burden is increasingly resisted by the great majority of city taxpayers whose children are not in public schools, while most state legislatures are dominated by rural-suburban coalitions that resist adequate funding for city school systems. Unless equity-funding suits or other strategies succeed in breaking these stalemates, urban schools will be denied even minimal resources. In such permanent fiscal crises, sustaining steady reform becomes exceedingly difficult.

- As cities polarize by race and class and more-advantaged families buy out of public education, urban schools are increasingly perceived as settings for other people's children. Levels of racism less acceptable in the recent past are now openly articulated to blame the failures of public education on the limited capacities of other people's children, thereby justifying the refusal to adequately fund, hold accountable, or



Ken Condon

improve public education.

- The real and supposed failures of public schooling are increasingly defined as one of the central failures of the public sector and government in general by aggressive, confident, and popular right-wing ideologues employing effective media strategies to argue for private-sector, market-driven solutions to education.

Combating all these trends requires fighting for the principle of public education as a critical contributor to the possibility of American democracy; fighting for the necessity to transform public education to make it effective for all our children; and fighting for our definitions of reform as well as the time, space, and resources to carry them out. Alternatively put, we have to argue for the democratizing, integrating, pluralist, and socializing roles of public education while simultaneously fighting for the scale of transformation necessary to carry out these roles successfully.

It is a difficult task, requiring the development of new strategies. But our practice has produced some indications about

how urban education, as democratic education, might be improved. (See related story on page 1.)

- Small schools are safer, more integrative, more pluralist, and more academically effective.
- Schools whose governance is more participatory build a base of democratic practice and are more academically effective.
- Decentralizing authority and resources from central administrations to schools improves local democratic capacity and academic effectiveness.
- Linking schools to their communities integrates home and school cultures and improves academic outcomes.

Such arguments are only a start, especially when we have only limited examples and even more limited evidence of effectiveness. Yet given the consistent failure of urban school systems with half to three-quarters of their students, such evidence of success can be quite powerful, especially for the urban constituencies, primarily constituencies of color, that reformers must engage with to link school reform to the broader struggles to revitalize cities.

Norm Fruchter is the co-chairman of the Cross City Campaign for Urban School Reform and the program adviser for education at the Aaron Diamond Foundation. He is also a co-director of the Institute for Education and Social Policy at New York University. This paper was written for a Cross City Campaign discussion on race, class, and public will held in Seattle in February.

CROSS CITY CAMPAIGN

— FOR URBAN SCHOOL REFORM —

1-10-95

CROSS CITY: QUESTIONS AND ANSWERS

1. Why and how was Cross City formed?

The original impetus that led to Cross City's formation came when school reformers from Philadelphia, Chicago, and Denver met each other. They were all committed to urban youth and making public schools work for them. They were all leaders in radical school reform initiatives in their cities. People from these three cities recognized immediately the strategic value of working together, advancing work on community-based autonomous schools, and creating a national voice for urban school reform. They brought in colleagues from New York and Seattle who formed an organizing committee. Cross City first convened a group from these cities and others in January 1993.

2. What is the mission of Cross City?

Dramatic improvement of public education so that all urban youth are well prepared for continued education, work, and citizenship. Cross City supports the work of reform leaders within and across cities to create a high quality system of autonomous small schools that ensure educational success for young people. Cross City works actively to galvanize public will for public schools.

3. What are the principles of policy and practice to which Cross City subscribes?

We believe that all young people are able to master high level knowledge and skills. Diverse, small, equitable, and rigorous learning environments should flourish within a district. Schools are community-based. Schools are locally governed, autonomous, and accountable. Central office bureaucracies are dismantled. Union contracts support these principles as well as represent employee interests.

4. What are the goals and objectives of Cross City?

Goal 1. To improve educational success for urban youth

1. Improve quality and equity in the classroom.
2. Advance school site authority and accountability.
3. Connect schools and communities.

Goal 2. To build public will for public schools.

1. Create a strong national network of urban reform leaders.
2. Create a national voice for urban school issues and successes.
3. Build and extend collaboration with other national organizations.

5. What does participation in Cross City mean for participating cities?

- a. **Shared values.** People participating from each city share a belief in the mission, principles, goals, and the goals of the work with Cross City.
- b. **Added value to local work.** Local participants find Cross City work useful to them in their own work in their city and the national connections and resources (people, strategies, policy work, tools) very valuable.

b. **Board.** Participating cities name five local leaders to the board (see below) and bring larger delegations to national meetings. Financial subsidy is available if needed.

c. **Working group participation.** Cross City does its work through multi-city working groups. Current active groups include: Decentralization, School and Community, Accountability, Data Project, Public Information/Communication. A cross city budget project is in the works.

d. **School reform tools.** Cross City links people (parents, community leaders, teachers, principals, union heads, administrators, policy analysts, funders), ideas, and specific work across sites. Cross City is developing study site visits and leadership development activities across cities. Cross City is also developing tools to help parents and teachers assess school improvement and take appropriate action, manage local budgets to ensure improved learning, create citizen audits, and organize for school change.

e. **National work.** Cross City is a network of veteran school reform leaders who are very experienced in both policy and practice. Cross City meetings feature national experts speaking on issues that are central to urban school reform. In addition to creating links across cities, Cross City is working with other national organizations who share our concerns about young people and their education - issues of equity, accountability, and reformed classroom practice. We are developing strategies for creating a strong national voice for urban public schools.

What participation does not mean (at least not now): Cross City board members do not "represent" their city. Participating cities have not created a new local organization, hired staff, fundraised, nor have delegates taken positions that have committed the school reform community in their city.

6. **What is the board structure?**

Each participating city names five people to the Cross City board, representing three categories: school reformers (broadly defined); community, and union. Two or three of these five people must be people of color. Board terms are two years. Officers serve one year terms, with the possibility of three consecutive terms. The criteria for board membership are: people who share Cross City mission and principles; actively engaged in school reform in their own city; interested in working nationally as well as locally; leaders in their city (have a constituency); influential in their city.

7. **What are the participating cities, to date?**

New York, Philadelphia, Chicago, Denver, and Seattle

8. **What foundations, to date, are supporting Cross City?**

J. D. and C. T. MacArthur Foundation, Annie E. Casey Foundation, C. S. Mott Foundation, Woods Fund of Chicago, Joyce Foundation, Driehaus Foundation, Polk Bros Foundation, Lilly Endowment, Inc., Prince Charitable Trusts. A planning grant from the Ford Foundation is in the final stages of processing.

CROSS CITY CAMPAIGN

— FOR URBAN SCHOOL REFORM —

Cross City Report

December 1994

Since 1993, school reform leaders from Chicago, Denver, New York, Seattle, and Philadelphia - all deeply engaged in systemic reforms - have come together as the Cross City Campaign. The collective mission is dramatic improvement of public education so that all urban youth are well prepared for post-secondary education, work, and citizenship. Cross City supports the work of reform leaders within and across large cities to create high quality schools that ensure educational success for young people. Cross City advocates for policies and practices that support a radical transformation of schools, moving authority, resources, and accountability to the school level, reconnecting schools with their community, and completely rethinking the role of school districts. We believe that urban public schools, thus reformed, can be restored to the public trust. Cross City works to galvanize public will for public schools. Since our inception, we have learned:

- ☐ There is a great deal of interest on all fronts (parents, reformers, advocates, teachers, principals, university researchers, and funders) in this effort. The interesting mix of participants (diverse by race, ethnicity, gender, profession, and location) have years of experience in both practice and policy and are actually working to make community-based school reform happen.
- ☐ "Inventors" need a network. The people in each city who are asking fundamental questions and who are pushing for systemic reforms feel isolated and have responded immediately to the chance to work together. Reformers from each city are both leaders and learners.
- ☐ The practical nature of the work we are doing together is appealing. Cross City is wrestling with practical school reform policy issues to which local reformers need answers.
- ☐ There has been clear agreement on the work that we want to do together, as described below.

Cross City Goals and Objectives.

Goal 1. To improve educational success for urban youth.

- A. Improve quality and equity in the classroom
- B. Advance school site authority and accountability.
- C. Connect schools and communities.

Goal 2. To build public will for public schools.

- A. Create a strong national network of urban reform leaders.
- B. Create a national voice for urban school issues and successes.
- C. Build and extend collaboration with other national organizations.

Cross City Campaign Work in Progress

1. Decentralization Working Group

In order to create a system of successful urban schools, authority and resources must be moved to the school and large central bureaucracies dismantled.

* Reinventing Central Office A Decentralization Working Group was formed in March 1993. They identified key areas which should be decentralized in urban districts to

sustain reform: curriculum/instruction; governance; accountability; budget; personnel; and facilities/ services. They prepared and discussed draft papers that describe which responsibilities are located at the school to enable reformed teaching and learning and which ones, few in number, remain at central office. The papers were then edited into one monograph. The document will be published early 1995. The format will include charts and a list of resources and sites where decentralized functions are taking place.

* **Reinventing: Next steps.** Various chapters of the monograph are being expanded into separate topics/working groups. The chapter on accountability is being used as the starting point for the Accountability Working Group. The budget chapter will form the basis of a cross city budget analysis and local school budget work. In addition, the document will be widely distributed, used as the basis for presentations, and provide a policy framework for meetings with policymakers.

* **Restructuring Education Conference, Amsterdam.** Anne Hallett was one of ten invited participants from the United States at this international conference. Reinventing Central Office was presented.

* **Education Commission of the States.** ECS has worked with Cross City since its inception. Bob Palaich, Director of Policy Studies, serves on the Decentralization Working Group. The Urban Initiative and Cross City work together. Christine Johnson, director of the Urban Initiative, sits on the Cross City board. Anne Hallett presented Reinventing Central Office on a panel on urban reform at the ECS annual meeting.

* **Philadelphia** Norm Fruchter, Cross City board member, was a member of the Court Appointed Educational Panel, stemming from the Philadelphia desegregation suit. He used the Reinventing document as a vision for a decentralized Philadelphia school system. Diana Lauber, Cross City senior program director, was retained by the Court Appointed Educational Panel in Philadelphia in the summer of 1994 as their budget expert.

* **Chicago** Chicago has embarked on a major re-engineering effort to rethink central office functions and organization. Cross City is active in this effort. Reinventing has been used by those developing the reform. A presentation to the Core Team is scheduled.

* **Seattle** Reinventing has been used by the superintendent and the union head as a guide for their central office redesign,

2. Schools and Community Working Group

Some of the most interesting invention in the past thirty years is reconnecting schools to the community - culturally, educationally, and physically. This topic has attracted a wonderful group of urban school pioneers and has sparked a tremendous amount of energy around this movement.

* **Schools and Community paper.** Michele Cahill, president, Youth Development Institute, and vice president, Fund for the City of New York, is writing a paper defining the field of interconnections of schools and their communities for Cross City. It will be published in early 1995.

* **School Reform and Community Organizing.** Cate Poe of New York ACORN has drafted a paper on the topic of leadership development and school reform. It has been reviewed by the Schools and Community Working Group and will be completed in early 1995.

* **Case studies.** National examples of strong school-community practice will be captured in a series of case studies.

* **Council on Foundations: Schools and Community session** Four Cross City participants presented, and Anne Hallett moderated, at a session at the Council's annual meeting in May that was organized by the Piton Foundation.

* **Public engagement.** In November 1994, Cross City helped board member, Rochelle Nichols Solomon, director of the North Philadelphia Community Compact, to launch a series of "public engagement" meetings to enlist large numbers of Philadelphians in discussion of the Court Appointed Panel's recommendations and Superintendent Hornbeck's 10-point agenda for Philadelphia schools. We prepared materials and assembled a two-city panel of citizen leaders.

* **Leadership development.** Sharing leadership development strategies for parents and those working in school reform efforts is in the planning stages. Cross site participants will attend conferences for school site council members in Chicago and in Denver.

* **Cross City study visits.** Site visits to learn first-hand from those working on school and community connections have been carried out in Chicago. A series of cross city learning experiences are being planned.

3. Accountability Working Group

Centralized districts give the illusion of monitoring equity and assuring accountability, but they deliver little in this regard. Centralized accountability makes people responsible for following rules and makes no one responsible for results. Decentralized reformed strategies posit considerable authority for accountability and assessment at the local school. Cross City leaders have embarked on work regarding accountability to ensure that young people are achieving and that schools are improving.

* **Working Group formed.** A six-city working group of teachers, principals, administrators, parents, policy analysts, and others has been formed to develop a rigorous accountability system for urban schools.

* **Model Practices Grid** Each city has filled out an accountability grid in which they described the present accountability measures in their cities at the school, district, and state levels. The next step will be to create a description of a model accountability system.

4. Small Schools

Cross City actively promotes small schools as an essential educational strategy for young people, especially urban youth who need the personal attention, care, and focused educational environment that small schools provide.

* **Meetings** We have co-sponsored or hosted meetings on small schools in both Philadelphia and Chicago. New Yorkers involved in creating new small schools are active with Cross City.

* **Monograph** With leadership from Michelle Fine, Cross City is developing a monograph on small schools, pulling together all of the best information and data available.

5. Policy initiatives

A Chicago Cross City group developed principles and positions around the reauthorization of ESEA. These positions were adopted across cities. The final bill as reauthorized contains most of the positions supported by Cross City. Work is now underway to help cities understand the new bill and promising ways to implement schoolwide and other innovative provisions. Additionally, Cross City is sharing information about other federal policy initiatives and sources of funds that support the reforms underway in cities.

Public Will

A central organizing principle for the Cross City Campaign is the crisis in public will around urban public schools. The dimensions are still being shaped, but elements of addressing this goal include: building the Cross City network, developing and implementing a active and far-reaching communication plan, developing and communicating valid data on equity issues in urban education, building collaborations, and broadening the base of those working on urban school reform.

Participating cities. Cross City currently includes active members from five cities (New York, Philadelphia, Chicago, Denver, and Seattle). We are actively exploring Los Angeles' interest in participation. We seek to include active school reform leadership from large cities who share Cross City's mission and principles and find it useful to work together. Participants include a diverse and interesting mix of teachers, principals, administrators, union leaders, parents, funders, policy analysts, and community leaders. We plan to add representatives from additional cities, geographically diverse, that share the principles and strategies to which we are committed.

Board of Directors. The board of directors is in formation, with five representatives being selected from participating cities as well as individuals and representatives from national organizations. Officers of the board were elected in February 1994. Janis Somerville, formerly executive director of Philadelphia Schools Collaborative, is 1994 chair. From each participating city, five people drawn from three categories (school reform, broadly defined; school/community; and union) are invited onto the board. Board members believe in the mission of Cross City, are active in school reform in their own city, are recognized and credible leaders, and are interested and able to work at home and with national colleagues. Two or three of the five are people of color. Selected individuals and representatives of national organizations are included.

Staff: Anne Hallett is the executive director of the Campaign; Diana Lauber is senior program director; Lupe Prieto is the director of administration.

GAO

Report to the Ranking Minority Member,
Permanent Subcommittee on
Investigations, Committee on
Governmental Affairs, U.S. Senate

July 1995

STUDENT FINANCIAL AID

Data Not Fully Utilized
to Identify
Inappropriately
Awarded Loans and
Grants



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A Primer for

Successful Schools



CROSS CITY CAMPAIGN

For Urban School Reform

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GAO

Testimony

Before the Permanent Subcommittee on Investigations
Committee on Governmental Affairs, U.S. Senate

*File
Education*

For Release on Delivery
Expected at 9:30 a.m.
Wednesday, July 12, 1995

STUDENT FINANCIAL AID

Data Not Fully Utilized to Identify Inappropriately Awarded Loans and Grants

Statement of Cornelia Blanchette
Associate Director, Education and Employment Issues
Health, Education, and Human Services Division



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