

David Pepper reviews the sordid ECOT story.

William Lager's rags to riches ECOT narrative is one of the most outrageous and disgraceful ones in the history of Ohio politics. State officials in Ohio, some of which are still in power, enabled Lager to enrich himself by refusing to hold him accountable. As a result, Ohio taxpayers paid Lager hundreds of millions for students that were not served but turned-in for payment.

David Pepper's report on the matter reveals some of the fraud.

Ordering at the Statehouse Grille

How Insiders Grab Hold of Gerrymandered Statehouses

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To help highlight the damage being done in American statehouses—and how public service has been corrupted in so many of them—I'm providing regular excerpts from "Laboratories of Autocracy" to paid subscribers.

There's no better example of the power and damage of the pay-to-play culture in Ohio politics than what has happened to Ohio's once vaunted system of public education over the past generation. It's a case study I highlighted in the book—one that the powers that be in Ohio want everyone to forget:

It started with some notes on a napkin.

Then another napkin. Then another.

More specifically, the napkins piled up at the West Side Waffle House in Columbus.

And the man scribbling on them, William Lager, found himself dead broke after a divorce and a business gone belly up. A server at the Waffle House noticed that he'd even photocopy coffee coupons, then hand them over as if they were real, to save money on his morning caffeine fix.

But on the back of those napkins, Lager wrote a business plan that would turn things around. In fact, the plan on those napkins would make him filthy rich, affording him multiple houses in Ohio and a \$3.7 million home in Key West. The billion-dollar business he built became the darling of the state's movers and shakers, touching thousands upon thousands of Ohio families. He could get his calls returned by any politician in the State, from the governor on down, and Jeb Bush enlisted Lager to spread the word nationally about what he'd built. He even hired the server away from the Waffle House to work for his growing empire.

Sounds like the American dream, right?

Think again. Copying those coupons was a tell.

On those napkins, Lager drew up a plan that grew into arguably the largest scam in the history of Ohio. An online, for-profit charter operation that claimed more students than any in the nation by 2015, and was larger than most Ohio colleges.

From early on, problems emerged.

Problem #1 was that the “school” delivered atrocious results—the worst drop-out rate of any school in the nation.

Problem #2 was, while his online “school” was paid thousands of dollars for each student it claimed, it turned out thousands upon thousands of kids never attended—or at least there was no proof that they did. Think of them as highly lucrative ghost students. That’s right, the nation’s largest school wasn’t taking attendance, even though the state was paying for every student *and* ghost student who Bill Lager *claimed* attended.

What was the piggy bank that made Lager so rich? Big private investors? A major bank? Venture capital?

Nope.

Ohio’s public schools.

More precisely, the state and local dollars that Ohio taxpayers thought they were sending to educate children paid for it all. With every student Lager convinced to quit public school to attend his scam school, thousands of dollars flowed from public coffers to his private company. So, over the time that Lager’s school was delivering atrocious results to his students, Ohio’s already underfunded public schools were seeing precious funds ripped away. And of course, they *were* taking attendance, and being held to all sorts of other standards Lager was not. Lager’s scam pulled down both his own students, and those still in public schools who never fell for his heavy advertising.

The scam went on for years, totaling more than a billion dollars.

There’s one other relevant fact that kept it all going. Not only did William Lager concoct one of the biggest scams in Ohio history, he also emerged as an enormous donor to the Ohio Republican Party and its politicians all that time. Other Lager employees also gave richly. And by far the largest amount of this largesse—around \$1.4 million—supported state legislative candidates.

Let’s call it causation.

How Lager went from napkins at a coffee house to multiple homes and a silver-plated rolodex is a long and complicated story. But at its most basic, William Lager is one person who figured out just how much power statehouse politicians in Ohio enjoy.

Unfortunately, he also figured out that the incentive system in state politics is distorted, and that it doesn’t take much for those politicians to use their power to work feverishly for private interests as opposed to the public good. Lager took full advantage of this unfortunate feature.

Lager’s story is the worst-case scenario that should scare every American. Because the sobering reality he exposed is that Ohio’s politicians were willing to sell out the state’s most important function—educating its children—to support someone who lavished them with some percentage of the money generated (again, from public schools) by the scam.

And if politicians are willing to sell out a state’s kids and its future all to keep a mutually beneficial gravy train going, what won’t they sell out?

The answer, it turns out, is nothing.

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Which presents huge opportunities for those who've figured it out. And powerful motivation to make sure those so generous with public assets stay in power.