


Rocketship Education: An Exploratory Public Policy Case Study

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by  
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**Preface**





## **Acknowledgments**

1  
2 My debts are many.

3 It goes without saying that I am solely responsible for any errors or omissions in this  
4 dissertation.



## Abstract

This dissertation is an exploratory case study of the finances of the Rocketship charter school chain. Where appropriate, an educational public policy lens will be applied. Rocketship is a popular not-for-profit charter management organization and is one of the oldest in the United States. This study seeks to determine if Rocketship yields profits for investors, despite it being a non-profit entity, and if it does, how and where does it do so. This study compares Rocketship to other examples of privatization in the United States, including of the privatization of public education. In order to characterize fairly and completely Rocketship's profitability, this study analyzes publicly available documents in order to track money flowing in and out of Rocketship. Using initial and renewal charter petitions, annual budget documents, filings with the California Department of Education and with the federal government, plus data from publicly available datasets, this study derives an estimate of Rocketship's profitability. **[Result #1]** TBD. **[Result #2]** TBD. **[Discussion]** TBD. **[Conclusion]** TBD. These results, it is hoped, will inform local, state, and federal legislatures when they establish public policy for charter schools.

*Keywords:* Rocketship Education, charter management organization, privatization, charter finances, education public policy



## Introduction

If, in Harold Lasswell's words, politics is about who gets what, when, and how (Lasswell, 1936), then education is surely one of the most consequential – and fascinating — of public policy issues. At stake is the future well-being of 56.4 million students on whose behalf federal, state, and local governments spend upwards of three quarters of a trillion dollars annually. The number of stakeholders is huge: every parent and every child is a stakeholder, as are teachers, administrators, legislators, employees of fifty state departments of education, the federal Department of Education, the President of the United States, the U.S. Supreme Court, and state and local courts. Stakeholders exist throughout the United States, in states, counties, cities, towns, villages, and in almost 100 thousand schools in thousands of school districts. The COVID-19 pandemic of the last 2+ years has revealed just how important public education is to stakeholders.

Education is the arena in which parents, legislators, unions, political parties, billionaires, technologists, scholars and educators clash, all vying for influence and reward. Education is where religion, politics, free market neoliberalism, and social justice — all of them beliefs — intersect. One topic in particular has, in the last fifty years, generated a disproportionate share of discord: the privatization of public education, i.e. school choice.<sup>1</sup>

Formerly sleepy school board elections have attracted national interest, and with that interest, a flood of money. The 2020 Los Angeles school board election cost over \$14M for just four seats and generated articles in the national press. Likewise, a November 2016 statewide proposition in Massachusetts that sought to expand charter schools was covered extensively by national newspapers with one advocacy group spending more than \$15M (not including a \$425,000 fine for violating campaign law). Betsy DeVos, U.S. Secretary of Education under the twice impeached President Donald Trump, drew fierce criticism from

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<sup>1</sup>“School choice” is an Orwellian name designed to mislead, to dress up an otherwise unpalatable reality: privatization takes something that used to be available to all and restricts it to only those who can afford to pay.

1 the start of her tenure, criticism which was endlessly reported on. What caused these  
 2 uproars? Why was so much money spent on these and other elections? The answer is  
 3 charter schools.

#### 4 **Schools & Charter Schools**

5 Schools in the United States take three basic forms: the traditional public school (TPS),  
 6 charter schools, and private schools. Only two states, Nebraska and North Dakota, have  
 7 resisted some form of school choice (Enlow, 2022); all have private schools and an extensive  
 8 public school system. From a practical standpoint,... or 'By definition, school choice would encompass choices between **Properly speaking**, school choice encompasses public, charter,  
 9 private, magnet, and homeschooling. But, because charter schools have been the most  
 10 controversial, the phrase “school choice” usually refers to charter schools. This is a tough one... voucher programs seem to be coming back these days!

11 Schools, under this definition of school choice, take a number of forms: they can, like  
 12 TPSs be in-person, but unlike TPSs, they can also be online (virtual), or even a blend of the  
 13 two. How school choice is financed varies as well. School vouchers, education savings  
 14 accounts, and tax-credit education savings accounts, tax-credit scholarships, individual  
 15 tax-credits & deductions, have all been used, often augmented by tax dollars. The phrase  
 16 “school choice” is also associated with 529 savings accounts, student income loans, social  
 17 impact bonds, and philanthrocapitalism.

18 Regardless of how school choice is financed, school choice complicates what used to be  
 19 a system of mostly public schools plus a few private schools that had been in place for over  
 20 150 years. This new kind of financing has raised some fundamental questions: Who  
 21 benefits from this new financing? Do the children for whom education is the difference  
 22 between poverty and flourishing benefit? Is education is being turned into a low-risk,  
 23 profitable investment for hedge funds, private equity firms, investment banks, and the 1%?

24 The various forms of school choice have waxed and waned, but charter schools were  
 25 present at the creation of the privatization movement in education and have continued to

1 enroll more and more students, diverting more and more dollars out of the public school  
 2 system (Lafer, 2018, p. 18; Lafer et al., 2021, p. 9). School choice has spawned an entire  
 3 industry devoted to marketing school choice: academic departments and institutions,  
 4 educational associations, think tanks, astroturf<sup>2</sup> advocacy groups, and political action  
 5 committees, all of which are examples of the marketing of the privatization of public  
 6 education.

7 According to the National Center of Education Statistics in the U.S. Department of  
 8 Education, there were 7,547 elementary and secondary charter schools in the United States  
 9 enrolling 3,431,230 students in 2019–20 school year (de Brey et al., 2022, Table 216.90,  
 10 p.144). This represents 7.7% of the total number of elementary and secondary schools and  
 11 6.8% of the total number of students in the United States. The state with the greatest  
 12 charter school presence was California which had 1,321 schools (12.7% of the total) and  
 13 674,652 students (11.0%). Within California, in the 2019–20 school year, charter schools in  
 14 Santa Clara County enrolled 31,584 students (13.6% out of 231,865) (California Department  
 15 of Education, n.d.).

16 These are notable patterns, and the COVID-19 pandemic has accelerated the growth of  
 17 charter schools, in contrast to recent years of slowing growth. This recent growth appears  
 18 to be almost completely due to the expansion of virtual charter schools (Strauss, 2021).  
 19 Despite continued growth, charter schools remain controversial and have generated  
 20 heated debate. Reports and studies from charter school opponents have been answered by  
 21 reports and studies from charter school advocates. Both sides claim their methodology to  
 22 be superior and consider the other side's fatally flawed.<sup>3</sup>

23 What the research indicates is that *some* charter schools, under *some* circumstances, for  
 24 *some* students, seem to do *somewhat* better than traditional public schools. (Garcia, 2018,

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<sup>2</sup>Wordnik definition: “The disguising of an orchestrated campaign as a “grass-roots” event – i.e., a spontaneous upwelling of public opinion.”

<sup>3</sup>Jeffery Henig in *Spin Cycle: How Research is Used in Policy Debates: The Case of Charter Schools* (J. Henig, 2009) offers a fascinating look at the war of words that resulted from just one report and one newspaper article.

1 p.119) Charter schools are, on average, not surprisingly, just average. If charter schools are  
 2 on average not better than public schools, why are they so fervently touted as the answer to  
 3 the perceived ills of American public education? Why are eye-popping sums (10× the usual  
 4 amount) spent supporting public school board candidates who favor charter schools? Why  
 5 are charter schools still growing in both enrollment and in number? Is the profit motive is  
 6 the overriding goal of charter schools, or are they instead driven by a genuine desire to  
 7 radically improve the educational outcomes of children who could most benefit from a  
 8 quality education? My goal in this dissertation is to offer some answers to questions like  
 9 these by looking closely at the finances of a single charter school chain, Rocketship  
 10 Education.

11 I will use the term *charter school chains* to refer both to for-profit and to non-profit  
 12 organizations that manage more than one charter school since both take financial control  
 13 away from the school and centralize outside of schools. Charter school chains are  
 14 essentially franchise operations like McDonald's or Hertz, but in education instead of  
 15 hamburgers or rental cars. For-profit charter school chains have traditionally been called  
 16 *educational management organizations (EMOs)* and non-profit charter school chains *charter*  
 17 *management organizations*, but since there is little difference between the two, I will use  
 18 *charter school chains* when the distinction is unimportant.

19 The remainder of this chapter provides some context for why I conducted this study.  
 20 Chapter A *Review of the Literature* discusses the voluminous literature on charter schools. The  
 21 following chapter, *Research Design and Methodology*, details what data will be collected, how  
 22 it will be collected, and how it will be analyzed. The chapter *Findings and Results* provides the  
 23 results of analyzing that data in context of this study's research questions. The last chapter,  
 24 *Discussion* considers the public policy implications of my study and its conclusions, and  
 25 makes some suggestions for how current public policy should be changed to achieve some  
 26 of the seven goals that the California legislature set out in *The Charter School Act of 1992*.



## 1 **What is the Purpose of this Study?**

2 The goal of this case study is to analyze carefully and fully as possible the finances of  
 3 Rocketship Education and associated entities. I chose Rocketship Education<sup>4</sup> to study  
 4 because its popularity has led to core aspects of its model being adopted by other charter  
 5 school chains such as the Caliber Public Schools or the Navigator Schools in California.

6 Charter schools, Rocketship included, offer themselves as better alternatives to  
 7 traditional public schools. Rocketship claims that its pedagogical model of blended  
 8 learning

- 9 • is more efficient than that of traditional public schools,
- 10 • offers personalized learning<sup>5</sup> through computer-mediated instruction, and
- 11 • offers a human connection (at least part of the time) that is similar to traditional
- 12 public schools.

13 These are claims that can be tested in other studies by comparing individual Rocketship  
 14 schools to independent charter schools and to TPSs in the same district. The Rocketship  
 15 chain can be compared to other charter school management organizations, to portfolios of  
 16 charter schools, as well to traditional public school districts, but such studies need to be  
 17 done with care to avoid methodological errors that would reduce the validity of their  
 18 conclusions.

19 Many studies have looked at the outcomes of charter schools and charter chains,  
 20 including one specifically on Rocketship's effect on Milwaukee's public schools if proposed  
 21 legislation were to have been passed. But Rocketship's finances have not been studied in  
 22 detail until now.

---

<sup>4</sup>Rocketship Public Schools is the new name of Rocketship Education, but since it has been known as Rocketship Education for much longer than it has been as Rocketship Public Schools, I've chosen to retain the former name. Also, I'll use just Rocketship to mean either the charter management organization (CMO) or a generic Rocketship school, depending on context.

<sup>5</sup>Note that personalized learning is not the same as differentiated instruction. All students follow the same path with personalized learning, albeit at different rates, instead of following different paths at different rates, as with properly implemented differentiated instruction.

1        Several themes run through this study. The first is Rocketship's relationship to the  
 2        privatization movement in education. The second is how Rocketship's finances drive its  
 3        need to expand. The third is how Rocketship needs continued marketing and public  
 4        relations to survive.

## 5        ***Research Questions***

6        These themes lead to the following research questions:

7        **Research question #1** How are Rocketship finances similar to or different from other  
 8        charter schools, charter school chains, or traditional schools?

9        **Research question #2** How are Rocketship's attributes and actions similar to other  
 10        privatization efforts in the United States?

11        **Research question #3** Has Rocketship structured its finances to earn a return to investors,  
 12        and if so, how?

13        More broadly, there are additional reasons for studying charter school finances. Are we  
 14        (the states, the federal government) misallocating the money we spend on charter schools?  
 15        Could we be spending our tax dollars more wisely? What did taxpayers get for these  
 16        expenditures?

## 17        **The Importance of This Study**

18        This case study is the first to examine in depth the finances of a single charter school chain.  
 19        Up to now, there have been studies of the finances of independent charter schools or  
 20        charter school chains, but only in aggregate (i.e. all known charter school chains in the  
 21        United States,<sup>6</sup> or a selected group of charter school chains). Other studies have looked at  
 22        the effects of charter schools on segregation or on academic achievement, but again, only  
 23        in aggregate. None have studied the finances of just a single charter school chain.

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<sup>6</sup>See Miron et al. (2021) for a list of currently known charter school chains.

1 It is hoped that the lessons learned from this case study will be used by policy makers to  
 2 strengthen charter school law in California and elsewhere in order to increase desired  
 3 outcomes and to minimize unintended consequences.

#### 4 **Theoretical and Conceptual Frameworks**

5 According to Grant and Osanloo (2014), creating and understanding the theoretical  
 6 framework for one's dissertation is "one of the most important aspects in the research  
 7 process." (p.12) They liken the theoretical framework of a dissertation to the blueprints that  
 8 define a house. That framework both defines the organization and the structure of a  
 9 dissertation, as well as what counts as elements and their relationships. A theoretical  
 10 framework articulates

11 ...the researcher's understanding of how the research problem will best be  
 12 explored, the specific direction the research will have to take, and the  
 13 relationship between the different variables in the study.

14 (Grant & Osanloo, 2014, pp. 16–17)

15 Further,

16 the conceptual framework offers a logical structure of connected concepts that  
 17 help provide a picture or visual display of how ideas in a study relate to one  
 18 another within the theoretical framework.

19 (Grant & Osanloo, 2014, pp. 16–17)

20 This dissertation uses a case study approach as its theoretical framework within a  
 21 public policy framework, its conceptual framework.

#### 22 ***A Case Study Approach as a Practical Framework***

23 Broadly, social science research falls into one of two categories. The research may make  
 24 many observations with a narrow focus, or may instead adopt a broader focus, but with a

1 correspondingly smaller number of observations. Gerring calls these “large C” or “small C”  
 2 studies, respectively (Gerring, 2017, p. xvii). Of course, the boundary between large C and  
 3 small C studies is not sharply defined.

4 Gerring calls small C studies *case studies*. In this dissertation I look at one entity,  
 5 Rocketship Education, and at only one aspect of Rocketship, its finances. But I look at its  
 6 finances broadly, examining as many different kinds of financial transactions as are  
 7 publicly available for the subset of Rocketship schools that are in Santa Clara County. I  
 8 discuss the elements of what makes a case study a good case study in section *Judging Case*  
 9 *Studies* of the chapter *Discussion*.

10 McCombes (2019) says that case studies are a “detailed study of a specific subject, such  
 11 as a person, group, place, event, organization, or phenomenon”. They are ‘good for  
 12 describing, comparing, evaluating and understanding kdifferent aspects of a research  
 13 problem” and are “an appropriate research design when it allows you to explore the key  
 14 characteristics, meanings, and implications of the case.” Two papers go into detail about  
 15 using the case study approach: Crowe et al. (2011) and Rashid et al. (2019). Yin (2018)  
 16 provides a detailed methodology for doing case study research well.

17 A case study framework for public policy research is ideal because the theory and  
 18 practice of case studies is well-known and has been used both for public policy research  
 19 and in public policy analysis for years. A case study framework formalizes an in-depth  
 20 examination of a single topic, in this case, Rocketship’s finances.

## 21 ***Public Policy as a Theoretical Framework***

22 A public policy framework provides a rich set of tools and techniques with which to analyze  
 23 Rocketship’s finances. Three factors support using a public policy framework to guide  
 24 understanding and evaluating Rocketship’s finances. Firstly, charter school finance is  
 25 constrained primarily by public policies set by state legislatures, the creators of charter

1 schools. These laws regulate taxes, grants, borrowing capacity, and reporting requirements  
 2 of charter schools and charter school chains (Aguinaldo et al., 2020), and by definition,  
 3 whatever falls within the purview of legislators is public policy. Secondly, Harry Brighthouse  
 4 et al., in *Educational Goods*, provide a succinct definition of what public policy analysis is  
 5 which matches the purpose of undertaking this case study. They use a values, evidence, and  
 6 decision-making framework “to make judgments about how well specific policies are likely  
 7 to realize valued outcomes” (Brighthouse et al., 2018, p.1). Lastly, these three concerns —  
 8 values, evidence, decision-making — are considered the key concerns by academics and  
 9 researchers in the public policy field (Bueno de Mesquita, 2016; Clemons & McBeth, 2021;  
 10 Fowler, 2013; Gupta, 2011). Using a public policy framework is appropriate when examining  
 11 charter school finances.

12 The discipline of public policy sanctions a wide variety of tools and techniques when  
 13 analyzing issues. Public policy has been studied for years (there are public policy  
 14 departments in many universities) and it is a mature area of academic research. As in most  
 15 academic fields, there are fierce debates about the merits and robustness of a particular  
 16 approach compared to alternatives, but at a high level, what to do is generally agreed upon.  
 17 Most identify the following five steps (or variants thereof) that are used when creating  
 18 public policy:

- 19 1. Define the issues and set the agenda.
- 20 2. Formulate one or more policies that address the issues identified.
- 21 3. Evaluate those policies using tools and techniques like cost-benefit analysis, value  
 22 analysis, political feasibility, game theory, and economic analysis.
- 23 4. Implement those policies by passing legislation, changing practices, or by using the  
 24 courts.
- 25 5. Evaluate the effectiveness of the policy changes.

26 Two keys to identifying alternatives during policy formation and later when evaluating  
 27 consequences are choosing or creating a model, and forecasting. Models identify what is  
 28 going to be studied and their relationships, and forecasting is a prediction of the future

1 whose consequences are (hopefully) identified in a model. Scott Page lists 26 major models  
2 in *The Model Thinker* that have been used in science, business, and medicine.

3 This dissertation relies on two excellent guides to public policy: *Policy Studies for*  
4 *Educational Leaders* by Francis C. Fowler which offers a broad and complete treatment of  
5 public policy specifically in the field of education, and *Public Policy Praxis* by  
6 Randy S. Clemons and Mark K. McBeth which offers a number of well-tried tools and  
7 techniques useful in analyzing public policy. An additional comprehensive treatment of  
8 public policy can be found in Gupta (2011).

9 This introduction makes the case that public education is hugely important to many  
10 stakeholders, but that there is also discord around larger issues like values, ideology, and  
11 implementation. Charter schools have been offered as way of disrupting American public  
12 education from its hide-bound, archaic, and sclerotic present, driving it, despite  
13 opposition, into a dynamic future where education is tailored to each child's real needs.

14 underscore the timely and important deep dive into the finances of a rapidly growing and controversial charter chain.  
This discord, and the importance of education, justify studying charter schools.

15 The next chapter reviews what other researchers and scholars have said about the  
16 origins of charter schools, their history, and their ostensible goals before characterizing  
17 first the finances of all public schools in California and then the unique aspects of charter  
18 school finance. Lastly, it reviews the history of Rocketship Education because it is an  
19 exemplar of a popular charter school and has had an outsized influence on public  
20 education in Santa Clara County.

## A Review of the Literature

American public education has – allegedly – been a failure, and hence, in desperate need of reform ever since the idea of free public education took hold in the early 1800's<sup>7</sup>. Since then, a succession of educators and reports have documented the abysmal[sic] state of American education. Prior to the Civil War, Horace Mann introduced widely copied reforms (Pulliam & Van Patten, 2007, p. 147) into a system which was not free, not open to all, and not compulsory. Those schools had hardly changed since the founding of the Boston Latin School on April 23, 1635. In the early 1900s, John Dewey, an educational leader of the Progressive Era (1896–1916) preached reform, but it really wasn't until the publication of *Nation at Risk* in 1983 that the modern zeal for education reform took form. J.D. Pulliam and J.J. Van Patten list 29 major education reform reports from 1982 to 2005 (p.252). That American public education needed reform was repeated constantly, mainly by conservatives, despite underwhelming evidence of its veracity and substantial evidence to the contrary. Through repetition, the need for reform has become accepted wisdom. The answer to this need was to take the government's "monopoly in education" (Milton Friedman's characterization) out of the hands of faceless bureaucrats and subject it to the rigors of free markets which would, it was asserted with scant evidence, increase efficiency, choice, and quality. Thus vouchers and charter schools were legitimized.

No amount of research, it seems, can dispel the *idée fixe* that American education was in dire straits, and further, piecemeal changes were simply not enough to make substantive changes. No matter what J. R. Henig (1994) or Berliner and Biddle (1997) or Nichols et al. (2007) or Glass (2008) or Berliner and Glass (2014) wrote, the idea that American education needed fundamental, pervasive reform persisted.

To be clear, it is not the case that every American school is a model for the rest of the world: systematic and persistent, pervasive inequities and injustices abound and have

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<sup>7</sup>Wikipedia has an excellent summary article on *Education in the United States* [https://en.wikipedia.org/wiki/Education\\_in\\_the\\_United\\_States](https://en.wikipedia.org/wiki/Education_in_the_United_States)

1 been powerfully written about in Kozol (1992) and again in Kozol (2005), Valenzuela (1999),  
 2 Heitzeg (2009), and Roithmayr (2014). But it is also clear that those schools have been  
 3 systematically underfunded for decades; their dismal performance is more likely the result  
 4 of the poverty of their neighborhoods and their lack of funding than it is the other way  
 5 around. For example, the California School Boards Association's (CSBA) Education Legal  
 6 Alliance Adequacy Committee found that there exists a "substantial gap in funding  
 7 between what K-12 education [in California] receives and what K-12 education needs even  
 8 to meet the standards prescribed by the state (Bray, 2015, *iii*). Bruce D. Baker et al. in their  
 9 aptly titled report *The Real Shame of the Nation*, develop a *National Education Cost Model*  
 10 (B. D. Baker et al., 2018, p. 5) which accounted for regional cost differences as well different  
 11 funding levels to show that inadequate funding is present throughout the United States.  
 12 David R. Garcia says in *School Choice* that the "existence and importance of the issues that  
 13 reformers believe plague public education are based as much on tradition and reputation  
 14 as they are on tangible research evidence" (Garcia, 2018, p. 54). Finally, and tellingly, grossly  
 15 inadequate funding is a characteristic of communities that are racially segregated and  
 16 which are not white (Darling-Hammond, 2012; Rothstein, 2017).

17 What is astonishing is that Jeffrey R Henig's book, *Rethinking School Choice*, which came  
 18 out a mere three years after the passage of the nation's first state charter school law in  
 19 Minnesota<sup>8</sup> and two years after the second in California<sup>9</sup> lays out a key argument against  
 20 charter schools. Henig says, "[T]he real danger in the market-based choice proposals is not  
 21 that they might allow some students to attend privately run schools at public expense, but  
 22 that *they will erode the public forums in which decisions with societal consequences can*  
 23 *democratically be resolved.*" (emphasis added) (J. R. Henig, 1994, *xiii*). Translated this means  
 24 that the decisions about public education's form and content are not going to be made by

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<sup>8</sup>Laws of Minnesota 1991, chapter 265, article 9, section 3

<sup>9</sup>Education Code, Title 2, Division 4 Part 26.8, §47600 *et. seq*



1 parents and teachers, but by people who do not have a stake in the outcome. It's a matter of  
2 badly misaligned incentives.

3 But even before that, in 1982, Earl Craig, Jr. attached a minority report to *Rebuilding*  
4 *Education to Make It Work* which advocated for vouchers. He says in a paragraph that is as  
5 accurate today as it was in 1982:

6 In conclusion, this report is part of a national movement toward privatization  
7 of public services and responsibilities. I believe this movement will have the  
8 eventual result of a complete retreat by this society from a societal  
9 responsibility for the powerless who are difficult or expensive to educate,  
10 house, protect, etc. I believe the committee and board majority when they say  
11 that they are committed to equal access and equity. They say, trust that we will  
12 do the right thing. I do trust them, I do not trust the societal momentum of  
13 which vouchers is a part. It is a very destructive wave that has caught up many  
14 good people. It scares me to death.

15 (Citizens League, Education Alternatives Committee, 1982, p. 48)

16 The belief that that American schools were in crisis is simply not supported by the evidence.  
17 But the idea that American schools are in crisis has been relentlessly promoted, and sheer  
18 repetition has turned fiction turned into fact; charter schools then became an idea whose  
19 time had come. Charter schools didn't actually take off until "education reformers across  
20 party lines realized that charter school laws could be crafted in ways that made it possible  
21 to open nonunion public schools, or even allow public schools to be managed by for-profit  
22 companies" (Goldstein, 2015, p. 172).

23 This literature review will first examine charter schools, their origins and the early  
24 research, before reviewing the types of charters which exist. Then it looks at the various  
25 models of charter schools like virtual charter schools, charters which use blended learning,  
26 and charter management organizations before taking a closer look charter schools in Santa  
27 Clara County and in Rocketship in particular. It ends with a consideration of the finances  
28 of charter schools.

## 1 **A History of Charter Schools**

2 Charter schools (privately run, but publicly financed schools) had an ugly racist origin in  
 3 the post-*Brown v Board of Education* era as a method of evading the U.S. Supreme Court's  
 4 mandate to educate both black and white Americans equally and not separately. Fifty years  
 5 later, charter schools turned segregation academies into the preferred vehicle for  
 6 privatizing public schools for profit while maintaining segregation.

### 7 ***The Origins of Charter Schools in Segregation***

8 The first charter schools were not founded for educational or economic reasons. Charter  
 9 schools had their origin in the aftermath of "Brown v. Board of Education". "[Brown] was  
 10 the genesis of school choice as a public policy mechanism." (Garcia, 2018, p. 8) In the Deep  
 11 South, academies sprung up as part of the massive resistance to the U.S. Supreme Court's  
 12 unanimous 1954 ruling which answered the question

13 Does segregation of children in public schools solely on the basis of race, even  
 14 though the physical facilities and other "tangible" factors may be equal, deprive  
 15 children of the minority group of equal educational  
 16 opportunities? (Warren, 1954, p. 9)

17 with "We believe that it does." (p.9)

18 In order to circumvent *Brown*, white parents in eleven states formed thousands of  
 19 private schools, and until the early 1970's, these segregation academies received public  
 20 funds (Rooks, 2017, p. 81). These origins of charter schools have been amply documented, in  
 21 Frankenberg et al. (2010), Frankenberg et al. (2011), and especially in Suitts (2019) and Suitts  
 22 (2020). Michelle Alexander in *The New Jim Crow* (Alexander, 2011, p. 223) quotes Rosenberg  
 23 (1991, p. 52) "The statistics from the Southern states are truly amazing. For ten years,  
 24 1954–1964, virtually *nothing happened*." [emphasis in Alexander (2011)] She goes on to say,

1 Not a single black child attended an integrated public grade school in South  
 2 Carolina, Alabama, or Mississippi as of the 1962–1963 school year. Across the  
 3 South as a whole, a mere 1 percent of black school children were attending  
 4 school with whites in 1964—a full decade after *Brown* was decided.

5 In the years after *Brown*, some localities went further than merely forming segregation  
 6 academies. Prince Edward County in Virginia closed all of its schools for five years rather  
 7 than integrate. Others closed pools, parks, zoos, and recreational facilities instead of  
 8 integrating. This deliberate evasion of racial equality continued until a 1968 Supreme Court  
 9 ruling put a stop to the practice of closing public facilities to avoid integrating them  
 10 (Brennan, 1968).

11 The irony is that while charter schools started life as 100% white, they now serve  
 12 intensely segregated students of color. Frankenberg et al. (2019) noted that

13 Nearly three out of four students in the typical black student’s charter school  
 14 are also black. This indicates extremely high levels of isolation, particularly  
 15 given the fact that black students comprise less than one-third of charter  
 16 students. Latino isolation is also high, but not as severe as for blacks or whites  
 17 across all charter schools. (p. 47)

18 Unfortunately, these segregation academies still exist, but instead of excluding  
 19 children of color the way segregation academies did, they disproportionately target and  
 20 enroll children of color. While these schools are no longer referred to as segregation  
 21 academies, they make up a sizable subset of charter schools and often include the word  
 22 “Academy” in their name. In Santa Clara County, for example, 11 out of 21 charter schools  
 23 authorized by the county currently include “Academy” in their name (SCCOE, 2021).

24 Nikole Hannah-Jones, in her keynote speech at the Network for Public Education’s  
 25 Fourth Annual Conference, said that it has never been the case that a majority of  
 26 African-Americans have attended majority white schools (“Keynote at the Network for  
 27 Public Education’s 4th Annual Conference,” 2017). She then added ruefully, that this was

1 quite a feat considering that African-Americans make up roughly one seventh of the  
 2 population of the United States. Orfield and Frankenberg (2014) note that the percent of  
 3 African-Americans in majority white schools rose from 0% in 1954 to a peak of 43.5% in 1988  
 4 before steadily declining to 23.2% in 2011. (Table 3: Percent of Black Students in Majority  
 5 White Schools, 1954–2011 Orfield & Frankenberg, 2014, p. 10). Hannah-Jones also  
 6 commented that American public education doesn't even live up to the Separate but Equal  
 7 doctrine espoused in *Plessy v Ferguson* and overturned by *Brown v Board of Education*: Schools  
 8 are still segregated and are still unequal.

### 9 **Charter Schools, Free Markets and Privatization**

10 Just a year after *Brown*, Milton Friedman published his article “The Role of Government in  
 11 Education” in *Economics and the Public Interest* (Friedman, 1955) that reframed charter  
 12 schools as an economic problem in education instead as a way of evading court-ordered  
 13 integration. That paper ensured that charter schools would no longer be morally tainted by  
 14 their association with virulent racism, but rather would take on the honorable task of  
 15 breaking up what was called a monopoly. Charters, operating in a free market<sup>10</sup>, would  
 16 allow parents to choose the best alternative from an array of competing choices. Tellingly  
 17 left unspecified was exactly how the free market would ensure that the array of competing  
 18 choices actually offered valuable educational alternatives rather than merely alternatives in  
 19 different locations.

20 In 1981, Ronald Reagan ran and became President of the United States based on a  
 21 platform of less government is better government. This platform included eliminating the  
 22 U.S. Department of Education (“The Republican Party Platform of 1980,” 1980). True,  
 23 eliminating the Department of Education is not the same as shutting down an entire

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<sup>10</sup>No one really wants a free market because a market completely free of regulation would have unenforceable contracts, rampant monopolies, and constant and ruinous market failures. What people really want when they use the phrase “free market” is a heavily regulated market which allows them to profit, unfettered, while restraining or excluding others.

1 school district the way white parents did in 1964, but the thought is there. Ian Haney-López  
 2 expertly dissects how it's possible to voice racist thoughts without actually using racial  
 3 words, a practice perfected by President Ronald Reagan (Haney-López, 2014).

4 Now, only liberty and freedom matter, in education, as in other fields. It's school choice  
 5 or bust; school choice is proffered not only as *the* panacea for all that ails America's schools,  
 6 but is even touted as the morally right thing to do. With trace of irony, the twice impeached  
 7 President Donald Trump framed school choice as the "civil rights issue of our time" in a  
 8 garbled statement at the signing of an executive order on Safe Policing for Safe  
 9 Communities:

10 School choice is the civil rights statement of the year, the decade and probably  
 11 beyond. Because all children have to have access to quality education. A child's  
 12 zip code in America should never determine their future.

13 (as quoted in Lennox, 2020)

14 Education reformers have latched on to the notion that schools need to be privatized  
 15 and freed from bureaucratic control for reasons of efficiency, increased flexibility, and  
 16 accountability (Garcia, 2018, p. 63). This claim is made despite educational management  
 17 organizations (EMOs) themselves being high overhead, opaque bureaucracies with scant  
 18 accountability.

19 In 2015, Bruce Baker and Gary Miron identified four major policy concerns with the  
 20 privatization of public education:

- 21 1. A substantial share of public expenditure intended for the delivery of direct  
 22 educational services to children is being extracted inadvertently or intentionally for  
 23 personal or business financial gain, creating substantial inefficiencies;
- 24 2. Public assets are being unnecessarily transferred to private hands, at public expense,  
 25 risking the future provision of "public" education;

3. Charter school operators are growing highly endogenous, self-serving private entities built on funds derived from lucrative management fees and rent extraction which further compromise the future provision of “public” education; and
4. Current disclosure requirements make it unlikely that any related legal violations, ethical concerns, or merely bad policies and practices are not realized until clever investigative reporting, whistleblowers or litigation brings them to light.

(B. Baker & Miron, 2015, p. 3)

In California at least, these policy concerns have not been addressed in the six years since Bruce Baker and Gary Miron wrote about them<sup>11</sup>.

Charter schools are now just one of the many forms of *privatization*, when public functions are performed by private parties for profit. Privatization is a manifestation of the corporate takeover of the world. More than fifty years ago, G. William Domhoff published the first of eight editions of *Who Rules America?* (Domhoff, 2014) in which he argues that corporations and the corporate elite really run the United States, and by extension, the world. Si Kahn and Elizabeth Minnich make much the same point in their book *The Fox in the Henhouse: How Privatization Threatens Democracy* (Kahn & Minnich, 2005). They list “[s]chools, prisons, welfare, Social Security, water and sewer systems, buses, trains, subways, highways, waterways, sanitation systems” (p. 30) as examples of formerly government run functions that are in whole or part privatized. They could have also listed postal mail, space travel, and now every facet of education, as being wholly or partly privatized. Donald Cohen and Allen Mikaelian lay out in <sup>extensive</sup> depressing detail how privatization has infiltrated American life and the consequences of this takeover of public goods by private firms run for profit. (Cohen & Mikaelian, 2021). Derek W. Black in

<sup>11</sup>Changes in policy to address some of these concerns have been strenuously opposed by charter school advocates. For example, the California Charter Schools Association opposed an accountability bill, AB1316 *School accountability: financial and performance audits: charter schools: contracts. (2021–2022)*, which merely sought to make charter school finances more transparent.

1 *Schoolhouse Burning* (Black, 2020) focuses on the less tangible but arguably more important  
 2 consequences of privatization of public schools, the loss of democratic control.

3 Privatizers make money by turning goods or services that used to be publicly available  
 4 into private goods and services that must be paid for before they can be used. The  
 5 canonical example of privatization is the enclosure of the commons in Britain in the 16<sup>th</sup>  
 6 and 17<sup>th</sup> centuries whereby land which had previously been owned collectively by a village  
 7 was now owned by an individual who charged villagers for the use of that land (Simon  
 8 Fairlie, 2009). But modern privatizers have many more ways of turning a profit. They can:

- 9 • Obtain tax benefits
- 10 • Invest in other firms with public monies
- 11 • Invest in financial instruments with public monies
- 12 • Obtain a monopoly
- 13 • Engage in fraud, corruption, or outright theft
- 14 • Engage in self-dealing
- 15 • Obtain grants or loans on favorable terms
- 16 • Sell what doesn't belong to them
- 17 • Avoid paying for externalities
- 18 • Pay below market rates for goods or services
- 19 • Skew public-private partnerships to create unearned profits
- 20 • Engage in pay-for-success contracts
- 21 • Offer social impact bonds

22 Charter school operators have even more options. They can inflate enrollment, charge  
 23 excessive management fees, mis-characterize expenses, omit or inaccurately report  
 24 financial data, fail to open a school or close one soon after receiving a grant, and sell their  
 25 facilities to investors and lease them back, both at inflated prices. Many charter schools  
 26 have a long history of duplicitous or fraudulent actions (In the Public Interest, 2018; Burris  
 27 & Bryant, 2020; B. Baker & Miron, 2015).

1 School choice has been relentlessly marketed and promoted by billionaires who do not  
 2 send their children to public schools.<sup>12</sup> The Walton family, Eli Broad, Bill Gates, the Koch  
 3 brothers, the Zuckerbergs, and Laurene Jobs, are all on the list of the 500 richest people in  
 4 the world. Their collective wealth exceeds half a trillion dollars, and they are busily engaged  
 5 using that wealth to fix the very problems that their accumulation of wealth caused.  
 6 Anand Giridharadas whose book, *Winners Take All: The Elite Charade of Changing the World*,  
 7 says that it's a "Trying-to-Solve-the-Problem-with-the-Tools-That-Caused-It" issue  
 8 (Giridharadas, 2018, p. 142).

9 The effects of billionaire spending on education cannot be over emphasized. Bill Gates  
 10 made \$2B in grants aimed at creating smaller schools (Gates, 2009, p. 11), despite a lack of  
 11 evidence that they were educationally valuable. The grants were eventually discontinued  
 12 when the initiatives didn't produce the intended results. Gates was also instrumental in  
 13 funding and promoting the Common Core State Standards and associated assessments  
 14 whose premise was that if we only had high enough academic standards, student outcomes  
 15 would improve, again without evidence that the reforms were educationally valuable.

## 16 **Types of Charter Schools**

17 Charter schools can be broadly classified along three axes:

18 **authorizer/oversight** What entity approved their charter and who will exercise oversight?

19 **profit/non-profit** Are the schools intended to generate a profit, or are they ostensibly  
 20 non-profit?

21 **in-person/blended/virtual** Are their classes in-person, virtual, or a blend of the two?

22 **Charter School Authorizers and Oversight** Charter schools in California are potentially  
 23 subject to a three step process to gain authorization to operate. The first step is to submit a

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<sup>12</sup>Diane Ravitch lumps these billionaires together, calling them the "Billionaires Boys Club", an epithet first used in *The Death and Life of the Great American School System*.



1 petition to the school district in which the charter wishes to reside. This petition must  
 2 contain a number of required elements, all of which are specified in Education Code  
 3 §47605(c)(5)(A–O), the so-called “15 Required Elements (A–O elements)” (Aguinaldo et al.,  
 4 2021, p. 89). Besides some technical details, the petition must contain a description of the  
 5 charter’s annual goals which must align with state priorities, for all pupils and for various  
 6 subgroups; how these outcomes are to be measured; how the charter is to achieve a racial  
 7 and ethnic balance similar to its district, its governance structure, and its finances. All of  
 8 these elements are captured in “Charter Petition Evaluation Matrix” by FCMAT, a  
 9 document intended to provide a legally sound checklist for authorizers.

10 If a petition contains all the required elements, then the public school district may  
 11 approve the petition, possibly with additional stipulations. If the public school district  
 12 denies the charter school’s petition, the charter school may appeal that denial to that  
 13 County’s Board of Education (CBOE), and if the CBOE denies the charter school’s appeal,  
 14 under certain circumstances, the charter school may appeal to the State Board of  
 15 Education (SBE). A denial by the SBE terminates the process, and the charter school is not  
 16 permitted to open.

17 Public school districts (LEAs, local education agencies, in the parlance of the California  
 18 Department of Education (CDE)) may authorize one several kinds of charter schools. A  
 19 district may sponsor a charter school directly, in which case the LEA exercises oversight.  
 20 These dependent charter schools are authorized by the local public school board and are  
 21 subject to the board’s jurisdiction. It also is possible for all the schools in a district to  
 22 convert to charter schools, and then the public school board becomes the charter school  
 23 board. Table *Attributes of Private, Charter, and Public Schools in California* below is a summary  
 24 of the attributes of the types of schools in California.

25 **Profit-Making Status** Until the 2019–20 school year, charter schools in California could  
 26 be run directly or indirectly by a profit-making organization. California now prohibits

**Table 1**  
*Attributes of Private, Charter, and Public Schools in California*

	<b>Private</b>	<b>Charter</b>	<b>Public</b>
<b>Funding</b>	parent tuition	tax dollars	tax dollars
<b>Governance</b>	self-appointed	self-appointed	elected board
<b>Duration</b>	unlimited	time-limited	unlimited
<b>Ed. Code</b>	no	no	yes
<b>Taxation Powers</b>	none	none	limited
<b>Facilities Bonds</b>	no	no	yes
<b>Facilities Grants</b>	no	yes	no
<b>Enrollment</b>	limited	limited	unlimited
<b>Unionized</b>	rarely	rarely	often
<b>Curriculum</b>	completely flexible	very flexible	flexible
<b>Standardized Testing</b>	no	yes	yes
<b>Accountable</b>	no	authorizer	state & parents
<b>Teacher Certification</b>	no requirement	yes	yes
<b>Teacher Pension</b>	perhaps	perhaps	yes

1 profit-making organizations, either a single school or a charter management organization,  
 2 from submitting an initial charter school petition or a renewal.

3 Even though profit-making charters are banned, there are many ways of getting  
 4 around this restriction. Charter operators can contract with outside firms to provide all or  
 5 just some services, and those firms may be profit-making firms. Charter operators are able  
 6 to lease, buy, or sell their facilities, and those transactions might generate a profit. Charter  
 7 operators can sell their facilities and lease them back from the buyer. This kind of financial  
 8 transaction converts an illiquid asset (buildings) into a liquid asset, cash, and also  
 9 generates a revenue stream from the rental income, all of which is ultimately paid for by  
 10 taxpayers. Charter operators may also charge schools a management fee or an expansion  
 11 fee. Charter operators are not restricted in the salaries they pay administrators.

12 However, charter school board members in California have recently become subject to  
 13 the conflict-of-interest laws specified in Government Code §§1090–1099 and  
 14 §§87100–87314 (Becerra & Medeiros, 2018). Generally, government officials are prohibited

1 from benefiting financially from their positions as public servants, but it remains to be  
 2 seen if these conflict-of-interest laws will prevent profiteering by school board members,  
 3 administrators, or relatives of either.<sup>13</sup>

4 **Type of Instruction** Charter schools, unlike almost all public schools, vary in their  
 5 instructional format. In-person instruction is similar to that in traditional public schools.  
 6 On the other hand, virtual charter schools have no face-to-face instruction; everything is  
 7 mediated by some sort of technology, typically, computers running specialized software,  
 8 paid for by taxpayers. Blended instruction is a mixture of in-person and virtual  
 9 instruction.

10 Virtual charter schools have been studied extensively by Alex Molnar, Gary Miron and  
 11 others and at the National Education Policy Center, University of Colorado, Boulder since  
 12 2013. (*Virtual Schools in the U.S. 2013*, 2013; *Virtual Schools in the U.S. 2014*, 2014; *Virtual Schools*  
 13 *in the U.S. 2015*, 2015; Miron & Gulosino, 2016; *Virtual Schools in the U.S. 2017*, 2017; *Full-Time*  
 14 *Virtual and Blended Schools: Enrollment, Student Characteristics, and Performance*, 2018; *Virtual*  
 15 *Schools in the U.S. 2019*, 2019; *Virtual Schools in the U.S. 2021*, 2021) Their annual reports are  
 16 depressingly consistent: virtual school not run by a public school district significantly  
 17 underperform public schools. Their conclusions are echoed by Woodworth et al. (2015) and  
 18 Garcia (2018). Yet, despite being clearly academically inferior to public schools, the number  
 19 of students attending virtual schools has risen year after year. Their pre-pandemic growth  
 20 seems to be slowing, but their performance, compared to TSPs, has not measurably  
 21 improved.<sup>14</sup> (*Virtual Schools in the U.S. 2019*, 2019, p. 11).

<sup>13</sup>The law is necessarily complex. Two useful guides are Chaney et al. (2010) and Kevin Ennis et al. (2016) (which run to nearly 300 pages). A more general guide to local government ethics is “Understanding the Basics of Public Service Ethics” from California’s Institute for Local Government.

<sup>14</sup>Although *Charter Schools in Perspective: A Guide to Research* is otherwise an excellent summary of the research on charter schools, they incorrectly state (p.117) that there is little research of online or virtual charter schools. The authors must not be aware of the NEPC series on virtual charter schools. However, according to *Virtual Schools in the U.S. 2019* (2019, p. 117), there is only one study on blended charter schools.

1 Pre-pandemic, charter schools in California were legally deemed classroom-based (e.g.  
 2 not virtual) if students spent no more than 20% of their time in front of a computer.<sup>15</sup>  
 3 Blended charter schools, on the other hand, offer some sort of face-to-face interaction with  
 4 a teacher along with online activity without face-to-face interaction. But they too offer  
 5 only marginally better educational outcomes than fully virtual charter schools (*Virtual*  
 6 *Schools in the U.S. 2019*, 2019, p. 52). Rocketship schools use a blended instructional model.

### 7 ***Charter Schools in the United States***

8 Charter schools are one of several different kinds of school choice that are or have been  
 9 available in the United States. Vouchers, private schools, home schooling, educational  
 10 savings accounts, freedom-of-choice plans, magnet schools, and open enrollment are all  
 11 forms of school choice. Home schooling accounts for less than 5% of all the students in  
 12 United States. Private schools enroll about 12% of the total. Magnet school account for a  
 13 few percent. Roughly, the various form of school choice, including charter schools, account  
 14 for just under a quarter of all American students.

15 The characteristic that home schooling and private schools share is that they are  
 16 agnostic about public schools. Not so for charter schools, voucher, and freedom-of-choice  
 17 plans. Charter schools, voucher programs, parent trigger programs, and  
 18 freedom-of-choice plans explicitly want to supplant or replace public schools (Garcia, 2018,  
 19 pp. 5, 15, 35).

20 The first charter schools, other than segregation academies, were founded in  
 21 Milwaukee, Wisconsin in 1991, followed by California starting in 1993. Conceptually, charter  
 22 schools were based on an amalgam of ideas from Milton Friedman, Albert Shanker, and  
 23 Ray Budde. Milton Friedman came at it from an ideological point of view couched in

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<sup>15</sup>The California Education Code §47612.5(e)(1) doesn't mention computers, but bases its definition on students being physically at the schoolsite with a certificated teacher in charge. Under that definition, a roomful of students behind computers with a teacher in attendance would qualify as classroom-based and not virtual. California's Education Code does not recognize the blended category.

1 economic terms. Albert Shanker, in 1988, in a speech at the National Press Club, proposed  
 2 that *teachers* in conjunction with *parents* be allowed to form a school *within* a school district.  
 3 Shanker made no mention of competition, or free markets, or even of charter schools.  
 4 Shanker's speech emphasized curriculum and learning, not governance or finance. Ray  
 5 Budde first thought of charter schools in the early 1970s, but his proposal generated no  
 6 interest and it wasn't until 1988 that he published his ideas (Budde, 1988).

### 7 ***Charter Schools in California***

8 Charter schools, in California as elsewhere in the United States, enter into a contract (the  
 9 charter) with a chartering authority that specifies what they are to do and how, and in  
 10 return, are exempt from the entirety of California's Education Code (with the exception of  
 11 five technical provisions). The California Legislature, when it enacted the *The Charter School*  
 12 *Act of 1992*<sup>16</sup> (Ed. Code §47600), spelled out its intent. The Act has been amended many  
 13 times in its nearly 30 years of existence, but its intent has remained the same. Charter  
 14 schools should

- 15 a) Improve pupil learning.
- 16 b) Increase learning opportunities for all pupils, with special emphasis on expanded  
 17 learning experiences for pupils who are identified as academically low achieving.
- 18 c) Encourage the use of different and innovative teaching methods.
- 19 d) Create new professional opportunities for teachers, including the opportunity to be  
 20 responsible for the learning program at the school site.
- 21 e) Provide parents and pupils with expanded choices in the types of educational  
 22 opportunities that are available within the public school system.

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<sup>16</sup>Current California law can be accessed at <https://leginfo.ca.gov/faces/home.xhtml>. California Regulations are at <https://ccr.oal.ca.gov>. California's Education Code (Ed.Code) is at <https://leginfo.ca.gov/faces/codesTOCSelected.xhtml?tocCode=EDC&tocTitle=+Education+Code+-+EDC>

f) Hold the schools established under this part accountable for meeting measurable pupil outcomes, and provide the schools with a method to change from rule-based to performance-based accountability systems.

g) Provide vigorous competition within the public school system to stimulate continual improvements in all public schools.<sup>17</sup>

It is important to keep these seven goals in mind because charter schools have contractually agreed to meet these goals in return for funding, independently of whatever other goals they explicitly specified in their charter. Note, in particular, that nothing has been said about profitability, and in fact, California enacted a prohibition against for-profit charter schools (Ed. Code §47604 et seq.) in 2018.

### Surveys of Charter School Research

It's been about 30 years since the first charter school law was **pasted**. In the last decade, researchers have published several surveys of the research on charter schools. The first two decades (1990–2010) were somewhat experimental and different enough that the research that came out of that period is less relevant than more recent research.

The five surveys that have been most prominently cited are described below.

#### Five surveys stand out.

The first survey of the last decade, *Beyond Ideological Warfare: The Maturation of Research on Charter Schools*, is by Joanna Smith et al. It is a systematic review of charter school research as it existed in 2011. Smith et al. (2011) are interested, not so much in the conclusions of the studies they looked at, but how the research was performed, how was it structured, what facets of charter schools were looked at, and what was the subject of the research in order to “separate empirical evidence from politicized conjecture” (p. 460). They reviewed a total of 323 peer-reviewed articles and research center reports and found that student and school outcomes were the most commonly studied topics. They noted many

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<sup>17</sup>This goal was added in 1998.

1 studies were unable to generalize their findings because variations in policy between states  
2 and localities. Smith et al. also noted that there was a lack of longitudinal studies which is  
3 not surprising due to policy variations. Furthermore, they found that “acceptance into a  
4 peer reviewed journal does not always ensure that qualitative research adheres to the  
5 standards of providing substantiation that findings are credible and trustworthy or that  
6 quantitative research provides evidence of the studies’ validity, reliability and  
7 generalizability.” (p.466) Finally, the authors noted that many studies could not draw causal  
8 connections. They conclude that more research is needed.

9 Four years later, Mark Berends chose as his focus the various theories that researchers  
10 used when looking at the social organization of charter schools. In “*Sociology and School*  
11 *Choice*” found, like Smith et al., that most studies concentrated on student achievement  
12 and neglected educational attainment such as high school graduation, college admission,  
13 and the granting of a degree. He notes that “the effects of charter schools on student  
14 achievement are mixed (some positive, some negative and some neutral)” (p. 170) Berends  
15 thinks the context in which charter schools operate is important to understand the  
16 magnitude of any effects and to understand what we can expect from school reform. He  
17 identifies longer school days, a focus on achievement, behavioral policies, teacher coaching  
18 and feedback, and data-based decision-making as characteristics most often associated  
19 with effective charter schools. Lastly he looks at innovation and distinguishes between  
20 curriculum and class-room based changes, and organizational changes and finds that  
21 charter schools mostly innovate on the structural side rather than the academic side. He  
22 concludes that more research is needed.

23 Next, Dennis Epple et al., in *Charter Schools*, did much the same as Berends, but  
24 concentrated on the technical aspects of study design (Epple et al., 2016). They observed  
25 that which the research question being answered by a particular study was often much  
26 narrower or significantly different than the research question authors set out to answer or

1 thought they were answering. The heart of their review is an analysis of “the  
 2 methodological challenges in evaluating charter effectiveness” (p.141), and the strength and  
 3 weaknesses of the various approaches that have been used. They find that researchers used  
 4 one of five statistical methods: lottery-based design, fixed-effect approaches, matching  
 5 procedures, ordinary least squares (OLS) regression, and instrumental variable approaches  
 6 (p. 165), and they evaluate each approach. Eppe et al. also discuss the much scrutinized  
 7 virtual control record method of matching charter school students to public school  
 8 students that came out of Stanford’s Center for Research on Education Outcomes (CREDO)  
 9 which was criticized on purely statistical grounds in Andrea Gabor (2015). Eppe et al.  
 10 concluded that more research is needed.

11 In 2015 and then updated in 2018, Public Agenda released a guide to charter school  
 12 research for non-academics, Charter Schools in Perspective: A Guide to Research, that is  
 13 nonetheless comprehensive and accurate (Public Agenda, 2018). Each of the nine chapters,  
 14 on topics like student achievement, innovation, charter school operators, has a similar  
 15 format that’s framed as a Q&A session. Although Public Agenda (2018) is written for  
 16 parents, community members, policy makers, and journalists, it provides an excellent  
 17 review of charter school research <sup>written in a way that is accessible to the public.</sup> ~~that is written as jargon free as possible.~~

18 The chapter on finance <sup>focused on</sup> ~~tries to answer~~ four questions: <sup>related to charter school funding, comparisons between per pupil funding between charter and traditional schools, financial effects on traditional public schools, and differential spending patterns between traditional public and charter schools (Public Agenda, 2018).</sup>

- 20 • How are charter schools funded?
- 21 • Are charter schools receiving less funding per pupil than traditional
- 22 public schools? And does it matter?
- 23 • Do charter schools have negative financial effects on traditional public
- 24 schools?
- 25 • Do charter schools spend money differently from traditional public
- 26 schools?

27 (Public Agenda, 2018, pp. 78–89)



1 This must have been a difficult chapter to write because the 48 states with school choice  
 2 programs have 48 different methods of funding public schools and charter schools. In  
 3 addition, each state has likely gone through several iterations of models charter school  
 4 funding if only because they have gone through several iterations of public school funding.

5 Their answer to their first question is to point to compilations of state funding. Their  
 6 answer to the second question is yes, and in some cases, by 40% to nearly 60% less. Their  
 7 take on whether it matters is hedged because studies differ in their conclusions for a  
 8 variety of reasons. Not mentioned is Bruce D. Baker's book, *Educational Inequality and*  
 9 *School Finance: Why Money Matters for America's Students*, which emphatically says that  
 10 money does matter, perhaps because it was published after *Charter Schools in Perspective:*  
 11 *A Guide to Research*. They answer their third question with an unambiguous yes. More  
 12 recent research, Lafer (2018), B. D. Baker (2019), and Miron et al. (2021) validates their  
 13 conclusion. Finally, they conclude that charter schools do spend their revenues differently,  
 14 in part because spend more on administration than public schools do and sometimes more  
 15 on facilities. The authors conclude that more research is needed.

16 The last of the five academic surveys was published in 2019 by Ron Zimmer et al. In  
 17 *Nearly Three Decades into the Charter School Movement, What Has Research Told Us*  
 18 *about Charter Schools?*, they look at who is served, racial segregation effects, both  
 19 academic and non-academic outcomes, management structure, and financial effects.  
 20 Since Zimmer is a co-author of both this survey and (Epple et al., 2016), the kinds of study  
 21 designs analyzed is similar.

22 Zimmer et al. intend to synthesize “the best research to inform the debate [about the  
 23 value of charter schools]” (p. 2). They go beyond the 2016 study and survey studies on racial  
 24 segregation, cream skinning<sup>18</sup>, and student pushout<sup>19</sup>. They conclude that charter schools  
 25 lead to greater segregation for African Americans, but not necessarily for whites or

<sup>18</sup>selecting the best students from TPSs

<sup>19</sup>pushing out their lowest performing students

1 Hispanics. They find that charter schools do engage in sometimes subtle forms of cream  
2 skimming and student pushout. After summarizing three different kinds of research  
3 (fixed effects, lottery-based, and match and other regression), they turn their attention to  
4 research on non-cognitive outcomes. Their penultimate chapter looks at research on  
5 indirect effects. They conclude in their last chapter that more research is needed.

6 Although Garcia (2018) is not explicitly a survey of the existing literature,  
7 David R. Garcia, in Chapter 3 (pp. 91–146), contains much material on the research  
8 evidence which guides (or should guide) school choice policies. His goal is to present  
9 general trends that “reflect the weight of the evidence” (p. 93). The weight of the evidence,  
10 Garcia finds the research points to the conclusions that “school choice policies are more  
11 likely to separate, rather than integrate, students from different racial/ethnic and  
12 socioeconomic backgrounds” (pp. 159–60), “how countries and states structure school  
13 choice policies can have a profound impact on how school choice functions at a practical  
14 level” (p. 160), “low-income students face obstacles to participating in school choice plans”  
15 (p. 161), lastly, “one should expect student achievement gains under school choice plans to  
16 be modest at best and inconsistent across subjects and years” (p. 161), and “a major reason  
17 for the inability of school choice to have an impact on the academic core of  
18 schools—teaching and learning—is that school choice came of age at the same time as  
19 high-stakes accountability policies that encourage standardization” (p. 162)

20 Garcia makes a point that hasn’t been made before: Since both public schools and  
21 charter schools are measured the same way (standardized tests), “the incentives to  
22 implement innovative pedagogical strategies are curtailed because the methods by which  
23 students are able to demonstrate their learning are uniform across all schools and  
24 restricted to the format of the tests.” (p. 163) He does not conclude that more research is  
25 needed, but instead predicts that school choice in its many forms will continue to expand.

## 1 ***Research on Charter School Finances***

2 Charter schools have been much studied, and the last decade has produced a number of  
 3 reports examining charter school finances based on carefully collected evidence. For  
 4 example, in 2014, Gordon Lafer, now at In the Public Interest, published an analysis of a  
 5 proposed law in Milwaukee, WI (Lafer, 2014) that was specifically tailored to benefit a  
 6 to-be-opened Rocketship school. Lafer went on to author two other studies on charter  
 7 schools, public policy, and finance: *Spending Blind: The Failure of Policy Planning in California*  
 8 *Charter School Funding* and *Breaking Point: The Cost of Charter Schools for Public School Districts*.  
 9 Carol Burris, Executive Director of the Network for Public Education, and several  
 10 co-authors have produced three reports on charter schools: Burris and Pflieger (2020),  
 11 Burris and Bryant (2020), and Burris and Cimarusti (2021). The National Education Policy  
 12 Center is a research center based at the University of Colorado, Boulder, with over 150  
 13 scholars and academics from institutions across the U.S. whose goal is “to produce and  
 14 disseminate high-quality, peer-reviewed research to inform education policy discussions”  
 15 (“National Education Policy Center,” n.d.). The NEPC has produced hundreds of reviews of  
 16 research, policy and legislative briefs, some of which are annual surveys of charter schools.  
 17 The series on profiles of EMOs have been produced annually for fifteen years; the series on  
 18 virtual charter schools, for ten years.

19 Bruce Baker’s contributions to the NEPC are especially noteworthy. He is an author or  
 20 co-author of 28 reviews of reports, studies, or articles on school finance, in addition to six  
 21 policy, legislative, or research briefs. Baker co-wrote with Gary Miron *The Business of Charter*  
 22 *Schooling: Understanding the Policies That Charter Operators Use for Financial Benefit*. B. Baker  
 23 and Miron (2015) which introduces many of the tools and techniques for evaluating how  
 24 charter schools operate for profit. It will serve as a key resource for this dissertation.

25 Gordon Lafer’s report, *Spending Blind: The Failure of Policy Planning in California Charter*  
 26 *School Funding* is particularly scathing. He says, “Any time there is a low bar of entry for

1 firms seeking to access government funds, one can expect to find corruption, and the  
 2 charter industry is no exception.” (p.18) But even absent corruption, there is ample  
 3 opportunity to make lots of money. Lafer documents \$2.5B of Californian taxpayer money  
 4 spent over fifteen years on charter school facilities, in many cases where there is no  
 5 documented educational need and where the charter school is of lower quality than nearby  
 6 public schools. Lafer says, “It’s as if legislators turned on a faucet of money and then just  
 7 walked away.” (p.12) It is saddening that in the four years since Lafer’s report came out,  
 8 nothing has fundamentally changed.

## 9 **Rocketship**

10 Rocketship is well-known in the charter school world. It even has been the subject of a  
 11 “biography”, *On the Rocketship* (Whitmire, 2014).<sup>20</sup>. Rocketship’s leaders and supporters  
 12 routinely describe it as “high performing”, “deserving of huge credit”, “dynamic”, and  
 13 “nationally lauded”. Rocketship schools, it is claimed, outperform some of the best public  
 14 schools in the country. Rocketship “believe[s] that every student deserves the right to  
 15 dream, to discover, and to develop their own unique talent”. Rocketship, charter school  
 16 advocates, and privatizers excel at choosing names and tag lines that are impossible to  
 17 argue against.

18 Rocketship is one of the largest non-profit blended charter school management  
 19 organization in the United States. They operate 21 schools in three states and Washington,  
 20 D.C.; thirteen in California, three in both Nashville, TN and Washington, D.C., and two in  
 21 Milwaukee, WI. In Santa Clara County, CA, they have eight TK-5 elementary schools  
 22 authorized by the county that served 4,254 students in the 2019–20 school year plus 1240  
 23 students in two district authorized schools, for a total of 5494 students.

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<sup>20</sup>Just two other charter schools share this distinction: Geoffrey Canada’s Harlem Children’s Zone (Tough, 2009) and the KIPP schools (Mathews, 2009; Horn, 2016)

## 1 ***Founders and Supporters***

2 Rocketship was founded by John Danner, Don Shalvey, Jennifer Andaluz, and Eric Resnick  
 3 in 2007. Danner had significant teaching experience (Nashville, TN public schools) prior to  
 4 Rocketship, as did Shalvey (Aspire Public Schools) and Andaluz (Downtown College Prep).  
 5 Resnick, the fourth member of the founding group was a hedge fund manager who had a  
 6 “a deep understanding of financial management and real estate transactions” (Danner,  
 7 2006, p. 13). The inclusion of Resnick, an expert in real estate transactions, at the very  
 8 beginning of Rocketship, is interesting because one of the preferred ways for charter  
 9 school investors and founders to generate profits is via real estate deals. John Danner  
 10 eventually left Rocketship in 2013 to found Zeal, an online math tutoring tool, and was  
 11 replaced by Preston Smith who became CEO.

12 Not mentioned in the first charter petition, nor in the Articles of Incorporation of  
 13 Rocketship Education, the owners of the first Rocketship school, were Preston Smith, Matt  
 14 Hammer, and Reed Hastings, CEO of Netflix. Smith became the first principal of the  
 15 Rocketship’s first school, Mateo Sheedy, and was subsequently listed as a Rocketship  
 16 co-founder in the charter petition for Rocketship’s second school. Hammer brought  
 17 Danner and Smith together, and has relentlessly promoted charter schools through his  
 18 advocacy non-profit, Innovate Public Schools.<sup>21</sup> Hastings proselytized Rocketship to the  
 19 larger charter school community and when he promised Rocketship \$250K for each of the  
 20 first eight Rocketship schools they opened his donation caught the attention of  
 21 philanthropic venture funds (Whitmire, 2014, p. 50).

## 22 ***Rocketship History***

23 The first Rocketship school, Mateo Sheedy, opened in Santa Clara County in 2007.  
 24 Rocketship’s initial petition to the San José Unified School District was denied, so they

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<sup>21</sup><https://innovateschools.org/>

1 appealed to the Santa Clara County Board of Education, which granted their petition. Over  
2 the years, Rocketship opened ten schools in Santa Clara County. Of those ten, only two  
3 were authorized by a public school district. The remainder were either countywide charters  
4 or charter schools whose petitions were denied by the local public school district, but  
5 subsequently approved by the Santa Clara County Board of Education. Table Table 2 lists  
6 the eleven Rocketship schools that were approved and the ten that opened. Note that only  
7 two were approved by the school district in which there were expected to locate. This  
8 lopsided result suggests that current charter school laws are tilted in favor of charter  
9 schools.

**Table 2**  
*Rocketship schools in Santa Clara County, California*

School	Type	Opened	Renewed	Notes
Mateo Sheedy	District appeal	2007	2009, 2015	Denied by SJUSD, approved by SCCOE
Sí Si Puede	District appeal	2009	2011, 2017	Denied by ARUSD, approved by SCCOE
Los Sueños	Countywide	2010	2015	SCCOE countywide
Discovery Prep	Countywide	2011	2016	SCCOE countywide charter
Mosaic	District	2011	2016	Approved by ARUSD
Brilliant Minds	Countywide	2012	2017	SCCOE countywide charter
Alma Academy	Countywide	2012	2017	SCCOE countywide charter
Spark Academy	District	2013	2018	Approved by FMSD
Alum Rock	District appeal	—		Denied by ARUSD, approved by SCCOE, but withdrawn 2015
Fuerza	Countywide	2014	2018	SCCOE countywide charter
Rising Stars	District appeal	2016	2021	Denied by FMSD, approved by SCCOE

## 1 Rocketship Finances

2 Charter schools have a number of unique financial needs. They need startup funds,  
3 operating funds, and often funds to expand, funds that public schools do without.  
4 Rocketship is no exception. The *operation* of charter schools are funded by federal, state,  
5 and local governments, but funding *expansion* may or may not be funded with tax dollars,  
6 depending on the laws of a particular state. The difference between what's funded at  
7 taxpayer expense and what's not must somehow be funded with outside money. Startup  
8 money is needed for facilities, desks and chairs, teacher and administrator salaries, legal  
9 fees, curriculum materials, etc., all of this before even one student registers. Startup  
10 facilities cost vary widely. If the charter school chooses to use public school district  
11 facilities under Proposition 39<sup>22</sup>, their need for funds will be less. Regulations drawn up by

<sup>22</sup> Proposition 39, passed by California voters in November 2000, contains a provision that requires public school districts to provide charter schools facilities "sufficient to accommodate the charter school's students"

1 the State Board of Education further define the phrase “sufficient to accommodate the  
 2 charter school’s students” (California Code of Regulations, Title 5, §11969.), then startup  
 3 facilities cost might be small; if they choose not to avail themselves of Proposition 39, then  
 4 startup facilities costs might involve the purchase of land and the construction of school  
 5 buildings, or might just involve lease payments. But since state funding is tied to  
 6 attendance, some startup funding is necessary. Thus the federal government provides  
 7 grants, administered by the states, for this purpose.

8 It appears that Rocketship has always intended to expand. Rocketship, like many other  
 9 CMOs and EMOs, must expand in order to increase revenue enough to be worth the while  
 10 of investors. A single school’s profit is not enough to satisfy investors, but by using  
 11 economies of scale, a “portfolio” of charter schools might suffice. A portfolio of charter  
 12 schools is a collection of schools – almost always charter schools – managed as a whole.

13 The idea of a portfolio of schools comes from finance where a carefully chosen portfolio  
 14 of investments can have lower collective risk for a given level of return than a mere  
 15 collection of individual investments. (See “Markowitz Model,” 2021, for an overview of the  
 16 mathematics of modern portfolio theory). Hill et al. claim to have invented the term  
 17 *portfolio school district* (Hill et al., 2009, p. 1) and with it a strategy to implement such a  
 18 district. Just a year later, J. R. Henig et al. define portfolio strategy for schools as

19 ...a loosely coupled conglomeration of ideas held together by the metaphor of a  
 20 well-managed stock portfolio and its proponents’ *unshakable belief* that the  
 21 first step for successful reform must be to dismantle the bureaucratic and  
 22 political institutions that have built up around the status quo. [emphasis  
 23 added] (J. R. Henig et al., 2010)

24 Hill et al. acknowledge, in dry, understated language, that overcoming the objections and  
 25 criticisms of educators and scholars to their unshakable belief will be difficult: “It is hard to

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(Secretary of State, California, 2000, pp. 38—41) (Smaller Classes, Safer Schools and Financial Accountability Act, 2000)



1 imagine that a portfolio strategy could be introduced into a major city without significant  
 2 conflict.” Portfolio strategy is most often associated with The Center for Reinventing Public  
 3 Education, now at the Mary Lou Fulton Teachers College at Arizona State University.

#### 4 ***Rocketship Expansion Funding***

5 California, startup charter school funding has waxed and waned, in part because federal  
 6 funding has varied. Currently, the U.S. Department of Education provides startup funds to  
 7 states under the Charter Schools Program State Educational Agency (SEA) grant program<sup>23</sup>.  
 8 The federal charter school funding programs are listed in National Charter School  
 9 Resource Center (2020). *The Federal Charter Schools Program: 2020 Annual Report* notes that

10 At the core of the Charter Schools Program are the Grants to State Entities (SE  
 11 Grants). The State Entity program offers competitive grants to states, which  
 12 then make subgrants within their states to *open new charter schools and replicate*  
 13 *or expand existing charter schools*. (emphasis added)

14 (National Alliance for Public Charter Schools, 2020)

15 Funds like the New School Venture Fund<sup>24</sup> and the Charter School Growth Fund I & II<sup>25</sup>  
 16 exist to fund the development and expansion of charter schools and charter management  
 17 organizations. In 2007, when Rocketship Mateo Sheedy was started, Rocketship used lines  
 18 of credit and loans to fund its beginning (Danner, 2006, p. 260). Now, charter schools have  
 19 many more options for funding startup or operations.

20 Charters have at least three other sources of facilities funding: bonds, tax credits and  
 21 foundation or individual contributions. Betsy DeVos, <sup>who served as the Secretary of Education for</sup> ~~the twice impeached~~ Donald Trump's  
 22 **Secretary of Education**, has donated \$12.6M to Rocketship. Reed Hasting, a founder and  
 23 now CEO Netflix has donated more than \$2M. In addition, charter schools can avail

<sup>23</sup><https://www2.ed.gov/about/offices/list/oii/csp/funding.html>

<sup>24</sup><https://www.newschools.org/>

<sup>25</sup><https://chartergrowthfund.org/>

1 themselves of the New Market Tax Credit if they meet certain investment criteria, and if  
 2 they do, they can get back 39% of their investment in tax credits in seven years. If their  
 3 investment returns, say, 20%, then combined, they are looking at nearly a 60% return on  
 4 their investment. A sixty percent return is fantastic. Charter schools and charter school  
 5 operators can also issue revenue bonds. Revenue bonds are guaranteed by a revenue  
 6 stream instead of by property tax revenues the way general obligation bonds are. Note that  
 7 both are tax-exempt. As of 2015, charter schools issued over \$11B in revenue bonds  
 8 according to Clark-Herrera et al. (2019).

### 9 ***Rocketship Expansion Difficulties***

10 In 2014, the Santa Clara County Office of Education and Rocketship were sued by four  
 11 Santa Clara County public school districts: Alum Rock, Mount Pleasant, Franklin-McKinley  
 12 and Evergreen. At issue was the SCCOE's bulk authorization of twenty countywide  
 13 Rocketship charter schools. Sixteen months, 17,500 pages of evidence, and an estimated  
 14 \$435,000 later, Rocketship, the public school districts, and Santa Clara County settled  
 15 (Noguchi, 2015). As part of the settlement, Rocketship agreed to withdraw 13 of the 20  
 16 countywide charters thus far authorized. Since one of the remaining countywide charter  
 17 had already been withdrawn, that left six potential charters still authorized but as of yet,  
 18 unopened. So far, it appears that Rocketship has attempted to expand in locations beyond  
 19 Santa Clara County: San Pablo<sup>26</sup> and Concord in California, Nashville in Tennessee,  
 20 Milwaukee in Wisconsin, Washington, D.C. and Fort Worth in Texas.

### 21 ***Charter School Accountability***

22 In California, all K–12 schools, including privately managed charter schools like Rocketship,  
 23 must submit annual budgets, Comprehensive Annual Financial Reports (CAFR), and since

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<sup>26</sup>unsuccessfully

1 2014, Local Control and Accountability Plans (LCAP). LCAPs are three year plans updated in  
 2 years two and three and which in detail how a school will use its funds

- 3 • to address state priorities, and
- 4 • to improve educational outcomes for foster youth, English learners, and low-income
- 5 students

6 along with the metrics which will be used to show progress (Aguinaldo et al., 2021,  
 7 pp. 66–84). These characteristics make LCAPs particularly interesting from both a  
 8 financial point of view and from an educational point of view.

### 9 **Rocketship and Privatization**

10 Some contend that the central purpose of charter schools is to disguise a money-making  
 11 operation (Saltman, 2018). Whitmire, who now sits on the board of Rocketship Education  
 12 and who in 2014 published *On the Rocketship*, makes note of the role that private venture  
 13 funds played in Rocketship financing (Whitmire, 2014, pp. 25, 65), and it is instructive to  
 14 remember that private, for-profit venture funds exist to make money. True, they often are  
 15 “double bottom line” grantors (Clark et al., 2004). As Ball (cited in Tewksbury (2016, p. 75))  
 16 makes clear

17 ... particularly with the added case of Rocketship, a blended learning chain of  
 18 charter schools, is that the NSVF [New Schools Venture Fund] is using its clout  
 19 to further blur the lines between for-profit and nonprofit educational projects  
 20 and organizations, thus smoothing the groves [grooves?] for marketizing  
 21 educational policy and practices. Ball (2012) makes the connections and  
 22 rationalities clear: “Symbolically, philanthropy provides an ‘acceptable’  
 23 alternative to the state in terms of its moral legitimacy. It has also provided a  
 24 kind of rehabilitation for the form of capital that were subject of ‘ill repute’ in  
 25 the public imagination. Strategically, philanthropy has provided a “Trojan  
 26 horse” for the modernizing move that opened the ‘policy door’ to new actor  
 27 and new ideas and sensibilities.” (Ball, 2012, p. 32)

1 Privatizers use investment banks, hedge funds, and private equity firms as their vehicle  
 2 for investing (Stowell, 2018). These investment vehicles are called *alternative investments*, in  
 3 contrast to *traditional investments* like stocks and bonds. Investment banks provide the  
 4 financial expertise that hedge funds and private equity firms need.

## 5 **Privatization**

6 Charter CMOs and EMOs appear to be following the lead of prison and health care  
 7 privatizers. They lobby legislators intensively. They position themselves as being more  
 8 efficient than the “wasteful” public sector, and they claim to to be able to do better than  
 9 public schools, prisons or hospitals at a lower cost. Since charter schools have positioned  
 10 themselves as being in competition with TPSs, they need to do at least as well as TPSs, or  
 11 failing that, appear to do so. This calls for creative marketing, and so to that end,  
 12 pro-charter advocacy organizations, some university-affiliated institutions and some think  
 13 tanks have been harnessed to churn out pro-charter puff pieces that are regularly  
 14 debunked.<sup>27</sup> Evidently even creative marketing is not enough to prod the free market to  
 15 supply the educational choice that charter school advocates feel is necessary, so pro-choice  
 16 advocacy organizations also lobby state representatives and fund pro-charter board  
 17 candidates.

18 Charter school marketing is extensive. Organizations like The 74, a reference to the 74  
 19 million children in America, or Innovate Public Schools, an advocacy organization,  
 20 produce reports, news items, briefs and what claims to be research that is slanted toward  
 21 charter schools and away from public schools, teachers, unions, school boards, and  
 22 anything and anyone who doesn't buy into the notion that American education is in

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<sup>27</sup>The National Educational Policy Center (<https://nepc.colorado.edu>) in the School of Education at the University of Colorado (Boulder) currently has over 150 NEPC Fellows who aim “to produce and disseminate high-quality, peer-reviewed research to inform education policy discussion” on a wide variety of topics. They often review pro-charter school publications which have been presented as academic research even though those publications have not been peer-reviewed and often have serious methodological problems which weaken or negate their conclusions.

1 desperate need of reform. One technique that is used is to fund media outlets to write  
 2 allegedly unbiased and non-partisan articles and blog postings that promote “successes”  
 3 while dismissing any harm that charter schools might cause.

4 These influence techniques are reminiscent of how OxyContin was marketed by the  
 5 Sackler family, which is not surprising since Jonathan Sackler, now deceased, founded or  
 6 funded charter advocacy groups like 50CAN, ConnCAN, Families for Excellent Schools, the  
 7 Northeast Charter School Network, Education Reform Now, Partnership for Educational

8 Justice, and The 74 (Dubb, 2017). The idea is to create the appearance of a grassroots,  
 9 pro-charter tsunami washing over public schools and vanquishing sclerotic administrators

10 and money-grubbing teacher unions. This onslaught benefits the Americans just as much  
 11 as the vertically integrated marketing of OxyContin did.

12 Unlike many other forms of privatization, charter schools have competition. When a  
 13 local government turns over the task of supplying water to a town, for example, there is not  
 14 another, public water company serving the same customers to serve as a comparison.  
 15 Privatization is often an all-or-nothing proposition. Charter schools, on the other hand,  
 16 can be and are often compared to the public schools in the same school district. The  
 17 presence of very visible competition has an interesting consequence: charter schools feel  
 18 they need to demonize public schools in addition to marketing school choice.

19 Given that charter schools in California get the same per pupil funding as do public  
 20 schools, there are a limited number of ways that charter schools can generate “excess”  
 21 funds. They can lower operating costs. They can tap into state or federal facilities grants.  
 22 They can collect and sell student data. They can contract out to a for-profit management  
 23 company. They buy technology from business partners. In all these cases, the net result is  
 24 always the same: money flows out of the public school system into private hands.

25 Charter schools employ fewer and less experienced teachers than public schools do. A  
 26 teacher with 10 or 20 years of experience can easily command a salary that is twice that of a

bb (2017)describes the similarities in marketing strategies of oxycontin and charter schools, where the focus of all communications was to highlight benefits while ignoring or erasing the harms. While this is the standard playbook of corporate marketing strategists, we now have public education dollars being spent toward engaging in such tactics.

While Americans complained enough by NPR documenting serious concerns about Rocketship's practices (including x,y,z) (Kamenetz, 2018 or 19), the 74 Million immediately published a response, accusing the NPR reporting to have been a 'hit piece' on the charter network.

1 newly minted teacher. Rocketship has a student-to-teacher ration that's as high as 36:1  
 2 (SCCOE, 2021, pp. 23–30). The combination of fewer and less expensive teachers can  
 3 reduce the cost of teacher salaries to one-third of what public schools pay for teachers. This  
 4 reduction is significant because teacher salaries typically account for from one-third to  
 5 three-quarters of the total expense of running a school. Charter schools that employ a  
 6 blended pedagogy can further reduce the cost of salaries, with virtual schools dispensing  
 7 entirely with teachers, effectively reducing the single largest component of running a  
 8 school to zero.

### 9 **Philanthrocapitalism**

10 Philanthrocapitalism is the term used to describe the approach to philanthropy that  
 11 prioritizes operating non-profits as businesses, i.e. making money while “doing good”. The  
 12 epigraph to Giridharadas’s book *Winners Take All* is a quote taken from Leo Tolstoy’s  
 13 *Writings on Civil Disobedience and Nonviolence* which captures the absurdity of making money  
 14 while “doing good”:

15 I sit on a man's back choking him and making him carry me, and yet assure  
 16 myself and others that I am sorry for him and wish to lighten his load by all  
 17 means possible ... except by getting off his back.

18 For philanthrocapitalists, the techniques and vehicles used to extract a profit from public  
 19 education can be impressive. K.J. Saltman lists the following in *The Swindle of Innovative*  
 20 *Educational Finance* (pp.xii–xiii):

- 21 • social impact bonds,
- 22 • higher education lending and student income loans,
- 23 • charter school real estate, tax credit, and municipal schemes, and
- 24 • so-called philanthro-capitalist educational technology schemes.

- 1 Marachi and Carpenter (2020), Burris and Cimarusti (2021), Scott (2009), B. Baker and
- 2 Miron (2015) all make the same point: education has been captured by big business, and a
- 3 lot of people are making a lot of money out of it.





## Research Design and Methodology

This dissertation is an *exploratory case study* using a *public policy* lens to examine the finances of Rocketship Education. Exploratory means that the precise data that will be collected and the precise methods used to analyze those data are not fully known in advance and will depend on this study's findings as the inquiry evolves. Case studies are in-depth examinations of single topic that are limited in space or time. Public policy is the set of rules, laws, regulations, and mores that affect the actions of an element of society. It is "the decisions, measures, programmes, strategies and courses of action adopted by the government or the legislative body" (Knill & Tosun, 2020, p. 3). Public policy mandates and constrains Rocketship Education's actions and how it structures its finances to meet its goals. Finance, as it pertains to Rocketship Education, encompasses all transactions of monetary value which involve the legal entity called Rocketship Education, its principals and executives, and other entities with which it has significant relationships. Not only are the finances of Rocketship itself included in this definition, but also those of its founders who, perhaps went on to found a company which sold software to Rocketship, and also any entities focused on real property from whom Rocketship might have bought, leased, or sold real property. Included as well are financing transactions like bonds, tax credits, loans, and grants.

The remainder of this chapter proceeds as follows. The next section, *Process Overview*, describes at a very high level the four steps of inquiry this dissertation will follow. The first step in that process is to gather Rocketship financial data that will be analyzed in the last three sections of this chapter.

Since understanding how schools are financed is essential to understanding Rocketship's finances, the next section, *An Overview of California School Financing*, will give an overview of school financing in California. It will do this by describing the normal, common financial disclosures and reports made by all districts and schools, including

1 charter schools. It's important to remember that budgets reflect the future, and audits  
 2 reflect the past. Budgets are estimates, guesses, projections, whereas audits are a  
 3 definitive, fixed record of the past.

4 Appendix A, *School Financing in California*, uses data from the Los Altos School District  
 5 (LASD) to further illustrate what kind of information is in standard public school financial  
 6 reports. The high level view is given in Figure 6, *LASD 2019–20 All Funds Summary*. That view  
 7 is further broken down in five more tables. The last table is a projection of LASD's of  
 8 financial numbers for the current year (2018–19), the year whose budget is being presented  
 9 (2019–20), and five years into the future. The first half of the table contains the  
 10 assumptions used to generate the amounts in the second half.

11 Once the overall financing landscape has been described, the study can start to  
 12 examine actual data from Rocketship. There are three such groups of data: petitions,  
 13 financial reports, and other data that does not originate from Rocketship, and each will be  
 14 covered in the third section, *Charter School Financing* of this chapter.

15 Once all the data <sup>have</sup> **has** been gathered, analysis can begin. These are the remaining three  
 16 steps in the analysis **is** and **are each allocate** one of the remaining three sections. The fourth  
 17 section, *Are There Gaps or Anomalies in the Data?*, discusses how potential gaps or anomalies  
 18 in the financial data might be discovered. This is where triangulation can be used to  
 19 cross-check the validity of that data. Does everything add up? Are there important,  
 20 missing documents? How much do these gaps or anomalies matter? Are the oddities  
 21 long-standing or fleeting?

22 The next section, *How Does Rocketship Compare?*, will shift to how Rocketship can be  
 23 compared to other demographically similar charter school chains and to public school  
 24 districts. Assuming that there are few financial oddities, this section will compare  
 25 Rocketship's finances to other demographically similar schools. Norms and context do  
 26 matter if the goal is to make fair comparisons. For example, paying a superintendent an

1 annual salary of half a million dollars may be the norm in a large urban district of 200,000  
 2 students, but wildly inappropriate for a small rural district of 1000 students. Are  
 3 Rocketship Education's schools (financially) like other charter schools or traditional public  
 4 schools? If not, how are they different?

5 Lastly, the sixth section, *What About the Flow of Money Through Rocketship?*, describes how  
 6 this dissertation will study the flow of money in and out of Rocketship. Until now, this  
 7 study has treated Rocketship's finances statically, i.e. at points in time. Just as important  
 8 are the dynamic flows of money. Where do they come from, and where do they go?

## 9 **Process Overview**

10 Explaining the finances of Rocketship Education is the heart of this dissertation. Where do  
 11 Rocketship's revenues come from? Where are they spending that revenue? And, critically, if  
 12 Rocketship takes in more money than it spends on education, where does that money go?

13 To do that, at a high level, the basic process followed by this dissertation is:

- 14 1. Gather financial data for the Rocketship schools being studied. The initial set of data  
 15 being analyzed is discussed in the sections *Charter School Financing* later in this  
 16 chapter.
- 17 2. Identify any gaps or anomalies in the data. This is where triangulation is useful and  
 18 is discussed further in the section *Triangulation*.
- 19 3. Compare Rocketship's financial processes to other public schools, to other charter  
 20 schools, and to other charter school chains, looking especially for differences.
- 21 4. Analyze the flow of money in and out of Rocketship. Section *What About the Flow of*  
 22 *Money Through Rocketship?* tries to determine where Rocketship funds come from,  
 23 where is that money being spent, and what public policies (or lack thereof) account  
 24 for Rocketship's actions.

25 Analyzing the finances of Rocketship Education means, for example, determining if  
 26 general obligation or revenue bonds are purchased by entities that are related Rocketship  
 27 in some fashion, i.e. they are not arm's length transactions. All bonds are risky to some

1 extent, some more than others, and purchasers of those bonds are compensated for taking  
 2 on that risk by being paid interest on the amount borrowed. An immediate question comes  
 3 to mind: Is the interest rate appropriate for the risk being taken on? Answering that  
 4 question entails comparing Rocketship Education to other, similar borrowers. If the  
 5 interest rate is higher than expected, then Rocketship Education is effectively giving some  
 6 of its revenue away. Another question one might ask is, “How is Rocketship Education  
 7 spending its bond proceeds?” Are those expenses in line with what other charter school  
 8 chains or public school districts are spending their bond proceeds on?

9 Answering questions like these accurately, completely, and rigorously requires  
 10 understanding not only Rocketship Education’s finances, but also the finances of other  
 11 schools or school districts in order to make valid comparisons. In addition, one must also  
 12 dig deeply into how entities associated with Rocketship Education, might or might not  
 13 benefit that association.

## 14 **An Overview of California School Financing**

15 Primary and secondary schools (grades K–12) and charter schools in California are  
 16 financed with a combination of federal, state, and local monies as seen in Figure 1,  
 17 *California 2019–20 K–12 Funding by Source*. Since federal funds account for only 8.01% of total  
 18 funding for California’s elementary school children (Legislative Analyst’s Office, 2021), the  
 19 federal contribution will not be considered further. Note that federal facilities grants to  
 20 charter schools are not part of this 8.01%.

21 In June of every year, the California Legislature passes a budget for the next fiscal year  
 22 (July 1 – June 30) and the Governor signs it into law. This is called the enacted budget. This  
 23 version of the budget describes the *intent* of the Governor and the Legislature, but does not  
 24 fund anything. The real work is done in what are called *trailer bills* that are passed  
 25 piecemeal in the months following the adoption of the budget. During the course of the

**Figure 1**  
*California 2019–20 K–12 Funding by Source*

## K-12 Funding by Source

(Dollars in Millions)

	2017-18	2018-19	2019-20	Change From 2018-19	
	Final	Revised	Enacted	Amount	Percent
Proposition 98					
General Fund <sup>a</sup>	\$47,194	\$48,327	\$49,322	\$994	2.1%
Local property tax	19,644	20,645	21,921	1,276	6.2%
Subtotals	\$66,839	\$68,973	\$71,243	\$2,270	3.3%
Other State					
Other General Fund	\$6,879	\$9,749 <sup>b</sup>	\$10,503 <sup>b</sup>	\$754 <sup>c</sup>	7.7%
Lottery	\$1,382	\$1,305	\$1,304	-\$1	-0.1%
Special funds	\$75	\$79	\$228	\$149	189.0%
Subtotals	\$8,336	\$11,133	\$12,036	\$903 <sup>c</sup>	8.1%
Other Local <sup>d</sup>	\$12,023	\$12,712	\$11,814	-\$898	-7.1%
Federal	\$7,435	\$8,190	\$8,284	\$94	1.1%
Total	\$94,633	\$101,008	\$103,377	\$2,369	2.3%
Students <sup>e</sup>	5,960,120	5,944,769	5,933,407	-11,362	-0.2%
Proposition 98 funding per student	\$11,214	\$11,602	\$12,007	\$405	3.5%
Total funding per student	\$15,878	\$16,991	\$17,423	\$432	2.5%
<sup>a</sup> Consists of funding for K-12 education, preschool, and other agencies serving K-12 students.					
<sup>b</sup> Includes \$3.9 billion in additional retirement payments authorized in the 2019-20 budget package (\$2.8 billion attributed to 2018-19 and \$1 billion attributed to 2019-20).					
<sup>c</sup> These year-to-year comparisons are notably affected by how the administration attributed the additional retirement payments authorized in the 2019-20 budget package across fiscal years.					
<sup>d</sup> Includes revenue from local fees, property taxes collected in excess of the Local Control Funding Formula allotments, parcel taxes, and reimbursements.					
<sup>e</sup> Reflects average daily attendance.					

Note: Legislative Analyst's Office (2021). Public record.

1 fiscal year, revisions are made to this enacted budget either because of circumstance or  
2 because of changed priorities, and at the end of the fiscal year, this is now called the revised  
3 budget. After the budget year has passed, technical adjustments are still made: Exactly  
4 how much money was spent, or what was misclassified and improperly allocated will  
5 change the revised budget numbers. This then becomes the final budget. The upshot of this  
6 is that there are actually three versions of California's education budget: the one for next  
7 year (enacted), the one for the current year (revised) and the one for the prior year (final).  
8 Normally, the enacted budget is the one that is meant when people speak of the budget.

9 Figure 1, *California 2019–20 K–12 Funding by Source*, shows what money California has to  
10 fund its primary and secondary educational system, i.e. grades K–12. This money is then  
11 allocated to local educational agencies (LEAs), through a formula known as the Local  
12 Control Funding Formula (LCFF). LEAs include individual charter schools, county offices of  
13 education, and local public school districts. The total amount of money for K–12 funding is  
14 allocated using a formula that was enacted by voters in 1988 (LAO, 2017): Proposition 98.  
15 Prop. 98 was originally meant to be a minimum guaranteed funding level, but has evolved  
16 into a ceiling. The Legislative Analyst's Office (LAO), which serves as an independent,  
17 non-partisan research arm of the California Legislature in much the same way that the  
18 Congressional Research Service serves the U.S. Congress, calls Prop. 98 "A Tale of  
19 Complexity" and says that "A Plethora Tests and Rules Govern the Minimum Guarantee",  
20 and that "State Has Made Myriad Adjustments to the Proposition 98 Calculations".  
21 Undoubtedly LCFF is complex, but LCFF is more transparent, has fewer rules, is more  
22 equitable, and is more responsive than the Revenue Limit System which came before it.  
23 The Revenue Limit System was also complex, but in a completely difference way; it had  
24 many separately funded programs, called categorical programs, each with their own set of  
25 requirements, rules, durations, and funding levels. Each passing year saw more programs

being added to the set of categorical programs until the collection of categorical programs became so unwieldy it threatened to soak up all of a district's financial resources.

As seen in Figure 1, *California 2019–20 K–12 Funding by Source*, Proposition 98 funding accounts for nearly 70% of California's K–12 funding, the remainder coming from local property taxes and fees, and from various state sources. This money gets distributed to county offices of education which then distribute it to public school districts. Districts then distribute funds to charter schools.

Some districts are funded outside of the LCFF system. These are called “basic aid” districts, or now the preferred term, “community funded” districts. Districts whose annual property tax revenue is greater than their annual LCFF entitlement are community funded since they get only “basic aid”, i.e. the constitutionally required minimum funding (the greater of \$120 per pupil or \$2,400 in total) from the state. For non-community funded districts, the state contribution is the difference between a district's LCFF entitlement and its share of district property taxes. In other words, the state ensures that each district gets at least its LCFF entitlement, an amount which is determined by Prop. 98.

A detailed description of K-12 funding in California, for both public school districts and charter schools, can be found in Aguinaldo et al. (2021). It is an annual publication.

### **Budgets & Interim Reports**

Budgets, in California, are the first of four important financial documents that schools produce during a fiscal year. For any given fiscal year, which runs from July 1 to June 30, the first financial document produced is the annual budget, a forward looking financial statement, which is approved before the end of the prior fiscal year.<sup>28</sup> Next are two (unaudited) interim reports, one in December, and another in March, which track how well the school or district is adhering to the approved annual budget, and finally, after a

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<sup>28</sup>Since a school's budget needs to be approved before the state budget is finalized, it is guaranteed that a school's budget will need to be modified after it has been approved.

1 certified public accountant has audited the school or district, a comprehensive annual  
2 financial report (CAFR). State law requires that an independent auditor certify this  
3 retrospective account of the school or district's financial activity as being an accurate  
4 representation of the school's finances for the previous fiscal year.

### 5 **Local Control Accountability Plans (LCAPs)**

6 The principle, recurring, non-financial report of schools is the Local Control Accountability  
7 Plan (LCAP). Although the LCAP is a three year plan, it is updated annually. The focus of an  
8 LCAP is on the programs that the school (public or charter) is going to implement, finance,  
9 and monitor that meet the goals that the state has set. These are goals that the California  
10 Department of Education sets periodically, primarily to ensure that students with the  
11 greatest needs are in fact served and are in addition to the seven goals that the Legislature  
12 set for charter schools in general.

13 Typically LCAP goals remain the same, but their financing may change if the metrics  
14 used to measure progress toward achieving those goals isn't showing progress. In unusual  
15 circumstances, how the goals are to be achieved might change. LCAPs are the State of  
16 California's way of ensuring that all public schools, including charter schools, meet the  
17 same set of priorities or goals. LCAPs contain specifications for how a school or district  
18 will meet all eight of the state's goals and how achievement will be measured. Apparently,  
19 some LCAPs have been on the order of 500 pages long, although the norm is much less.

20 For each activity or group of activities, schools indicate what goal is being met, if the  
21 goal includes increased services for disadvantaged student, how well the school or district  
22 has met that goal, and the money that has been allocated to achieving and reporting those  
23 goals. (The reality of what the Department of Education wants is an order of magnitude  
24 more complicated than this description, but it is accurate as far as it goes.)



1 Unlike budgets and CAFRs, LCAPs don't have to "add up", nor do they have to offer a  
 2 complete financial picture, but they do have to be consistent with other data. Expenditures  
 3 have to be budgeted, and the amounts in a school's budget must agree with what's in the  
 4 LCAP. The charter or public school's board must approve an LCAP at the same time as it  
 5 approves its annual budget.

## 6 **CAFRs**

7 A major source of financial data are the annual, independently audited, comprehensive  
 8 financial statements of Rocketship Education. Comprehensive Annual Financial Reports  
 9 (CAFRs) are sent to the California Department of Education (CDE) and to a charter's  
 10 County Office of Education (COE) annually. They cover the previous fiscal year and are  
 11 similar to annual budgets because they report the same information, perhaps in a different  
 12 format. CAFRs are retrospective whereas budgets are prospective. The major difference is  
 13 that CAFRs are independently audited and budgets are not.

14 Similarly to bond underwriters, financial auditors are liable for "omitting, misstating,  
 15 or obscuring [items which] could reasonably be expected to influence decisions that the  
 16 primary users make on the basis of those financial statements" (Cayamanda, 2020), and  
 17 this requirement tends to increase the diligence of the auditors. However, potential  
 18 liability doesn't always result in truly comprehensive financial statements; sometimes the  
 19 lure of accounting fees overwhelms any misgivings, as was the case with Enron and Arthur  
 20 Andersen in 2001, and apparently with Donald Trump in 2022. In general, however, fraud  
 21 is thankfully rare, in part because fraud on the part of auditors would likely result in the  
 22 loss of the auditor's license, effectively ending their business.

23 In order to make what's being analyzed more concrete, I present in Appendix A on  
 24 page 75 some examples drawn from the Los Altos School District (LASD) for the 2019–20  
 25 school year. These LASD documents make good models because they have consistently won

1 the Meritorious Budget Award for Excellence from the Association of School Business  
2 Officials International for the quality and comprehensiveness of its financial statements  
3 for each of the last 15 years.

#### 4 **Charter School Financing**

5 Charter schools are financed the same way as public schools are, from the same pot of  
6 money, using the same set of rules, except for one significant difference: how they finance  
7 facilities. Charter schools have no taxing authority unlike public schools, so they cannot  
8 pass bonds or parcel taxes. This lack of a taxing authority means that charter schools are  
9 either forced to use public school facilities under Proposition 39, or to seek grants and  
10 donations. The federal government provides significant amounts of facilities grant money  
11 and relies on the states to administer the program.

12 The topic of charter school finances is broader than that of public schools because, in  
13 addition to all of the financial dealings of traditional public schools, almost all of which  
14 also apply to charter schools, charter schools have large and immediate needs for facilities  
15 that TPSs typically don't have. This brings into the picture bonds, loans, grants, leases,  
16 construction, and the purchase and sale of real estate. TPSs do issue several kinds of bonds,  
17 levy parcel taxes, and buy real estate on which they build schools. It's just that schools have  
18 usually done this years ago, but charter schools have to do immediately and every time they  
19 enroll more students. The need for charter schools is more pressing, more immediate, and  
20 more common than the corresponding needs of TPSs.

21 Once a charter has been granted the right to operate, it must file annually with the  
22 California Department of Education, just like public school district, certain forms that  
23 detail its revenues and expenses. State law also mandates an annual audit by an  
24 independent accounting firm which charter schools must file with their County Office of  
25 Education. All together, these forms should provide a complete picture of a charter school's

1 finances, and crucially, everything should be in agreement. Charters must approve and  
 2 publish at a public meeting their annual budget, and they, just like TPSs, cannot spend – at  
 3 least in theory – unbudgeted money unless the governing board approves at a public  
 4 meeting any changes.

### 5 ***Charter Financial Documents***

6 There are numerous publicly available sources of the same charter school financial data.  
 7 These are, in roughly chronological order, petitions/renewals, budgets, LCAPs, interim  
 8 financial statements, and finally, audited Comprehensive Annual Reports (CAFRs). Table 3,  
 9 *Charter School Financial Documents*, summarizes the financial reports which are available  
 10 about charter school finances. The first two documents are specific to charter schools and  
 11 have no public school equivalent.

**Table 3**  
*Charter School Financial Documents*

<b>Name</b>	<b>Description</b>	<b>Frequency</b>	<b>When</b>
<b>Initial Petition</b>	Comprehensive description	Once	Before opening
<b>Renewal Petitions</b>	Similar to initial petition	Every 5 years	Years 5, 10, 15, ...
<b>Budget</b>	Complete financial plan	Annually	Before June 15 <sup>th</sup>
<b>LCAP</b>	How to meet state priorities	Tri-annually	With budget
<b>Interim Reports</b>	Current spending	Twice yearly	December, March
<b>CAFR</b>	Audited financials	Annually	In the following year

12 Viewed chronologically, the first financial statement from a charter school is contained  
 13 in their initial petition. Although petitions are not submitted under penalty of perjury, any  
 14 material change to a petition would likely be cause for a re-evaluation of the petition,  
 15 something that is undesirable. Petitions are presented at the start of a charter school's life  
 16 and whenever a charter needs to be renewed.

17 Next are budgets which are defined by four reports. First is an annual budget which  
 18 defines how a charter school will spend its revenues in the following fiscal year. Along with

1 the budget, all schools need to approve a Local Control and Accountability Plan (LCAP) that  
 2 explains how a school's expenditures over a three year period will address all state priorities  
 3 plus any locally developed priorities. Although the LCAP is a three year plan, it contains  
 4 annual goals, the metrics that will be used to measure progress, and the expenditures  
 5 associated with meeting those goals. After a budget is approved, actual spending is capture  
 6 twice during a school year in the 1<sup>st</sup> and 2<sup>nd</sup> Interim Reports. The final budget-related  
 7 report, issued in the following fiscal year, is the retrospective, independently audited  
 8 CAFR. It is worth noting here that budgets are frequently modified during a school year,  
 9 but only after they have been approved by the governing board at a public meeting.

10 Furthermore, schools are required to present with the 1<sup>st</sup> and 2<sup>nd</sup> Interim Reports any  
 11 transfers between funds that schools use to track revenues and expenditures. For example,  
 12 one might see a transfer out of the general fund into a facilities maintenance fund to pay  
 13 for some facilities' repair.

14 <sup>section includes</sup> The following ~~is~~ more detail on some sources of financial data which apply to charter  
 15 schools.

## 16 **Petitions & Renewals**

17 Chronologically the first category of financial data that's publicly available is what's in a  
 18 charter school's initial petition. Renewal petitions occur at five year intervals and are very  
 19 similar to the initial petition. One of the required elements of any petition is a financial  
 20 projection. Although no one expects a charter school (or any school for that matter) to  
 21 prepare and adhere to a budget that exactly matches what's been projected, budgets are  
 22 expected to be similar to actual expenditures, for some meaning of "similar".

23 Before a charter school is allowed to begin operation, every charter school in  
 24 California is required to present to a chartering authority a petition which must contain  
 25 certain required elements. The absence of one of these elements is grounds for denying the

1 charter's petition to operate. For example, what is the intent of the charter school? How is  
 2 the charter school going to measure its success or failure? What population is it targeting?  
 3 And, what are its financial projections?

4 These petitions run anywhere from a hundred or so pages to over a thousand. They  
 5 contain a wealth of data on curriculum, demographics, pedagogy, discipline, teacher  
 6 recruitment, and, of course, on the charter school's finances.

7 Only a few financial statements are needed to get a good overall picture of a school's or  
 8 district's finances. These are the enacted annual budget and interim reports, the audited  
 9 Comprehensive Annual Financial Report (CAFR), parts of the Local Control Accountability  
 10 Plan (LCAP), and for charter schools, the financial portions of their petitions.

11 The primary questions that these financial data analyses are seeking to answer involves  
 12 a clear mapping of the financial flows tied to Rocketship's ten schools in Santa Clara  
 13 County. That mass of data needs to be organized and interpreted, and using an interpretive  
 14 framework will make the analysis easier. Some examples of potential frameworks are:

- 15 • The six year forecast spreadsheet that LASD uses, an example of which is reproduced  
 16 in Figure 12 *LASD 2019–20 Multi-Year Projection* on page 81. Most of the elements of a  
 17 forecast are combinations of SACS<sup>29</sup> codes. The main drawback of using this  
 18 framework is that each school would have to have its elements extracted from their  
 19 SACS submissions. “The main benefit is that these elements have been used for years  
 20 and so are known to be useful in budgeting.
- 21 • A spreadsheet of the 9 high-level SACS object codes. This option is has the advantage  
 22 that these sums can be calculated automatically using reports available on Annual  
 23 Financial Data web page<sup>30</sup> maintained by the California Department of Education.  
 24 These reports go back to FY2003–4. The main disadvantage is that any gaps or  
 25 anomalies may not show up in the aggregate numbers.
- 26 • A third way of approaching the problem of making sense of large amounts of data is  
 27 to use a model. Some possible models are

<sup>29</sup>The Standardized Account Code Structure (SACS) is the chart of accounts (cost centers) used by the California Department of Education. These are defined in “California School Accounting Manual: Definitions, Instructions, and Procedures.” The function (activity) codes are on pp.149–151 (§325–3 *et seq.*)

<sup>30</sup><https://www.cde.ca.gov/ds/fd/fd>

- 1       – Bruce Baker’s *National Education Cost Model* (B. D. Baker et al., 2018, p. 5)
- 2       – the Operating Resource Flow model from B. Baker and Miron (2015, p. 16) and
- 3       Figure 5
- 4       – the resource cost model (RCM) or the education cost function (ECF) as
- 5       developed by B. D. Baker (2018, pp. 188–197)
- 6       – ratio analysis or index analysis as in B. D. Baker and Richards (2004, pp. 70–86)

7       Of the four models mentioned, only the last is likely to be useful in this study’s analysis  
 8       because that method can identify quickly what’s different in a particular budget or petition.  
 9       Ratio and index analysis compares the relationship between financial data elements. In  
 10      addition to B. D. Baker and Richards (2004) cited above, National Forum on Education  
 11      Statistics (2007, pp. 35–44) lists a dozen or so ratios and indexes that have proven useful  
 12      when analyzing school finance.

### 13   ***Other Data and Datasets***

#### 14   **IRS filings**

15   There are federal forms that non-profits need to file that provide some financial data. The  
 16   most relevant are the IRS Forms 990, [Tax] Return of Organization Exempt from Income  
 17   Tax. (The tax returns of for-profit organizations are not public documents and their  
 18   contents do not have to be disclosed; however, in order to sell stock to the public, i.e. on a  
 19   stock exchange, firms are required to publish various financial documents, which like bond  
 20   prospectuses, are required to be informative and complete.)

#### 21   **Bond prospectuses**

22   Bond prospectuses are also a source of financial information. When bonds are issued, they  
 23   are described in detail in a prospectus. These documents, in addition to specifying the  
 24   terms (e.g. interest rate, repayment schedule, collateral) of the bond, contain information  
 25   relevant to assessing the risk associated with purchasing that bond.

1       Bond prospectuses can be mined for data that might not appear in petitions and  
 2       financial statements because bond underwriters are “potential liability for any material  
 3       misrepresentations or omissions contained in a registration statement or prospectus”  
 4       (Block et al., 2008). This liability, of course, is not unlimited. If bond underwriters exercise  
 5       due diligence or the misrepresentation is not material, they are probably not liable.  
 6       Crucially, the definitions of *material misrepresentation* and *due diligence* depended on both  
 7       statute and case law, so a bond underwriter can only make a reasoned guess at their  
 8       exposure to liability. The result is that bond underwriters are likely to be more diligent than  
 9       is absolutely necessary.

10       Unlike many studies, there is not a paucity of data on Rocketship, rather there is a  
 11       surfeit. The data collected so far is voluminous. The current number of pages of initial and  
 12       renewal petitions runs to 7371 pages. Three bond prospectuses total over 1000 pages. And  
 13       there are many financial data documents yet to obtain. For example, of the six categories of  
 14       financial data listed in Table 3, only half have been collected.

15       The challenge for this inquiry will be to organize the data so that gaps and anomalies  
 16       can be identified, interesting and valid comparisons can be made with public schools and  
 17       other charter schools, and the flows of money in and out of Rocketship can be identified.  
 18       One approach would be to create a common framework and recast all the financial data  
 19       from each school into that common framework. But, until the data have actually been  
 20       collected and analyses started, choosing one particular framework within which to work is  
 21       likely to lead to work which will need to be redone using a different framework.

22       The raw data will be collected from

- 23       • Materials and recordings (when available) of authorizer approval meetings
- 24       • Marketing material, print and online, created by Rocketship
- 25       • Checks written, a record of money that has been paid out, if available

26       These documents are all in the public domain and with the exception of the last, should, if  
 27       they have been filed, be available from the California Departments of Education and

Finance, or from the Santa Clara County Office of Education. A record of checks written is only available from Rocketship, although independent auditors have examined Rocketship's books and have determined that there are no material omissions or misrepresentations.

#### **Non-financial Data Sources**

Data sources that are not financial in nature are needed to be able to compare fairly Rocketship's schools to other schools, particularly those outside of Santa Clara County. Some of the following sources may be consulted depending on what is being compared or analyzed.

- Demographic data from counties, states, and the federal government
  - The County of Santa Clara (232 datasets)
  - The California Open Data Portal (2,668 datasets)
  - The United States Government (335,221 datasets)
- Data from many hundreds of studies of public education or charter schools
- National Center for Education Statistics (NCES) at the Institute for Education Sciences (IES)
- American Community Survey (U.S. Census Bureau)
- California Department of Education and the State Board of Education
- Santa Clara County, Charter Schools Department
- Stanford Educational Data Archive
- School Finance Indicators Database
- EdSource, Ed-Data, & other aggregators of educational data specific to California
- Court records that involve Rocketship
- Standardized test scores
  - National Assessment of Educational Progress (NAEP) [two series]
  - Early Childhood Longitudinal Study, Kindergarten Cohorts of 1998 and 2010 (ECLS-K:1998, 2010)
  - California Assessment of Student Performance and Progress (CAASPP) and the Academic Progress Indicator (API)

Although many of these datasets are not in and of themselves financial, they will prove useful in calculating ratios of where Rocketship's spending differs from spending at other



1 charter or public schools. If, for example, Rocketship spends less on special education on a  
 2 per pupil basis than do public schools in the same geographic area, one may ask where the  
 3 unspent money is being spent. If administrator salaries are higher on a per pupil basis at  
 4 Rocketship than at other similar schools, one could conclude that some of the money not  
 5 spent on special education is being spent on administrator salaries.

## 6 **Are There Gaps or Anomalies in the Data?**

7 All of the sources mentioned above should be in basic agreement, i.e. the LCFF funding  
 8 received by a Rocketship charter school should match what the state thinks it's sending to  
 9 the school, what the school reports to the state it received and spent, what independent  
 10 auditors report the school received and spent, and what it actually spent. Further, bond  
 11 prospectuses and Security Exchange Commission (SEC) filings should be in agreement  
 12 with themselves and with budgets. If these figures are not in agreement, something is  
 13 amiss and should be investigated.

14 In some fashion or another, all profit must originate from Rocketship's revenue. In the  
 15 case of the sale-leaseback of facilities, for example, the rent over and above market rates  
 16 constitutes the profit, and this is an operational expense ultimately paid for by taxes. If  
 17 facilities are bought with public dollars (i.e. grants) and subsequently sold, the net  
 18 proceeds are profit.

19 Determining whether there are gaps or anomalies in a charter school's financial data is  
 20 time-consuming but not very complex. Reviewing the data is not difficult – usually there a  
 21 no advanced algorithms to apply; basic arithmetic may be used to check if all the numbers  
 22 add up.

23 When looking at financial statements, one should look for:

- 24 • Unusually large (or small) entries
- 25 • Unusual changes year-to-year

- Unusual ratios
- Totals which do not add up or which exceed their component parts
- Entries that are not supported by detail elsewhere

#### ***Triangulation***

Another technique for determining if there are gaps or anomalies is to use triangulation. Triangulation is the use of multiple sources of data. While triangulation in the social science research often refers to the mixed methods use of quantitative and qualitative methodologies, the common definition refers to the analysis of multiple forms of corroborating evidence in the form of financial and media documentation. For example, Bhandari (2022) notes that one of the forms of triangulation is “[u]sing data from different times, spaces and people” and also that “[t]riangulation in research means using multiple datasets, methods, theories and/or investigators to address a research question. It’s a research strategy that can help you enhance the validity and credibility of your findings.”<sup>31</sup>

In the search of gaps or anomalies, one might ask questions such as:

- Are the data accessible, or even present? Charter schools are notorious for simply not filing required documents or filing horrendously late, or submitting incomplete filings. Petitions are not usually a problem because without a petition, or with a materially incomplete petition, the petition will not be granted. However, once a school is operational, late or missing filings will not bring everything to a halt. Although Rocketship was fined for failing an attendance audit, it was allowed to continue to operate.
- Have the data been fudged? There are forensic techniques (e.g. Benford’s Law) that can point to suspect data (Zhu et al., 2021). There is also triangulation which involves comparing one source of data with another to see if they match. For example, charter petitions make forecasts of revenue and expenses. How accurate were those forecasts? Were the reasons given for anomalies plausible? foreseeable? reasonable? One mistake is not usually a sign that something is being covered up, but several large mistakes usually are.

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<sup>31</sup>Triangulation does not imply exactly three concepts or ideas; often, as is in this dissertation, more than three concepts, ideas, data are combined in the analysis.

- California requires that LEAs meet the numbers they previously forecast or explain why they didn't meet those numbers, and certify they can meet their financial obligations the current year, and for the next two years. If an LEA cannot certify that they did and that they can, they might receive a visit from the California Department of Education's Financial Crisis & Management Assistance Team (FCMAT), and in the extreme case be subject to a state takeover or to involuntary closure.

After the documents and data have been collected and cleaned<sup>32</sup>, this study will look at comparing Rocketship's financials to traditional public schools and districts, and to other charter schools and charter school chains.

### **Are There More Serious Problems?**

Unfortunately, charter schools and charter school chains have a long history of various kinds of fraud. Lafer (2017), In the Public Interest (2018), Burris et al. (2020), and Burris and Bryant (2020), are just a few of the reports that detail fraud and waste in charter schools. Although Rocketship has engaged in some questionable activities, it has not been implicated in anything illegal.<sup>33</sup> But with billions of dollars allocated to charter schools for facilities in the last 15 years in California alone (Lafer, 2017, p. 4), coupled with lax or no oversight, the temptation to misappropriate funds must be strong. It is also instructive to note that Californian charter schools have fought tooth and nail to prevent any laws that would increase transparency or hold charter operators to the same conflict-of-interest standards that public schools and other government entities are held to. While the charter sector has for the most part been successful in warding off demands for accountability, the Attorney General of California issued an official ruling in 2018 stating that the Brown Act,

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<sup>32</sup>Raw data needs to be prepared so that entries are uniform across all elements of a dataset: Missing data might have to be synthesized, units made uniform, outliers removed, etc.

<sup>33</sup>Rocketship schools in Santa Clara have had ties with a virtual charter school serving special education students hundred of miles away. Rocketship has also collected pandemic-relief funds intended for businesses and not available to public schools.

1 the CPRA, and Government Code §1090 apply to charter schools as well as to other LEAs  
2 (Becerra & Medeiros, 2018).

3 However, it's not necessary to misappropriate funds to make money off of charter  
4 school facilities. As the report *Fraud and Waste in California's Charter Schools* from In the  
5 Public Interest details,

6 While charter schools constructed with general obligation bonds cannot be  
7 sold or used for anything other than the authorized school, schools  
8 constructed with tax-exempt conduit bonds become the private property of  
9 the charter operator. Even if the charter is revoked, neither the state nor a local  
10 school district can take control of this property. Additionally, schools  
11 constructed with private funding subsidized by New Market Tax Credits or  
12 acquired with private funds but whose mortgage payments are reimbursed  
13 through the Charter Facilities Grant Program (known as "SB740") are typically  
14 owned without restriction. In the Public Interest (2018, p. 6)

15 Rocketship has issued just shy of \$90M of tax-exempt bonds to "finance and/or refinance  
16 the acquisition, construction, expansion, remodeling, renovation, improvement,  
17 furnishing and equipping of the land and facilities" (California School Finance Authority,  
18 2015b, 2015a, 2017b, 2017a). These conduit bonds are exactly the kind referenced in In the  
19 Public Interest (2018). The properties owned or leased are partially paid for out of public  
20 funds but are privately owned.

## 21 **Red Flags**

22 When looking at financial statements, there are a number of indicators that something  
23 might be amiss (N.Orrell, personal communication, December 23, 2021):

- 24 • Absent strong financial controls
- 25 • Loose controls on accessing banks accounts
- 26 • Absent anti-fraud statements

- 1 • Misplaced or misaligned incentives and goals
  - 2 • Performance just above target multiple times
  - 3 • Working on weekends
  - 4 • Single person oversees an account
  - 5 • Repeated contracting with a “supplier” for a fixed amount
  - 6 • Hidden bank accounts
  - 7 • Repeated transactions just below materiality
  - 8 • Transactions not at arm’s length
- 9 Many of these items are judgment calls, i.e. they have exceedingly fuzzy boundaries.
- 10 Nonetheless, if several indicators are present, it should raise a red flag.

### 11 ***Analyzing Bond Financing***

12 Bond financing can be both complicated (a hard problem, but solution methods exist) and

13 complex (many unknowns and interrelated factors). Illustrating this are two examples of

14 the analysis from just a single prospectus, that of Rocketship’s \$43M bond offering. That

15 offering is described in the 536 pages which comprise “\$42,160,000 Charter School Revenue

16 Bonds (Rocketship Education - Obligated Group).” The \$43M offering is complicated

17 because there are many moving parts which are described in the offering in the

18 well-known language of bond finance. Terms, rates, contingencies, amounts, dates, and

19 required performance are all specified in a fashion that has withstood legal onslaught

20 many times over. But the offering is also complex because it must also convince others that

21 its predictions are reasonable. The most important of those predictions is that the issuer

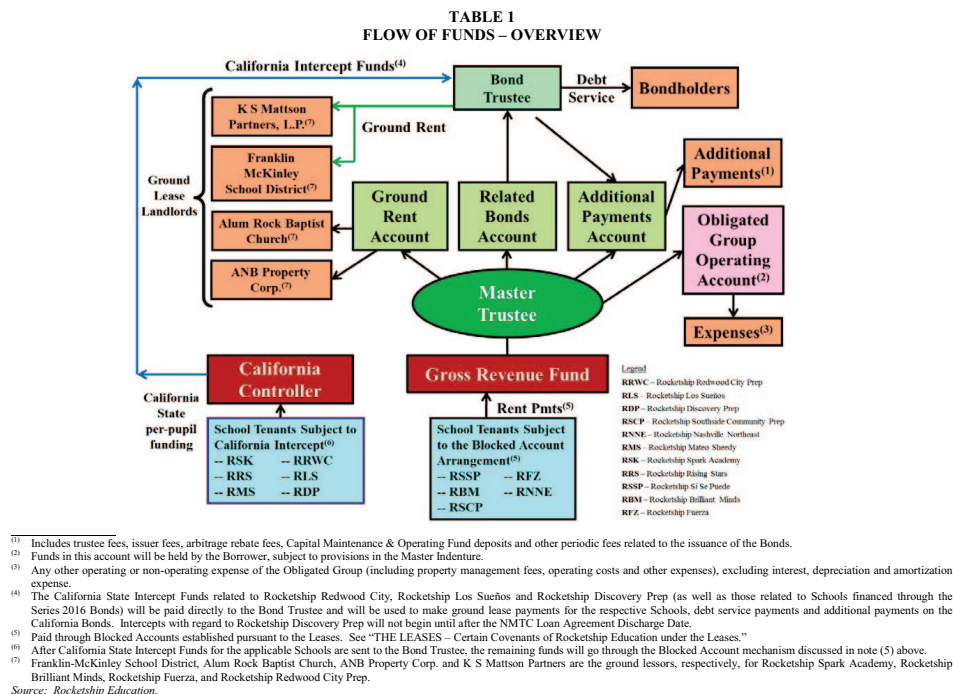
22 can pay the interest and repay the principal when they due.

23 Figure 2 *Flow of Funds: Overview* gives the overall picture and shows how rents from

24 schools (blue) are “intercepted” by the California Controller (red) and paid directly to

25 landlords, or paid into the Gross Revenue Fund (red) from which the Master Trustee pays

**Figure 2**  
*Flow of Funds: Overview*



53

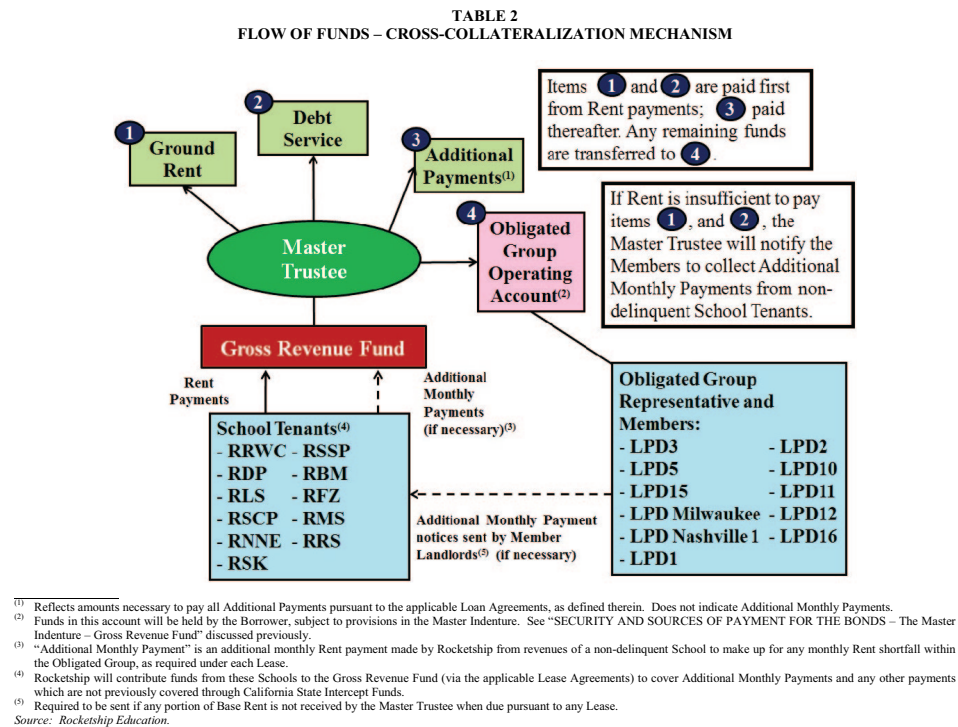
Note: California School Finance Authority (2017a, p. 53). In the public domain.

1 lessors (orange) and bond holders and expense accounts (orange). What is not shown is the  
 2 \$750 per ADA (in 2017, rising to \$1,211 in 2020–21) that Rocketship will apply to lease  
 3 payments. Since money is fungible, the State of California is giving Rocketship between  
 4 \$2.4 and \$3.7M depending on the year, money they would otherwise not have. This is  
 5 effectively profit.

6 The next figure, Figure 3 “*Flow of Funds: Cross-Collateralization*” adds an important detail:  
 7 how Rocketship uses its assets as collateral more than once.<sup>34</sup> In this case, if the payments  
 8 of “School Tenants” are insufficient, the Master Trustee may require additional monthly

<sup>34</sup> *Cross-collateralization* means using an asset as collateral for two or more obligations, here lease and bond payments.

**Figure 3**  
*Flow of Funds: Cross-Collateralization*



Note: California School Finance Authority (2017a, p. 55). In the public domain.

1 payments from the “Obligated Group Representatives and Member” to supplement those  
2 from “School Tenants”.

3 These two examples show the kind of analysis that is needed to characterize a bond  
4 offering.

5 **How Does Rocketship Compare?**

6 **Demographic Data**

7 When searching for anomalous data, individual Rocketship schools need to be compared to  
8 individual traditional public schools or to individual charter schools, but only after making

1 any needed adjustments to account for the demographic contexts in which the schools  
 2 operate. It makes no sense to compare the finances of, say, Rocketship Mateo Sheedy in  
 3 San José with the finances of the Westside Union Elementary School in Los Baños, less  
 4 than 65 miles away as the crow flies. One is a medium-sized charter school in a large urban  
 5 school district, the other is a larger public school in a rural public district. This means that  
 6 demographic data must be used along with financial data to obtain valid and useful  
 7 comparisons.

8 When it comes to representation, scatter plots are an easy-to-understand way of  
 9 presenting many individual data points. Indeed, Bruce D. Baker makes frequent use of  
 10 scatter plots in *Educational Inequality and School Finance: Why Money Matters for America's*  
 11 *Students* to capture how outcomes vary over resources (B. D. Baker, 2018, p. 209).

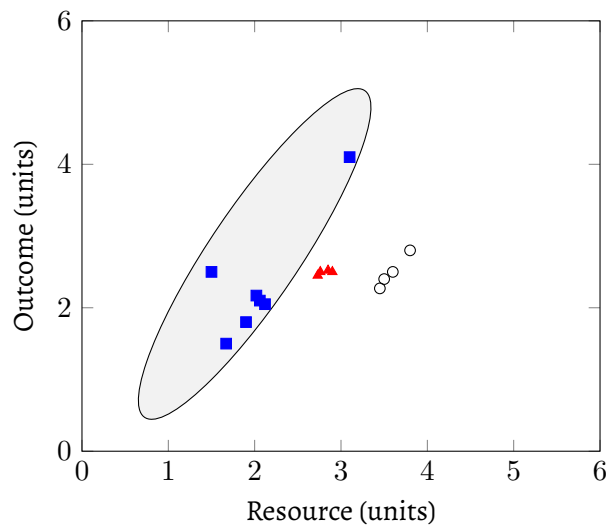
12 B. D. Baker and Richards suggest using a dozen or so indexes to measure institutional  
 13 performance like Cost per Classroom or Effort to Succeed (B. D. Baker & Richards, 2004,  
 14 p. 82), and a suitable choice of indices vs schools is a good way of spotting anomalies.

15 Figure 4 is an example of a scatter plot. The data is completely made up just to illustrate  
 16 what a scatter plot might look like. One could interpret the scatter plot to mean that the  
 17 Rocketship schools, those withing the grey ellipse and shown as blue squares, fall outside  
 18 the normal range of other, comparison schools, shown as red triangles and white circles.  
 19 The units could be, for example, number of students/school vs number of teachers/school,  
 20 or size of facility vs lease cost/sq. ft.

21 If needed, I intend to make use of the following datasets that specialize in education.

- 22 • Data from the United States Department of Education, primarily the National  
 23 Center for Education Statistics (NCES). These datasets ( 500) are searchable online  
 24 using the Open Data Platform <http://nces.ed.gov/>. Of particular interest is the  
 25 massive Digest of Education Statistics, produced annually from 1990 onwards. The  
 26 Digest for 2019 runs to 651 pages.
- 27 • The NCES Open Data Platform can analyze over 15,000 data sets in its collection.





**Figure 4**  
*An example scatter plot*

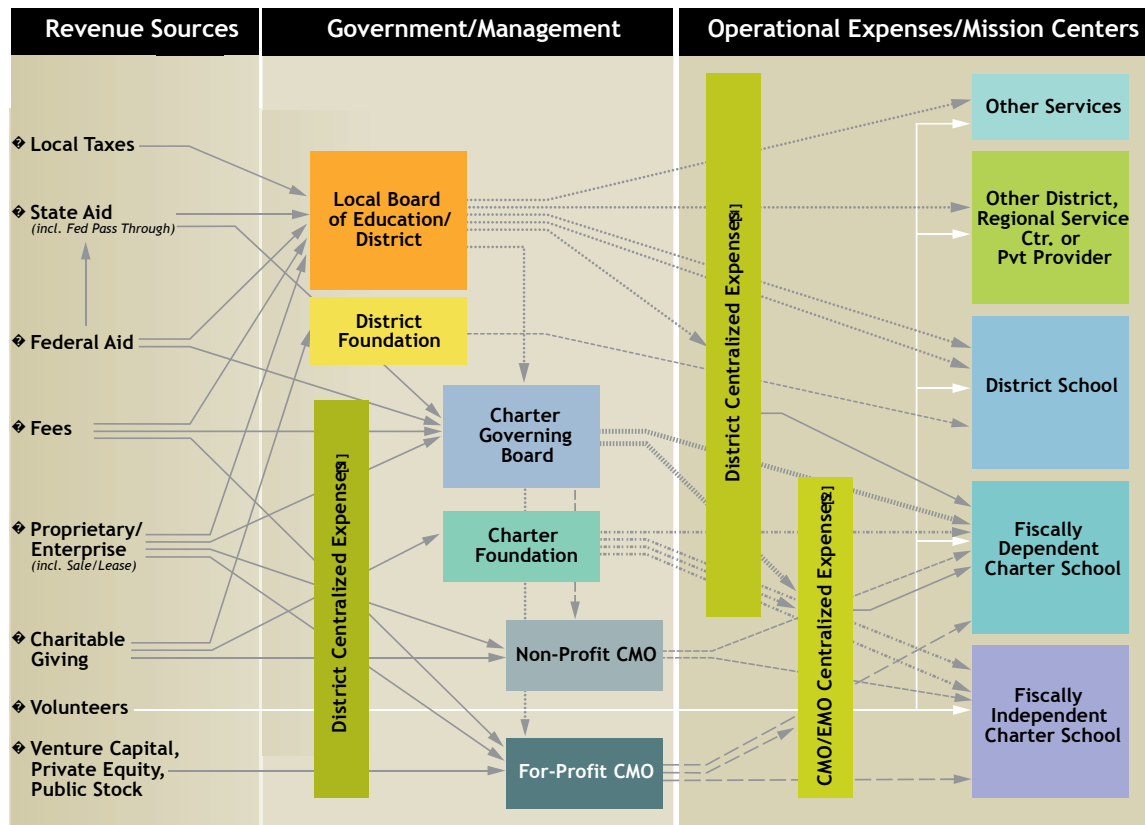
- The Institute of Education Sciences, which is part of the NCES, maintains DataLab, a tool to analyze a very large number datasets, some of which span years, thus enabling longitudinal studies to be undertaken
- The Stanford Educational Data Archive (SEDA) is a carefully cleaned and curated dataset that includes

... a range of detailed data on educational conditions, contexts, and outcomes in schools and school districts across the United States. It includes data at a range of institutional and geographic levels of aggregation, including schools, districts, counties, commuting zones, metropolitan areas, and states. It includes measures of academic achievement, achievement gaps, school and neighborhood racial and socioeconomic composition, school and neighborhood racial and socioeconomic segregation patterns, and other features of the schooling system.

Reardon.etal2021

- The National Assessment of Educational Progress (NAEP), both the current results and the long-term trend results.
- The Early Childhood Longitudinal Studies (ECLS), kindergarten cohorts of 1998 & 2011.

**Figure 5**  
*Operating Resource Flows*



Note: ~~B.~~ Baker and Miron (2015, p. 16). Used with permission.

# 1 What About the Flow of Money Through Rocketship?

2 Since a goal of this dissertation is to map the flow of money into and out of Rocketship, I  
 3 will use diagrams similar to the one used by B. Baker and Miron (2015), which is  
 4 reproduced here as Figure 5.

5 In this example, money flows from left to right, and there are no loops. Colors are used  
 6 merely to distinguish the various blocks.

## Findings and Results

Recall this study's research questions:

**Research question #1** How are Rocketship finances similar to or different from other charter schools, charter school chains, or traditional schools?

**Research question #2** How are Rocketship's attributes and actions similar to other privatization efforts in the United States?

**Research question #3** Has Rocketship structured itself to earn a return to investors, and if so, how?

**Research Question #1**

**Research Question #2**

**Research Question #3**



## Discussion

1

2 This chapter discusses my results and how they should be interpreted.

Evaluating?

3

**Judging** Case Studies



## School Financing in California

Public school districts and charter schools receive funding from the state and the federal governments which most often goes into the district's or school's General Fund. A small portion of funding is restricted to particular programs, and sometimes that money goes into a specialized and restricted fund, but the norm is for the General Fund to account for the majority of transactions.

The first table to look at is the aggregate of all funds as shown in Figure 6 on the following page, *LASD 2019–20 All Funds Summary*. It is a very high-level summary of a school's or a district's budget. It's a snapshot of what the district's revenues are expected to be, roughly where that revenue is expected to come from, what the district's expenses are expected to be, and whether revenue and expenses are expected to be in balance. It is the rough equivalent of a business income statement.<sup>35</sup>

Because Figure 6 on the next page, *LASD 2019–20 All Funds Summary*, is a snapshot, detecting unusual changes year-to-year is not possible. Changes are detectable using Figure 7 on page 78 which compares fiscal two years. However, with just a budget summary, one can nonetheless note some interesting ratios, for example, the percentage of expenses spent on salaries and benefits. For LASD in 2021–20, this is 80.18% which is in line with what is typical of elementary school districts in California. One can calculate the state-wide average for all districts for 2019–20 using the Data Table at [www.ed-data.org/state/CA](http://www.ed-data.org/state/CA), and that comes out to 83.71%. So, LASD spends a little less on salaries and benefits than the average elementary school district in California does.

Calculating this ratio brings up a general issue: What is an appropriate comparison group? In this particular case, the Ed-Data web site does not have county-level financial

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<sup>35</sup>Schools group their finances by funds. Most of their revenue goes into the general fund, and most of their expenses come out of the general fund. Some transactions must by law be accounted for in different funds. The three largest are the General Fund, the Special Revenue Fund, and the Capital Projects Fund, and together they account for virtually all of the financial activity of LASD. Other schools may have a different set of funds, but all contain a General Fund that is the primary fund for their day-to-day financial activities.

**Figure 6**  
*LASD 2019–20 All Funds Summary*

	General Fund	Special Revenue Funds	Capital Project Funds	Total All Governmental Funds
<b>REVENUES</b>				
LCFF/Revenue Limit Sources	43,551,141	300,174	-	43,851,315
Federal Revenue	1,155,694	-	-	1,155,694
Other State Revenue	3,417,200	-	-	3,417,200
Other Local Revenue	16,387,903	22,500	1,243,180	17,653,583
<b>TOTAL REVENUES</b>	<b>64,511,938</b>	<b>322,674</b>	<b>1,243,180</b>	<b>66,077,792</b>
<b>EXPENDITURES</b>				
Certificated Salaries	25,965,289	-	-	25,965,289
Classified Salaries	10,606,613	-	-	10,606,613
Employee Benefits	16,904,698	-	-	16,904,698
Books & Supplies	1,526,084	-	-	1,526,084
Services & Other Operating Expenditures	8,453,291	300,000	1,428,474	10,181,765
Capital Outlay	162,342	-	43,000	205,342
Other Outgo	341,064	-	-	341,064
<b>TOTAL EXPENDITURES</b>	<b>63,959,381</b>	<b>300,000</b>	<b>1,471,474</b>	<b>65,730,855</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>552,558</b>	<b>22,674</b>	<b>(228,294)</b>	<b>346,938</b>
<b>OTHER FINANCING SOURCES/USES</b>				
Interfund Transfers In	-	-	-	-
Interfund Transfers Out	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES/USES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE/(DECREASE) IN FUND BALANCE</b>	<b>552,558</b>	<b>22,674</b>	<b>(228,294)</b>	<b>346,938</b>
<b>BEGINNING FUND BALANCES</b>	<b>107,727</b>	<b>3,603,040</b>	<b>1,745,439</b>	<b>5,456,206</b>
<b>ENDING FUND BALANCES</b>	<b>660,284</b>	<b>3,625,714</b>	<b>1,517,145</b>	<b>5,803,144</b>

*\$1 dollar difference in General Fund Ending Fund Balance due to rounding error.*

*Note:* Kenyon (2019, p. 38). In the public domain.

1 data, so the only comparison which can easily be made is at the state level. But should the  
2 state-level comparison group be all districts, or just elementary school districts? Should  
3 “basic aid” districts, also called “community-funded” districts, districts whose property tax  
4 revenues exceed their LCFF entitlement, be included or not? Again, the Data Table tab on  
5 [www.ed-data.or/state/CA](http://www.ed-data.or/state/CA) does not filter by type of district (although the Graph tab  
6 does), so, in this case, using just the Ed-Data data, our choices are forced since we cannot  
7 use state-level data.

8 The other common financial business report is the balance sheet, which identifies  
9 assets and liabilities. In the educational world, this is the statement of net position.



1 Figure 7 on the next page shows LASD's assets and liabilities at the end of the 2019–20  
 2 school year. Note that unlike a balance sheet, a statement of net position for schools (and  
 3 other governmental entities) does not balance; assets are not exactly equal to liabilities.<sup>36</sup>

4 As an example of a number which stands out and is therefore worth investigating, is  
 5 the large increase in Capital Assets, year over year, an increase of \$132M (line 3 of 7 on the  
 6 following page, *LASD YE 2020 Summary of Net Position*). In “Comprehensive Annual  
 7 Financial Report FY 2020,” six notes appear immediately after Figure 7, and these provide  
 8 an explanation for the increase: LASD purchased a property whose cost was \$134.9M net of  
 9 \$2.7M in depreciation. This purchase shows up again in line 1 of Figure 10 on page 80 and  
 10 explains the enormous 9052% increase in the value of LASD's largest asset in FY2019, land.

11 In addition, the “Comprehensive Annual Financial Report FY 2020” contains a section,  
 12 on pp. 19–45, called *Notes to the Basic Financial Statements*. These notes are an integral part  
 13 of the certified, audited annual statement, just as they are in audited financial reports in  
 14 the business world; they cannot be omitted, and must be accurate and complete. Note 7B  
 15 of Kenyon (2021a, p. 7), General Obligation (GO) Bond Anticipation Notes (BANs), explains  
 16 how LASD uses a common technique to convert general obligation bonds into cash: issue  
 17 BANs, backed by general obligation bonds, and payable when those GO bonds are issued.<sup>37</sup>

18 It's important to remember is that although changes in finances can be complicated,  
 19 they should also be adequately explained in a transparent and complete CAFR. When the  
 20 documents are incomplete or opaque is when serious concerns should be raised.

21 Within a CAFR are five summaries of financial tables that go one level deeper than the  
 22 All Funds Summary. These are

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<sup>36</sup>Business accountants achieve this seemingly low probability equality by adding a fudge factor, *owner's equity*, so that *assets = liabilities + equity* always, exactly.

<sup>37</sup>One reason this makes sense is that interest rate on BANs is less than the interest rate of GO bonds, so LASD makes money by issuing BANs to pay off GO bonds. In a different situation, school districts issue tax revenue anticipation notes (TRANs) because property taxes are paid by taxpayers semi-annually and salaries are paid monthly, so districts often and predictably do not have the cash on hand to pay their employees. The solution is to issue TRANs backed by anticipated revenue, and are paid off when the school or district receives the funds.

**Figure 7**  
*LASD YE 2020 Summary of Net Position*

Table 1: Summary of Net Position				
	June 30, 2019	June 30, 2020	Change	Percentage Change
<b>Assets</b>				
Current and Other Assets	\$ 20,044,318	\$ 65,493,755	\$ 45,449,437	227%
Capital Assets	89,045,541	221,076,448	132,030,907	148%
<b>Total Assets</b>	<b>\$ 109,089,859</b>	<b>\$ 286,570,203</b>	<b>\$ 177,480,344</b>	<b>163%</b>
<i>Deferred Outflows of Resources</i>	\$ 22,094,579	\$ 19,321,134	\$ (2,773,445)	13%
<b>Liabilities</b>				
Other Liabilities	\$ 2,665,639	\$ 22,680,079	\$ 20,014,440	751%
Long Term Liabilities	141,558,936	269,006,215	127,447,279	90%
<b>Total Liabilities</b>	<b>\$ 144,224,575</b>	<b>\$ 291,686,294</b>	<b>\$ 147,461,719</b>	<b>102%</b>
<i>Deferred Inflows of Resources</i>	\$ 5,549,865	\$ 9,680,588	\$ 4,130,723	74%
<b>Net Position</b>				
Net Investment in Capital Assets	\$ 37,623,977	\$ 64,225,229	\$ 26,601,252	71%
Restricted	7,726,718	6,825,216	(901,502)	12%
Unrestricted	(63,940,697)	(66,525,990)	(2,585,293)	4%
<b>Total Net Position</b>	<b>\$ (18,590,002)</b>	<b>\$ 4,524,455</b>	<b>\$ 23,114,457</b>	<b>124%</b>

Note: Kenyon (2021a, p. 6). Public record.

- 1 • Summary of Net Position (Figure 7)
- 2 • Change in Net Position (Figure 8 on the next page)
- 3 • Net Costs of Services (Figure 9 on the facing page)
- 4 • Capital Assets (Figure 10 on page 80)
- 5 • Long-term Liabilities (Figure 11 on page 80)

6 LASD rolls up its detailed financial data into a single multi-year summary, as shown in  
 7 Figure 12 on page 81. In addition to purely financial data, the multi-year summary includes  
 8 the key assumptions that were behind the numbers. In fact, the first section of Figure 12 is  
 9 only assumptions, and it is those assumptions which drive the numbers in Sections 2–4.

**Figure 8**  
*LASD YE 2020 Change of Net Position*

Table 2: Change in Net Position				
	June 30, 2019	June 30, 2020	Change	Percentage Change
<b>Revenues</b>				
Program Revenues:				
Charges for Services	\$ -	\$ 446,710	\$ 446,710	100%
Operating Grants and Contributions	10,052,323	7,968,769	(2,083,554)	-21%
Capital Grants and Contributions	-	23,000,000	23,000,000	100%
General Revenues:				
Property Taxes	63,216,247	65,285,688	2,069,441	3%
Grants and Entitlements - Unrestricted	3,933,401	2,511,734	(1,421,667)	-36%
Other	7,347,728	7,498,513	150,785	2%
<b>Total Revenues</b>	<b>84,549,699</b>	<b>106,711,414</b>	<b>22,161,715</b>	<b>26%</b>
<b>Program Expenses</b>				
Instruction	52,349,163	54,025,994	1,676,831	3%
Support Services:				
Instruction-related services	7,219,873	7,282,281	62,408	1%
Pupil services	4,381,022	4,334,692	(46,330)	-1%
General administration	4,658,051	4,519,337	(138,714)	-3%
Plant services	8,526,753	8,569,628	42,875	1%
Payments to other agencies	-	7,036	7,036	100%
Interest and Fiscal Charges	2,893,333	4,857,989	1,964,656	68%
<b>Total Expenses</b>	<b>80,028,195</b>	<b>83,596,957</b>	<b>3,568,762</b>	<b>4%</b>
<b>Change in Net Position</b>	<b>4,521,504</b>	<b>23,114,457</b>	<b>18,592,953</b>	<b>411%</b>
<b>Beginning Net Position</b>	<b>(23,111,506)</b>	<b>(18,590,002)</b>	<b>4,521,504</b>	<b>20%</b>
<b>Ending Net Position</b>	<b>\$ (18,590,002)</b>	<b>\$ 4,524,455</b>	<b>\$ 23,114,457</b>	<b>124%</b>

Note: Kenyon (2021a, p. 7). Public record.

**Figure 9**  
*LASD YE 2020 Net Cost of Services*

Table 3: Net Cost of Services				
	Net Cost of Services for the Fiscal Year Ended June 30, 2019	Net Cost of Services for the Fiscal Year Ended June 30, 2020	Change	Percentage Change
Instruction	\$ 43,345,309	\$ 24,008,344	\$ (19,336,965)	-45%
Support Services:				
Instruction-related services	6,608,564	6,681,271	72,707	1%
Pupil services	4,033,498	4,019,853	(13,645)	0%
General administration	4,568,746	4,444,973	(123,773)	-3%
Plant services	8,526,422	8,162,012	(364,410)	-4%
Payments to other agencies	-	7,036	7,036	100%
Interest and Fiscal Charges	2,893,333	4,857,989	1,964,656	68%
<b>Total Expenses</b>	<b>\$ 69,975,872</b>	<b>\$ 52,181,478</b>	<b>\$ (17,794,394)</b>	<b>-25%</b>

Note: Kenyon (2021a, p. 9). Public record.

**Figure 10**  
*LASD YE 2020 Capital Assets*

Table 5: Capital Assets				
	June 30, 2019	June 30, 2020	Increase (Decrease)	Percentage Change
Land	\$ 1,488,885	\$ 136,262,476	\$ 134,773,591	9052%
Site improvements	1,225,056	1,225,056	-	0%
Buildings and improvements	129,573,748	130,339,280	765,532	1%
Equipment	4,636,939	3,871,407	(765,532)	-17%
<b>Total</b>	<b>136,924,628</b>	<b>271,698,219</b>	<b>134,773,591</b>	<b>98%</b>
<i>Less: Accumulated Depreciation</i>	<i>47,879,087</i>	<i>50,621,771</i>	<i>2,742,684</i>	<i>6%</i>
<b>Net Capital Assets</b>	<b>\$ 89,045,541</b>	<b>\$ 221,076,448</b>	<b>\$ 132,030,907</b>	<b>148%</b>

Note: Kenyon (2021a, p. 10). Public record.

**Figure 11**  
*LASD YE 2020 Long-term Liabilities*

Table 6: Long-term Liabilities				
	June 30, 2019	June 30, 2020	Increase (Decrease)	Percentage Change
Long-term Debt:				
General obligation bonds:				
Current interest bonds	\$ 40,665,000	\$ 95,850,000	\$ 55,185,000	136%
Unamortized bond premium	4,596,243	9,376,755	4,780,512	104%
Bond anticipation notes	10,000,000	79,000,000	69,000,000	690%
Lease-leaseback obligations	2,405,645	2,185,036	(220,609)	-9%
Subtotal long-term debt	57,666,888	186,411,791	128,744,903	223%
Other Long-term Liabilities:				
Net pension liabilities	64,535,048	65,113,381	578,333	1%
Net OPEB obligation	18,914,928	16,922,035	(1,992,893)	-11%
Compensated absences	442,072	559,008	116,936	26%
Subtotal other long-term liabilities	83,892,048	82,594,424	(1,297,624)	-2%
<b>Total Long-term Liabilities</b>	<b>\$ 141,558,936</b>	<b>\$ 269,006,215</b>	<b>\$ 127,447,279</b>	<b>90%</b>

Note: Kenyon (2021a, p. 11). Public record.

**Figure 12**  
*LASD 2019–20 Multi-Year Projection*

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
% Change in Prop Tax Collections	7.06%	4.00%	4.00%	4.00%	4.00%	4.00%
Enrollment	3,574	3,669	3,725	3,761	3,792	3,813
In-district students @ charter school	1043	1061	1061	1061	1061	1061
Total Enrollment, LASD + BCS	4,617	4,730	4,786	4,822	4,853	4,874
Transfer of Prop Tax to BCS	9,187,469	9,926,004	10,210,982	10,494,976	10,785,723	10,450,068
Cost-of-Living Adjustment (COLA)	0.00%	4.05%	2.98%	3.05%	3.00%	3.00%
Foundation Funding	2,400,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Parcel Tax	820	820	820	820	820	597
Class Size, K-3	19	22	22	22	22	22
Class Size, 4-6	25	25	25	25	25	25
Class Size, 7-8	25	26	26	26	26	26
Teachers, FTE	226	220	222	223	225	226
Raises (across-the-board)	2.00%	2.00%	0.00%	0.00%	0.00%	0.00%
Cost of Step/Column Movement	355,034	355,276	357,641	358,823	361,188	362,370
Step/Col (converted to % salary inc.)	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Health Benefit rate increases	5.0%	7.5%	7.5%	7.5%	7.5%	7.5%
Health Benefits (converted to % salary inc.)	0.9%	1.4%	1.4%	1.4%	1.6%	1.7%
STRS rate increases	-1.0%	0.8%	1.1%	0.0%	0.0%	0.0%
Total Comp (as % of salary)	3.2%	5.4%	3.7%	2.6%	2.8%	2.9%
LCFF Sources	47,831,288	48,960,469	50,930,778	52,994,478	55,150,308	58,023,166
Federal Sources	2,966,976	1,128,389	1,162,015	1,197,456	1,233,380	1,270,382
Other State Sources	7,460,221	3,799,074	3,848,990	3,863,445	3,874,123	3,881,107
Other Local Sources	14,942,614	15,253,502	15,910,684	15,977,729	16,049,330	13,308,736
<b>Total Revenues</b>	<b>73,201,099</b>	<b>69,141,434</b>	<b>71,852,467</b>	<b>74,033,108</b>	<b>76,307,141</b>	<b>76,483,390</b>
Certificated Salaries	28,473,085	26,804,421	27,081,223	27,286,386	27,563,386	27,771,946
Classified Salaries	12,146,432	11,964,000	12,072,253	12,178,439	12,284,470	12,390,750
Employee Benefits	16,708,058	17,877,672	19,185,547	19,853,541	20,542,397	21,163,633
Retiree Benefits	934,490	960,791	1,001,625	1,044,194	1,088,572	1,134,836
Books & Supplies	3,926,089	1,508,677	1,542,077	1,573,747	1,607,611	1,640,136
Contract Services	9,782,495	8,879,712	8,999,752	9,143,511	9,308,868	9,477,329
Capital Outlay	251,893	235,312	240,835	246,658	253,080	259,653
Other	8,262	8,262	8,262	8,262	8,262	8,262
<b>Total Expenses</b>	<b>72,230,804</b>	<b>68,238,847</b>	<b>70,131,574</b>	<b>71,334,737</b>	<b>72,656,646</b>	<b>73,846,545</b>
<b>Net Change</b>	<b>970,295</b>	<b>902,587</b>	<b>1,720,892</b>	<b>2,698,370</b>	<b>3,650,495</b>	<b>2,636,845</b>
Adjusted Beginning Balance	4,469,801	5,440,096	6,342,683	8,063,576	10,761,946	14,412,441
Ending Balance	5,440,096	6,342,683	8,063,576	10,761,946	14,412,441	17,049,286
Encumbrances	5,000	5,000	5,000	5,000	5,000	5,000
General Fund Reserves	5,435,096	6,337,683	8,058,576	10,756,946	14,407,441	17,044,286
Reserves, Special Reserve Funds	3,590,562	3,630,562	3,690,466	3,760,585	3,839,557	3,920,188
<b>Total Reserves</b>	<b>9,025,657</b>	<b>9,968,245</b>	<b>11,749,042</b>	<b>14,517,531</b>	<b>18,246,998</b>	<b>20,964,474</b>
<b>% of Expense</b>	<b>12.50%</b>	<b>14.61%</b>	<b>16.75%</b>	<b>20.35%</b>	<b>25.11%</b>	<b>28.39%</b>

Note: Kenyon (2021b, p. 137) Public record.

- 1 The value of this summary is that it captures in one table the key data needed to make
- 2 budgetary decisions and thus might serve as a template for what data is important.



2

## Abbreviations

3	<b>ARUSD</b> Alum Rock Unified School District
4	<b>BAN</b> Bond anticipation note
5	<b>CAFR</b> Comprehensive Annual Financial Report
6	<b>CDE</b> California Department of Education
7	<b>CMO</b> Charter school management organization
8	<b>COE</b> County Office of Education
9	<b>COVID-19</b> Corona Virus Disease 2019
10	<b>CSBA</b> California School Boards Association
11	<b>DOE</b> U.S. Department of Education
12	<b>EC</b> Education Code of California law
13	<b>EMO</b> Education management organization
14	<b>GO bond</b> General obligation bond
15	<b>LASD</b> Los Altos School District
16	<b>LCAP</b> Local Control and Accountability Plan
17	<b>LCFF</b> Local Control Funding Formula
18	<b>LEA</b> Local education agency
19	<b>SACS</b> Standardized Account Code Structure
20	<b>SARC</b> School Accountability Report Card
21	<b>SARS-CoV-2</b> Severe Acute Respiratory Syndrome Corona Virus #2
22	<b>SCCBOE</b> Santa Clara County Board of Education
23	<b>SCCOE</b> Santa Clara County Office of Education
24	<b>SCC</b> Santa Clara County
25	<b>SEDA</b> Stanford Educational Data Archive
26	<b>TPS</b> Traditional Public School
27	<b>TRAN</b> Tax revenue anticipation note





## Glossary

**arm's length transaction** A transaction, usually financial, where all parties are independent and are self-interested.

**blended learning** A method of teaching where both in-person instruction and virtual instruction are used.

**charter school** A quasi-private school that is publicly funded but privately run.

**chartering authority** A governmental entity that grants charter schools the authority to operate and which provides oversight. In California, a chartering authority could be a public school district, a county office of education, or the California Department of Education.

**charter management organization (CMO)** "A non-profit organization that operates or manages a network of charter schools (either through a contract or as the charter holder) linked by centralized support, operations, and oversight." ((CA Dept of Education), 2021)

**cross-collateralization** A term from bond financing which indicates that an asset has been used as collateral in two different obligations.

**education management organization (EMO)** "A for-profit entity that operates or manages a network of charter schools (either through a contract or as the charter holder) linked by centralized support, operations, and oversight." ((CA Dept of Education), 2021)

**general obligation bonds** General obligation bonds are tax-exempt bonds backed by an LEA's property revenues. State law limits bond debt to 2.5% of total assessed valuation for unified school district and 1.25% for elementary and high school districts.

**public school** Public schools are funded by taxes and are governed by a publicly elected Board of Trustees. Public schools accept any and all students who wish to enroll, at any time of year, regardless of race, national origin, sexual orientation, gender, religion, or citizenship.

**revenue bonds** Tax-exempt bonds guaranteed by a schools revenue instead of by an LEA's property tax revenue.

**typical or neuro-typical children** Children without special needs.

1 **unduplicated pupils** The State of California augments school district revenue on a per  
2 pupil basis for every pupil that qualifies for free or reduced price lunch, or is an  
3 English language learner, or is a foster youth, but only an unduplicated basis.  
4 Notably, children with special needs are not considered *unduplicated pupils*. Neither  
5 are homeless children.

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## Colophon

This dissertation was created almost entirely<sup>38</sup> with free, open source programs. The fonts, the text editor, the markup language, the reference manager, the operating system, and many utilities are all FOSS (free, open source software).



The body and headings were set in 12pt Alegreya. The Alegreya family of serif & sans serif typefaces was designed by Juan Pablo del Peral of Huerta Tipográfica in 2011 and immediately won praise and awards. It is a classic Renaissance typeface, a kind that was first developed in the fourteenth and fifteenth centuries in northern Italy. It comes in Regular, Medium, Bold and Black weights, all of which are available in Roman and Italic styles. There is a full set of Greek and Cyrillic letters as well as Latin small caps. All have a full set of ligatures, and Old Style, and Lining numerals. Notably, all the numeral share the same width so they line up regardless of which style is being used. (Multiplication using Roman numerals, anyone?) If any criticism can be leveled against the Alegreya superfamily, it is that they don't come in display sizes and don't contain swash characters. Otherwise it is nearly perfect.



The programs  $\text{\TeX}$  &  $\text{\LaTeX}$  and the document class `memoir` were used to format this dissertation.  $\text{\LaTeX}$  was created by Leslie Lamport as a user-friendly version of one of the first digital typesetting systems,  $\text{\TeX}$ .  $\text{\TeX}$  is one of the masterpieces of computer programming whose author, Donald Knuth, won the Turing Award in 1974. It is a testament to Knuth's brilliance as both a mathematician and a programmer that  $\text{\TeX}$  is still in use more than four decades later and arguably has no peers when it comes to typesetting complex mathematics and scientific material. It is, however, awkward to use and hard to learn. Fortunately, Leslie Lamport wrapped  $\text{\TeX}$  in a macro system,  $\text{\LaTeX}$ , which was orders of magnitude easier to use than  $\text{\TeX}$  itself.

$\text{\LaTeX}$  is extraordinarily flexible because there are thousands of packages which implement specialized tasks. Currently, CTAN (the Comprehensive TeX Archive Network) has just shy of 6000 packages which can be downloaded. One of those packages implements the class `memoir` that was used here. It was written by Peter Wilson, and released in 2001. (I'm listed as a contributor to `memoir`, but in truth I really just corrected some minor typos.)




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<sup>38</sup>Two closed source, proprietary programs were used to manipulate PDF files. They could have been replaced with FOSS programs, but the results would not have been as high quality.

1        Wilson’s muse is Robert Bringhurst, author of *The Elements of Typographic Style*, the definitive  
 2        book on typography and book design. The package `memoir` would undoubtedly meet with  
 3        Bringhurst’s approval. The class `memoir` provides in one package nearly everything a person needs  
 4        to produce “beautiful books” (Knuth’s words). Although creating a bibliography, glossary, and an  
 5        index are possible in `memoir`, specialized packages are normally used instead of the built-in ones  
 6        supplied by `memoir`.

7                                                                \*                                

8        Zotero is a program to manage and maintain a bibliographic database and to provide citations  
 9        on demand. It, along with the editor Emacs (“an operating system disguised as an editor”) and the  
 10       package `reftex`, cooperate with `memoir` to provide a complete system for writing scholarly papers,  
 11       theses, reports, and dissertations.

12                                                                \*                                

13        All of these program run on Linux, a version of Unix. The particular distribution being used  
 14        here is called Arch Linux. It is notable that Linux, Emacs, and  $\text{\TeX}$  are all programs that are decades  
 15        old, have never been replaced or superseded, are constantly being improved, and are actively used.  
 16        They share a common set of characteristics: their fundamental architecture is sound, extensibility  
 17        is a core feature, and they and thousands of specialized packages are freely available. I predict that  
 18        iPhones will barely be a faint memory before Unix, Emacs, and  $\text{\TeX}$  fade from view.