


1 ROCKETSHIP EDUCATION:
2 AN EXPLORATORY PUBLIC POLICY CASE STUDY

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7 Doctor of Education

8 by
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1 ROCKETSHIP EDUCATION:
2 AN EXPLORATORY PUBLIC POLICY CASE STUDY

3 Abstract

4 This dissertation is an exploratory case study of the finances of the Rocketship
5 charter school chain. Rocketship is a not-for-profit, charter management
6 organization, one of the first in Santa Clara County, California. This study seeks
7 to determine if Rocketship yields profits for investors, despite it being a
8 non-profit entity, and if it does, how and where does it do so. In order to
9 characterize fairly and completely Rocketship's profitability, this study uses
10 publicly available documents to track money flowing in and out of Rocketship.
11 Using data from initial and renewal charter petitions, annual budget
12 documents, filings with county, state and federal government agencies, bond
13 prospectuses, tax credit programs, state and federal grants, plus data from
14 publicly available datasets, this study derives an estimate of Rocketship's
15 profitability. It found that [Results TBD]. [Conclusion TBD]. These results, it is
16 hoped, will serve to inform local, state, and federal legislatures when they
17 establish public policy for charter schools.

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

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Abbreviations

| | |
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| 1 | |
| 2 | ARUSD Alum Rock Unified School District |
| 3 | BAN Bond Anticipation Note |
| 4 | CAFR Comprehensive Annual Financial Report |
| 5 | CDE California Department Of Education |
| 6 | CMO Charter School Management Organization |
| 7 | COE County Office of Education |
| 8 | COVID-19 Corona Virus Disease 2019 |
| 9 | CPRA California Public Records Act |
| 10 | CSBA California School Boards Association |
| 11 | DOE U.S. Department of Education |
| 12 | EC Education Code of California |
| 13 | EMO Education Management Organization |
| 14 | FOIA (federal) Freedom of Information Act |
| 15 | GO bOnd General Obligation Bond |
| 16 | LASD Los Altos School District |
| 17 | LCAP Local Control and Accountability Plan |
| 18 | LCFF Local Control Funding Formula |
| 19 | LEA Local Education Agency |
| 20 | SACS Standardized Account Code Structure |
| 21 | SARC School Accountability Report Card |
| 22 | SARS-CoV-2 Severe Acute Respiratory Syndrome Corona Virus #2 |
| 23 | SCCBOE Santa Clara County Board of Education |
| 24 | SCCOE Santa Clara County Office of Education |
| 25 | SCC Santa Clara County |
| 26 | SEDA Stanford Educational Data Archive |
| 27 | TPS Traditional Public School |
| 28 | TRAN Tax Revenue Anticipation Note |

Glossary

FiXme Fatal: Italicize first use of glossary terms. FiXme Fatal: Make description terms normal font.

ADA Average Daily Attendance, the method that the state of California uses to measure the number of students in a school. An alternative is to use the number of students enrolled, some of whom may attend sporadically but still need to be educated when they do attend.

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

basic aid See “community funded”, the preferred term.

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)”. A type of charter school chain.

charter school chain One or more individual charter schools owned by or operated by a parent organization, i.e. a charter management organization or a education management organization.

community funded In California, if the local property tax revenue of a public school district exceeds the state minimum guarantee under Prop. 98, that district is called “community funded” (formerly “basic aid”).

cream skimming When charter schools select the best students to admit.

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

- 1 **double bottom line grantors** Grantors (philanthropies) which measure social
2 impact in addition to fiscal performance.
- 3 **education management organization (EMO)** “A for-profit entity that operates or
4 manages a network of charter schools (either through a contract or as the
5 charter holder) linked by centralized support, operations, and oversight.” ((CA
6 Dept of Education), 2021)
- 7 **general obligation bonds (GO)** General obligation bonds are tax-exempt bonds
8 backed by an LEA’s property revenues. State law limits bond debt to 2.5% of
9 total assessed valuation for unified school district and 1.25% for elementary
10 and high school districts.
- 11 **philanthrocapitalism** Using a market capitalism approach in non-profits.
- 12 **portfolio school district** A collection of diverse charter schools managed as
13 together.
- 14 **public school** Public schools are funded by property taxes and are governed by a
15 publicly elected Board of Trustees. Public schools accept any and all students
16 who wish to enroll, at any time of year, regardless of race, national origin,
17 sexual orientation, gender, religion, citizenship, ability, disability, or
18 language proficiency.
- 19 **related party transaction** A transaction, usually financial, where all parties are
20 not independent or are self-interested, i.e. when the transaction is not an
21 “arm’s length transaction”. A synonym for “self-dealing”.
- 22 **revenue bonds** Tax-exempt bonds guaranteed by a schools revenue instead of by
23 an LEA’s property tax revenue.
- 24 **school choice** The umbrella term used by “education reformers” to put positive
25 spin on the privatization of public education. Charter schools, school
26 vouchers, and educational savings accounts are the most common forms of
27 school choice.
- 28 **student pushout** When charter schools push their lowest performing students
29 out.
- 30 **tax-exempt conduit bonds** Bonds issued to make loans to entities other than
31 state or local governments are known as “conduit bonds” or “conduit issues”

1 and state or local governments that issue these bonds are known as “conduit
2 issuers.”

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

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

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.¹ 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.

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 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.²

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

¹The 50 states and the federal government spent \$734.9B in 2017–18. Using an inflation rate of 2%, spending for 2021–22 would be just shy of \$800B. (Author's estimate using data from "Revenues and Expenditures for Public Elementary and Secondary Education: FY 18", NCES, 2020)

²"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 exclusively to those who can afford to pay.

1 \$14M for just four seats and generated articles in the national press. Likewise, a
2 November 2016 statewide proposition in Massachusetts that sought to expand
3 charter schools was covered extensively by national newspapers with one advocacy
4 group spending more than \$15M (not including a \$425,000 fine for violating
5 campaign law). Betsy DeVos, U.S. Secretary of Education under the twice impeached
6 President Donald Trump, drew fierce criticism from the start of her tenure, criticism
7 which was endlessly reported on. What caused these uproars? Why was so much
8 money spent on these and other elections? The answer is charter schools.

9 Schools and Charter Schools

10 Most schools in the United States are either traditional public school (TPS),
11 charter schools, or private schools, with one catchall category: alternative schools.
12 Only two states, Nebraska and North Dakota, have resisted all forms of school choice;
13 all have private schools and an extensive public school system. By definition, school
14 choice encompasses charter, private, magnet, and homeschooling, i.e. every kind of
15 school traditional except public schools. But, because school vouchers in particular
16 are becoming more common, school choice now increasingly refers to school
17 vouchers in addition to charter schools (Enlow, 2022).

18 Schools, under this definition of school choice, take a number of forms: they can,
19 like TPSs be in-person, but unlike TPSs, they can also be online (virtual), or even a
20 blend of the two. How school choice is financed varies as well. School vouchers,
21 various types of tax-credits, savings accounts, and tax deductions, have all been used,
22 often augmented by tax dollars. The phrase “school choice” is also associated with 529
23 savings accounts, student income loans, social impact bonds, and

1 philanthrocapitalism³.

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

9 The various forms of school choice have waxed and waned, but charter schools
10 were present at the creation of the privatization movement in education and have
11 continued to enroll more and more students, diverting more and more dollars out of
12 the public school system (Lafer, 2017a; Lafer, 2018; Lafer et al., 2021). School choice
13 has spawned an entire industry devoted to marketing school choice: academic
14 departments and institutions, educational associations, think tanks, astroturf⁴
15 advocacy groups, and political action committees, all of which are examples of the
16 marketing of the privatization of public education.

17 According to the National Center of Education Statistics in the U.S. Department
18 of Education, there were 7,547 elementary and secondary charter schools in the
19 United States enrolling 3,431,230 students in 2019–20 school year (de Brey et al.,
20 2022, Table 216.90, p.144). This represents 7.7% of the total number of elementary and
21 secondary schools and 6.8% of the total number of students in the United States. The
22 state with the greatest charter school presence was California which had 1,321 schools
23 (12.7% of the total) and 674,652 students (11.0%). Within California, in the 2019–20

³The use of a market-based approach in philanthropy

⁴Wordnik definition: “The disguising of an orchestrated campaign as a “grass-roots” event – i.e., a spontaneous upwelling of public opinion.”

1 school year, charter schools in Santa Clara County enrolled 31,584 students (13.6% out
2 of 231,865) (California Department of Education, n.d.).

3 These are notable patterns, and the COVID-19 pandemic has accelerated the
4 growth of charter schools, in contrast to the small decline of recent years. However,
5 this recent growth appears to be almost completely due to the expansion of virtual
6 charter schools (Strauss, 2021). Despite continued growth, charter schools remain
7 controversial and have generated heated debate. Reports and studies from charter
8 school opponents have been answered by reports and studies from charter school
9 advocates. Both sides claim their methodology to be superior and consider the other
10 side's fatally flawed.⁵

11 What the research indicates – again and again – is that *some* charter schools,
12 under *some* circumstances, for *some* students, seem to do *somewhat* better than
13 traditional public schools. Garcia notes that charter schools start out doing
14 somewhat worse than public schools, but improve over time, with “no discernible
15 difference” (Garcia, 2018, p. 119) after about five years of operation.

16 On the other hand, Lubienski and Lubienski show after carefully analysis that
17 public schools out perform charter schools. So, one may conclude that harter schools
18 are, on average, unsurprisingly, just average.

19 If charter schools are on average not better than public schools, why are they so
20 fervently touted as the answer to the perceived ills of American public education?
21 Why are eye-popping sums (10× the usual amounts) spent supporting public school
22 board candidates who favor charter schools? Why are charter schools still growing in
23 both enrollment and in number? Is the profit motive is the overriding goal of charter
24 schools, or are they instead driven by a genuine desire to improve the educational

⁵Jeffery Henig in his book *Spin Cycle: How Research is Used in Policy Debates: The Case of Charter Schools* (J. Henig, 2009), offers a detailed examination of the war of words that resulted from just one report and one newspaper article.

1 outcomes of the very children who could most benefit from a quality education? My
2 goal in this dissertation is to offer some answers to questions like these by examining
3 in detail the finances and financial structure of a single charter school chain,
4 Rocketship Education.

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

14 The remainder of this chapter provides some context for why I conducted this
15 study. The chapter *A Review of the Literature* discusses the extensive literature on
16 charter schools. The following chapter, *Research Design and Methodology*, details what
17 data will be collected, how it will be collected, and how it will be analyzed. The
18 chapter *Findings and Results* provides the results of analyzing that data in context of
19 this study's research questions. The last chapter, *Discussion* considers the public
20 policy implications of my study and its conclusions, and makes some suggestions for
21 how current public policy should be changed to achieve some of the seven goals that
22 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 as carefully and fully as possible the finances
3 of Rocketship Education and associated entities, concentrating on its real estate
4 dealings. Is Rocketship profitable? If it is, how does it generate those profits? Are the
5 entities related to Rocketship Education the generators of profit, or is Rocketship
6 Education itself the primary source of profit? Furthermore, if the model that
7 Rocketship Education uses does generate profits, can that model be used in other
8 states besides California?

9 This study concentrates on Rocketship Education⁶ to study because its popularity
10 has led to core aspects of its model being adopted by other charter school chains such
11 as the Caliber Public Schools or the Navigator Schools, both in California. It is an
12 exemplar of a popular charter school and has had an outsized influence on public
13 education in Santa Clara County.

14 Charter schools, Rocketship included, offer themselves as better alternatives to
15 traditional public schools. Rocketship claims that its pedagogical model of blended
16 learning

- 17 • is more efficient than that of traditional public schools,
- 18 • offers personalized learning⁷ through computer-mediated instruction, and
- 19 • offers a human connection (at least part of the time) that is similar to
- 20 traditional public schools.

⁶A note on names: Rocketship Public Schools is name that Rocketship Education is doing business as starting in June 2020, but since it has been known as Rocketship Education for much longer than it has been as Rocketship Public Schools, this study uses (mostly) the former name. Also, this study uses just Rocketship to refer to Rocketship Education and related entities, such as the various Launchpad Development LLCs that are associated with individual schools.

⁷Note that personalized learning is not the same 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 These are claims that can be tested in other studies by comparing individual
2 Rocketship schools to independent charter schools and to TPSs in the same district.
3 The Rocketship chain can be compared to other charter school management
4 organizations, to portfolios of charter schools, as well to traditional public school
5 districts, but such studies need to be done with care to avoid methodological errors
6 that would reduce the validity of their conclusions.

7 Many studies have examined the outcomes of charter schools and charter chains,
8 including one specifically on Rocketship's effect on Milwaukee's public schools had
9 proposed legislation passed. But Rocketship's finances, as a whole, have not been
10 studied in detail.

11 *Research Question*

12 These questions and themes lead to the following research question: Has Rocketship
13 structured itself and related entities to earn a return to investors, and if so, how?

14 In order to answer this research question definitively, this study must be as
15 complete as possible, and that entails understanding the finances of public schools in
16 California, those of charter schools in California, and then the finances of Rocketship
17 Education and related entities. Only then will one be able to identify how
18 Rocketship's finances differ from those of traditional public schools (TPSs) and
19 whether those differences represent a profit or not.

20 More broadly, there are additional reasons for studying charter school finances.
21 Are we (the states, the federal government) misallocating the money we spend on
22 charter schools? Could we be spending our tax dollars more wisely? What did
23 taxpayers get for these expenditures? However, questions like these are beyond the
24 scope of this study and remain for future researchers to explore.

25 This case study is believed to be unique in that it examines in depth the finances

1 of a single charter school chain. There have been studies of the finances of
2 aggregations of charter school chains (e.g., all known charter school chains in the
3 United States,⁸ or a selected group of charter school chains). Other studies have
4 explored the effects of charter schools on segregation or academic achievement, or
5 the financial impact of charter schools on their surrounding public school district.
6 But academic studies of the finances of just a single charter school chain seem to be
7 missing.⁹ It is hoped that the lessons learned from this case study will be used by
8 policy makers to strengthen charter school law in California and elsewhere in order
9 to increase desired outcomes and to minimize unintended consequences.

10 As tempting and as important as it might be, this dissertation will not examine
11 the academic outcomes of Rocketship or of other charter schools. This dissertation
12 will restrict itself to the finances of those schools. Much excellent work has already
13 been done evaluating charter school outcomes. Section 2 discusses four surveys of
14 charter school research and one overview book.

15 Theoretical and Conceptual Frameworks

16 According to Grant and Osanloo (2014), creating and understanding the
17 theoretical framework for one's dissertation is "one of the most important aspects in
18 the research process." (p.12) They liken the theoretical framework of a dissertation to
19 the blueprints that define a house. That framework both defines the organization and
20 the structure of a dissertation, as well as what counts as elements and their
21 relationships. A theoretical framework articulates "the researcher's understanding of
22 how the research problem will best be explored, the specific direction the research

⁸See Miron et al. (2021) for a list of currently known charter school chains.

⁹I distinguish between academic studies and criminal investigations. Clearly, the grand jury indictment of 11 persons associated with A3 Education was a study of a single charter school chain, but it was a criminal investigation, not an academic study.

1 will have to take, and the relationship between the different variables in the study.”
2 (Grant & Osanloo, 2014, pp. 16–17)

3 Further, a “conceptual framework offers a logical structure of connected concepts
4 that help provide a picture or visual display of how ideas in a study relate to one
5 another within the theoretical framework” (Grant & Osanloo, 2014, pp. 16–17). This
6 dissertation uses a case study approach as its theoretical framework within a public
7 policy framework, its conceptual framework.

8 *A Case Study Approach as a Conceptual Framework*

9 Broadly, social science research falls into one of two categories. The research may
10 make many observations with a narrow focus, or may instead adopt a broader focus,
11 but with a correspondingly smaller number of observations. Gerring calls these
12 “large C” or “small C” studies, respectively (Gerring, 2017, p. xvii). Of course, the
13 boundary between large C and small C studies is not sharply defined.

14 Gerring calls small C studies *case studies*. In this dissertation I study only one
15 entity, Rocketship Education, and only one aspect of that entity, namely Rocketship’s
16 finances. But I consider the topic of Rocketship’s finances look at its finances broadly,
17 examining as many different kinds of financial transactions as are publicly available
18 for the subset of Rocketship schools that are in Santa Clara County. I discuss the
19 elements of what makes a case study a good case study in Chapter 5, *Discussion*.

20 McCombes (2019) says that case studies are a “detailed study of a specific subject,
21 such as a person, group, place, event, organization, or phenomenon”. They are ‘good
22 for describing, comparing, evaluating and understanding kdifferent aspects of a
23 research problem” and are “an appropriate research design when it allows you to
24 explore the key characteristics, meanings, and implications of the case.” Two papers
25 go into detail about using the case study approach: Crowe et al. (2011) and Rashid

1 et al. (2019). Yin (2018) provides a detailed methodology for doing case study research
2 well.

3 A case study framework for public policy research is ideal because the theory and
4 practice of case studies is well-known and has been used both for public policy
5 research and in public policy analysis for years. A case study framework formalizes
6 an in-depth examination of a single topic, in this case, the finances of Rocketship
7 Education and related entities.

8 *Public Policy as a Theoretical Framework*

9 A public policy framework provides a rich set of tools and techniques with which
10 to analyze Rocketship's finances. Three factors support using a public policy
11 framework to guide understanding and evaluating Rocketship's finances. First,
12 charter school finance is constrained primarily by public policies set by state
13 legislatures, the creators of charter schools. These laws regulate taxes, grants,
14 borrowing capacity, and reporting requirements of charter schools and charter
15 school chains (Aguinaldo et al., 2020), and by definition, whatever falls within the
16 purview of legislators is public policy. Second, Brighthouse et al. (2018), in *Educational*
17 *Goods*, provide a succinct definition of what public policy analysis is which matches
18 the purpose of undertaking this case study. They use a values, evidence, and
19 decision-making framework "to make judgments about how well specific policies are
20 likely to realize valued outcomes" (Brighthouse et al., 2018, p.1). Last, these three
21 concerns — values, evidence, decision-making — are considered the key concerns by
22 academics and researchers in the public policy field (Bueno de Mesquita, 2016;
23 Clemons & McBeth, 2021; Fowler, 2013; Gupta, 2011). Using a public policy framework
24 is appropriate when examining charter school finances.

25 The discipline of public policy sanctions a wide variety of tools and techniques

1 when analyzing issues. Public policy has been studied for years (there are public
2 policy departments in many universities) and it is a mature area of academic
3 research. As in most academic fields, there are fierce debates about the merits and
4 robustness of a particular approach compared to alternatives, but at a high level,
5 what to do is generally agreed upon. Most identify the following five steps (or
6 variants thereof) that are used when creating public policy:

- 7 1. Define the issues and set the agenda.
- 8 2. Formulate one or more policies that address the issues identified.
- 9 3. Evaluate those policies using tools and techniques like cost-benefit analysis,
10 value analysis, political feasibility, game theory, and economic analysis.
- 11 4. Implement those policies by passing legislation, changing practices, or by
12 using the courts.
- 13 5. Evaluate the effectiveness of the policy changes.

14 Two keys to identifying alternatives during policy formation and later when
15 evaluating consequences are choosing or creating a model, and forecasting. Models
16 identify what is going to be studied and their relationships, and forecasting is a
17 prediction of the future whose consequences are (hopefully) identified in a model.
18 Page (2018) lists 26 major models that have been used in science, business, and
19 medicine.

20 This dissertation uses on two excellent guides to public policy, Clemons and
21 McBeth (2021) and Gupta (2011). Fowler (2013) treats public policy in the field of
22 education, but with an emphasis on power, politics, policy actors and the messy
23 process of creating and implementing public policy. Clemons and McBeth
24 concentrate on explicating different theoretical approaches to public policy, whereas
25 Gupta is the most practically oriented.

1 Since much of the evidence that will be presented is (financial) data, tools and
2 techniques which manipulate and display data play an important role. First and
3 foremost is statistical analysis. But, as Epple et al. (2016) show in Chapter 2, being
4 clear on what exactly is being analyzed and what are the inherent limitations of that
5 data is fundamental. It makes no sense to analyze brilliantly the wrong data or to
6 stretch the data beyond its limit.

7 Statistical analysis in its varied forms is probably the most commonly used form
8 of data analysis. Forecasting and the building of models comes in next, with decision
9 theory being the least commonly used model or technique.

10 This introduction makes the case that public education is important to many
11 stakeholders, but that there is also discord around larger issues like values, ideology,
12 and implementation. Charter schools have been offered as way of disrupting
13 American public education from its hide-bound, archaic, and sclerotic present,
14 driving it, despite opposition, into a dynamic future where education is tailored to
15 each child's real needs. Establishing whether financial gain plays a key or even a
16 primary role in American educational reform by carefully examining Rocketship's
17 finances is both timely and important: Rocketship Education is growing, and with it,
18 Launchpad Development. They have served as a model for other charter school
19 chains in the United States.

A Review of the Literature

This chapter reviews what other researchers and scholars have said about the origins of charter schools, their history, and their ostensible goals before characterizing first the finances of all public schools in California and then the unique aspects of charter school finance. Finally, it reviews the history of Rocketship Education.

American public education has – allegedly – been a failure, at least “[a]ccording to highly publicized NAEP results in the mid 1980s” (Gove & Meier, 2000). Berliner and Glass (2014) in *50 Myths & Lies That Threaten America’s Public Schools* refute the myths that have been advanced to show that American’s schools are in a crisis, and hence, in desperate need of reform. But, it turns out, this urge for reform has a long history: America’s schools have judged as needing reform ever since the idea of free public education took hold in the early 1800s.¹⁰ Since then, a succession of educators and reports have documented the abysmal [sic] state of American education.

The Birth of American Public Education

Prior to the Civil War, Horace Mann introduced widely copied reforms (Pulliam & Van Patten, 2007) into the existing system of education which was then 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 was not until the publication of *Nation at Risk* in 1983 that the modern zeal for education reform took form. *Nation at Risk* was the most influential of roughly 30 major

¹⁰Wikipedia has an excellent summary article on *Education in the United States* available at https://en.wikipedia.org/wiki/Education_in_the_United_States.

1 education reform reports listed by Pulliam and Van Patten (2007) starting in 1982 up
2 to 2005.

3 That American public education needed reform was repeated constantly, mainly
4 by conservatives, despite underwhelming evidence of its veracity and substantial
5 evidence to the contrary. Through repetition, the need for reform has become
6 accepted wisdom. The answer to this need was to take the government's "monopoly
7 in education" (Milton Friedman's characterization) out of the hands of faceless
8 bureaucrats and subject it to the rigors of free markets which would, it was asserted
9 with scant evidence, increase efficiency, choice, and quality. Thus vouchers and
10 charter schools were legitimized.

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

17 Garcia writes in *School Choice*

18 The four primary arguments put forth in support of school choice are the
19 elimination of government bureaucracies, the interjection of
20 competition into education through market forces, the promotion of
21 parental choice as the most granular form of local control, and school
22 choice as the "new" civil rights issue of our time.¹¹ (Garcia, 2018,
23 p. 55)

24 .

¹¹Lest Garcia be tarred as anti-school choice, thereby justifying ignoring his research, Garcia is merely following Anatol Rapoport's Rules for Constructive Criticism, the first of which is to restate the argument of the person you are criticizing better than they themselves have done. See Daniel Dennett's succinct summary of "Rapoport's Rules" on Wikipedia:
https://en.wikipedia.org/wiki/Rogerian_argument%23Rapoport's_rules.

1 What is noteworthy is that none of the four arguments are about student
2 achievement or outcomes. A poorly staffed, badly run, charter school located in a
3 dangerous neighborhood is as capable of satisfying the four requirements as is a high
4 quality charter school. Whatever school choice is about, it's not about students and
5 how well they are doing.

6 To be clear, it is not the case that every American school is a model for the rest of
7 the world: systematic, persistent, pervasive inequities and injustices abound and
8 have been powerfully written about in Kozol (1992) and again in Kozol (2005),
9 Valenzuela (1999), Heitzeg (2009), and Roithmayr (2014). In 1966, the Coleman Report
10 was published (Coleman, 1966) which concluded that ten years after *Brown v. Board of*
11 *Education*, American schools were still segregated and still unequal. Surprisingly, it
12 laid most of the blame on systematic, persistent, pervasive inequalities and injustices
13 in the delivery of education. The report said,

14 Taking all these results together, one implication stands out above all:
15 That schools bring little influence to bear on a child's achievement that is
16 independent of his background and general social context; and that this
17 very lack of an independent effect means that the inequalities imposed
18 on children by their home, neighborhood, and peer environment are
19 carried along to become the inequalities with which they confront adult
20 life at the end of school. For equality of educational opportunity through
21 the schools must imply a strong effect of schools that is independent of
22 the child's immediate social environment, and that strong independent
23 effect is not present in American schools. (Coleman, 1966, p. 325)

24 None of this should be a surprise because it is also clear that those schools have
25 been systematically underfunded for decades; their dismal performance is more
26 likely the result of the poverty of their neighborhoods and their lack of funding than
27 it is the other way around. For example, the California School Boards Association's
28 (CSBA) Education Legal Alliance Adequacy Committee found that there exists a

1 “substantial gap in funding between what K-12 education [in California] receives and
2 what K-12 education needs even to meet the standards prescribed by the state (Bray,
3 2015, iii). B. D. Baker et al. (2018) in their aptly titled report *The Real Shame of the*
4 *Nation*, develop a *National Education Cost Model* (B. D. Baker et al., 2018) which
5 accounts for regional cost differences as well different funding levels to show that
6 inadequate funding is present throughout the United States. Garcia (2018) says in
7 *School Choice* that the “existence and importance of the issues that reformers believe
8 plague public education are based as much on tradition and reputation as they are on
9 tangible research evidence” (Garcia, 2018, p. 54). Finally, and tellingly, grossly
10 inadequate funding is a characteristic of communities that are racially segregated
11 and which are not white (Darling-Hammond, 2012; Rothstein, 2017).

12 J. R. Henig (1994)’s book, *Rethinking School Choice*, which came out a mere three
13 years after the passage of the nation’s first state charter school law in Minnesota¹²
14 and two years after the second in California¹³ lays out a key argument against charter
15 schools. Henig says, “[T]he real danger in the market-based choice proposals is not
16 that they might allow some students to attend privately run schools at public
17 expense, but that *they will erode the public forums in which decisions with societal*
18 *consequences can democratically be resolved.*” (emphasis added) (J. R. Henig, 1994, xiii).
19 Translated, this means that the decisions about public education’s form and content
20 are not going to be made by parents and teachers, but by people who do not have a
21 stake in the outcome. It’s a matter of badly misaligned incentives.

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

¹²Laws of Minnesota 1991, chapter 265, article 9, section 3

¹³Education Code, Title 2, Division 4 Part 26.8, §47600 *et. seq*

1 In conclusion, this report is part of a national movement toward
2 privatization of public services and responsibilities. I believe this
3 movement will have the eventual result of a complete retreat by this
4 society from a societal responsibility for the powerless who are difficult
5 or expensive to educate, house, protect, etc. I believe the committee and
6 board majority when they say that they are committed to equal access
7 and equity. They say, trust that we will do the right thing. I do trust
8 them, I do not trust the societal momentum of which vouchers is a part.
9 It is a very destructive wave that has caught up many good people. It
10 scares me to death. (Citizens League, Education Alternatives
11 Committee, 1982, p. 48)

12 The belief that that American schools were in crisis due to poor academic
13 outcomes, sclerotic teachers resistant to change, ineffective and bureaucratic
14 administrators more concerned with job safety than educating children is simply not
15 supported by the evidence. But the idea that American schools are in crisis has been
16 relentlessly promoted, and sheer repetition has turned fiction turned into fact, and
17 this crisis has been used to justify school choice in the form of vouchers and charter
18 schools. But charter schools didn't actually take off until "education reformers across
19 party lines realized that charter school laws could be crafted in ways that made it
20 possible to open nonunion public schools, or even allow public schools to be managed
21 by for-profit companies" (Goldstein, 2015, p. 172).

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

1 A History of Charter Schools

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

8 *The Origins of Charter Schools in Segregation*

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

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

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

19 In order to circumvent *Brown*, white parents in eleven states formed thousands of
20 private schools, and until the early 1970's, these segregation academies received
21 public funds (Rooks, 2017). These origins of charter schools have been amply
22 documented, in Frankenberg et al. (2010), Frankenberg et al. (2011), and especially in
23 Suitts (2019) and Suitts (2020). Alexander in *The New Jim Crow* quotes Rosenberg (1991,
24 p. 52) "The statistics from the Southern states are truly amazing. For ten years,

1 1954–1964, virtually *nothing happened*.” [emphasis in (Alexander, 2011, p. 223)] She goes
2 on to say,

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

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

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

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

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

1 Nikole Hannah-Jones, in her keynote speech at the Network for Public
2 Education's Fourth Annual Conference, said that it has never been the case that a
3 majority of African-Americans have attended majority white schools ("Keynote at the
4 Network for Public Education's 4th Annual Conference," 2017). She then added
5 ruefully, that this was quite a feat considering that African-Americans make up
6 roughly one seventh of the population of the United States. Orfield and Frankenberg
7 note that the percent of African-Americans in majority white schools rose from 0% in
8 1954 to a peak of 43.5% in 1988 before steadily declining to 23.2% in 2011. (Table 3:
9 Percent of Black Students in Majority White Schools, 1954–2011, Orfield &
10 Frankenberg, 2014, p. 10). Hannah-Jones also commented that American public
11 education doesn't even live up to the Separate but Equal doctrine espoused in *Plessy v*
12 *Ferguson* and overturned by *Brown v Board of Education*.

13 This segregation has an effect on the achievement of the students thus
14 segregated: it makes the "achievement gap" worse.

15 Racial segregation is strongly associated with racial achievement gaps,
16 and the racial difference in the proportion of students' schoolmates who
17 are poor is the key dimension of segregation driving this
18 association. (Reardon, 2016, p. 47)

19 Charter Schools, Free Markets and Privatization

20 Just a year after *Brown*, Friedman (1955) published his article "The Role of
21 Government in Education" in *Economics and the Public Interest* (Friedman, 1955) that
22 reframed charter schools as an economic problem in education instead as a way of
23 evading court-ordered integration. That paper ensured that charter schools would no
24 longer be morally tainted by their association with virulent racism, but rather would
25 take on the honorable task of breaking up what was called a monopoly. Charters,

1 operating in a free market¹⁴, would allow parents to choose the best alternative from
2 an array of competing choices. Tellingly left unspecified was exactly how the free
3 market would ensure that the array of competing choices actually offered valuable
4 educational alternatives rather than mere alternatives.

5 In 1981, Ronald Reagan ran and became President of the United States based on a
6 platform of less government is better government. This platform included
7 eliminating the U.S. Department of Education (“The Republican Party Platform of
8 1980,” 1980). True, eliminating the Department of Education is not the same as
9 shutting down an entire school district the way white parents did in 1964, but the
10 thought is there. Haney-López (2014) expertly dissects how it’s possible to voice racist
11 thoughts without actually using racial words, a practice perfected by President
12 Ronald Reagan (Haney-López, 2014).

13 Now, only liberty and freedom matter, in education, as in other fields. It’s school
14 choice or bust; school choice is proffered not only as *the* panacea for all that ails
15 America’s schools, but is even touted as the morally right thing to do. Without a trace
16 of irony, the former President Donald Trump framed school choice as the “civil rights
17 issue of our time” in a garbled statement at the signing of an executive order on Safe
18 Policing for Safe Communities:

19 School choice is the civil rights statement of the year, the decade and
20 probably beyond. Because all children have to have access to quality
21 education. A child’s zip code in America should never determine their
22 future.

23 (as quoted in Lennox, 2020)

24 Education reformers have latched on to the notion that schools need to be

¹⁴No 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 privatized and freed from bureaucratic control for reasons of efficiency, increased
2 flexibility, and accountability (Garcia, 2018). This claim is made despite educational
3 management organizations (EMOs) themselves being high overhead, opaque
4 bureaucracies with scant accountability.

5 B. Baker and Miron identified four major policy concerns with the privatization
6 of public education:

- 7 1. A substantial share of public expenditure intended for the delivery of
8 direct educational services to children is being extracted
9 inadvertently or intentionally for personal or business financial gain,
10 creating substantial inefficiencies;
- 11 2. Public assets are being unnecessarily transferred to private hands, at
12 public expense, risking the future provision of “public” education;
- 13 3. Charter school operators are growing highly endogenous,
14 self-serving private entities built on funds derived from lucrative
15 management fees and rent extraction which further compromise the
16 future provision of “public” education; and
- 17 4. Current disclosure requirements make it unlikely that any related
18 legal violations, ethical concerns, or merely bad policies and practices
19 are not realized until clever investigative reporting, whistleblowers or
20 litigation brings them to light.

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

22 In California at least, these policy concerns have not been addressed in the six
23 years since B. Baker and Miron wrote about them¹⁵.

24 Charter schools are now just one of the many forms of *privatization*, when public
25 functions are performed by private parties for profit. Privatization is a manifestation
26 of the corporate takeover of the world, first documented more than fifty years ago by

¹⁵Changes 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 Domhoff and elaborated on in seven subsequent editions. Domhoff argues that
2 corporations and the corporate elite really run the United States, and by extension,
3 the world. Kahn and Minnich (2005) make much the same point in their book *The Fox*
4 *in the Henhouse: How Privatization Threatens Democracy* (Kahn & Minnich, 2005). They
5 list “[s]chools, prisons, welfare, Social Security, water and sewer systems, buses,
6 trains, subways, highways, waterways, sanitation systems” (p. 30) as examples of
7 formerly government run functions that are in whole or part privatized. They could
8 have also listed postal mail, space travel, and now every facet of education, as being
9 wholly or partly privatized. Cohen and Mikaelian (2021) lay out in detail how
10 privatization has infiltrated American life and the consequences of this takeover of
11 public goods by private firms run for profit (Cohen & Mikaelian, 2021). Black in
12 *Schoolhouse Burning* (Black, 2020) focuses on the less tangible but arguably more
13 important consequences of privatization of public schools, the loss of democratic
14 control.

15 Privatizers make money by turning goods or services that used to be publicly
16 available into private goods and services that must be paid for before they can be
17 used. The canonical example of privatization is the enclosure of the commons in
18 Britain in the 16th and 17th centuries whereby land that previously had been owned
19 collectively by a village was now owned by an individual who charged villagers for the
20 privilege of using that land (Simon Fairlie, 2009). But modern privatizers have many
21 more ways of turning a profit. They can:

- 22 • Obtain tax benefits
- 23 • Invest in other firms with public monies
- 24 • Invest in financial instruments with public monies
- 25 • Obtain a monopoly
- 26 • Engage in fraud, corruption, or outright theft

- 1 • Engage in self-dealing
- 2 • Obtain grants or loans on favorable terms
- 3 • Sell what doesn't belong to them
- 4 • Avoid paying for externalities
- 5 • Pay below market rates for goods or services
- 6 • Skew public-private partnerships to create unearned profits
- 7 • Engage in pay-for-success contracts
- 8 • Offer social impact bonds

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

15 School choice has been relentlessly marketed and promoted by billionaires who
16 do not send their children to public schools.¹⁶ The Walton family, Eli Broad, Bill
17 Gates, the Koch brothers, the Zuckerbergs, and Laurene Jobs, are all on the list of the
18 500 richest people in the world. Their collective wealth exceeds half a trillion dollars,
19 and they are busily engaged using that wealth to fix the very problems that their
20 accumulation of wealth caused. Giridharadas (2018) whose book, *Winners Take All: The*
21 *Elite Charade of Changing the World*, says that it's a
22 "Trying-to-Solve-the-Problem-with-the-Tools-That-Caused-It" issue (Giridharadas,
23 2018, p. 142).

24 The effects of billionaire spending on education cannot be over emphasized. Bill
25 Gates made \$2B in grants aimed at creating smaller schools (Gates, 2009, p. 11),

¹⁶Ravitch (2010) 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 despite a lack of evidence that they were educationally valuable. These grants were
2 eventually discontinued when the initiative didn't produce the intended results.
3 Gates was also instrumental in funding and promoting the Common Core State
4 Standards and associated assessments whose premise was that if we only had high
5 enough academic standards, student outcomes would improve, again without
6 evidence that the reforms were educationally valuable and without evidence of a
7 mechanism of improvement.

8 Types of Charter Schools

9 Charter schools can be broadly classified along three axes. The
10 authorizer/oversight axis has to do with what entity approved their charter and who
11 will exercise oversight. The profit/non-profit axis classifies schools by their intent to
12 generate a profit, or not. Lastly, the in-person/blended/virtual axis characterizes
13 pedagogical approach. Are their classes in-person, virtual, or a blend of the two?

14 *Charter School Authorizers and Oversight*

15 Charter schools in California are potentially subject to a three step process to gain
16 authorization to operate. The first step is to submit a petition to the school district in
17 which the charter wishes to operate. This petition must contain a number of required
18 elements, all of which are specified in Education Code §47605(c)(5)(A–O), the
19 commonly called “15 Required Elements (A-O elements)” (Aguinaldo et al., 2021,
20 p. 89). Besides some technical details, the petition must contain a description of the
21 charter’s annual goals which must align with state priorities, for all pupils and for
22 various subgroups; how these outcomes are to be measured; how the charter is to
23 achieve a racial and ethnic balance similar to its district, its governance structure,

1 and its finances. All of these elements are captured in “*Charter Petition Evaluation*
2 *Matrix*” by FCMAT, a document intended to provide a legally sound checklist for
3 authorizers (FCMAT, 2022).

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

11 Public school districts (LEAs, local education agencies, in the parlance of the
12 California Department of Education (CDE)) may authorize one several kinds of
13 charter schools. A public school district may sponsor a charter school directly, in
14 which case the district exercises oversight. These dependent charter schools are
15 authorized by the local public school board and are subject to the board’s jurisdiction.
16 It also is possible for all the schools in a district to convert to charter schools, and
17 then the public school board becomes the charter school board. Table 1, *Attributes of*
18 *Private, Charter, and Public Schools in California*, is a summary of the attributes of the
19 types of schools in California. Lastly, charter schools may be authorized by a public
20 school district or a county office of education with a governing board that is district
21 and independent from the authorizer’s board.

22 *Profit-Making Status*

23 Until the 2019–20 school year, charter schools in California could be run directly
24 or indirectly by a profit-making organization. California now prohibits
25 profit-making organizations, either a single school or a charter management

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

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

1 organization, from submitting an initial charter school petition or a renewal.

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

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

1 prohibited from benefiting financially from their positions as public servants, but it
2 remains to be seen if these conflict-of-interest laws will prevent profiteering by
3 school board members, administrators, or relatives of either.¹⁷

4 *Type of Instruction*

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

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

¹⁷The law is necessarily complex. Two useful guides (total: 300 pages) are Chaney et al. (2010) and Kevin Ennis et al. (2016). A more general guide to local government ethics is “Understanding the Basics of Public Service Ethics” from California’s Institute for Local Government (Institute for Local Government, 2016).

1 improved.¹⁸ (*Virtual Schools in the U.S. 2019*, 2019, p. 11).

2 Pre-pandemic, charter schools in California were legally deemed
3 classroom-based (e.g. not virtual) if students spent no more than 20% of their time in
4 front of a computer.¹⁹ Blended charter schools, on the other hand, offer some sort of
5 face-to-face interaction with a teacher along with online activity without face-to-face
6 interaction. But they too offer only marginally better educational outcomes than fully
7 virtual charter schools (*Virtual Schools in the U.S. 2019*, 2019). Rocketship schools use a
8 blended instructional model

9 Charter Schools in the United States

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

17 The characteristic that home schooling and private schools share is that they are
18 agnostic about public schools. Not so for charter schools, voucher, and
19 freedom-of-choice plans. Charter schools, voucher programs, parent trigger

¹⁸Although *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.

¹⁹The California Education Code §47612.5(e)(1) doesn't mention computers, but bases its definition of classroom-based 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 programs, and freedom-of-choice plans explicitly want to supplant or replace public
2 schools (Garcia, 2018).

3 The first charter schools, other than segregation academies, were founded in
4 Milwaukee, Wisconsin in 1991, followed by California starting in 1993. Conceptually,
5 charter schools were based on an amalgam of ideas from Milton Friedman, Albert
6 Shanker, and Ray Budde. Milton Friedman came at it from an ideological point of
7 view couched in economic terms. Albert Shanker, in 1988, in a speech at the National
8 Press Club, proposed that *teachers* in conjunction with *parents* be allowed to form a
9 school *within* a school district. Shanker made no mention of competition, or free
10 markets, or even of charter schools. Shanker's speech emphasized curriculum and
11 learning, not governance or finance. Ray Budde first thought of charter schools in the
12 early 1970s, but his proposal generated no interest and it was not until 1988 that he
13 published his ideas (Budde, 1988).

14 *Charter Schools in California*

15 Charter schools, in California as elsewhere in the United States, enter into a
16 contract (the charter) with a chartering authority that specifies what they are to do
17 and how, and in return, are exempt from the entirety of California's Education Code
18 (with the exception of five technical provisions). The California Legislature, when it
19 enacted the *The Charter School Act of 1992*²⁰ (Ed. Code §47600), spelled out its intent in
20 passing that legislation. The Act has been amended a number of times in its nearly 30
21 years of existence, but its intent has remained the same. It specifies that charter
22 schools should

²⁰Current 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](https://leginfo.ca.gov/faces/codesTOCSelected.xhtml?tocCode=EDC&tocTitle=+Education+Code+-+EDC)

- 1 a) Improve pupil learning.
- 2 b) Increase learning opportunities for all pupils, with special emphasis on
- 3 expanded learning experiences for pupils who are identified as academically
- 4 low achieving.
- 5 c) Encourage the use of different and innovative teaching methods.
- 6 d) Create new professional opportunities for teachers, including the
- 7 opportunity to be responsible for the learning program at the school site.
- 8 e) Provide parents and pupils with expanded choices in the types of educational
- 9 opportunities that are available within the public school system.
- 10 f) Hold the schools established under this part accountable for meeting
- 11 measurable pupil outcomes, and provide the schools with a method to change
- 12 from rule-based to performance-based accountability systems.
- 13 g) Provide vigorous competition within the public school system to stimulate
- 14 continual improvements in all public schools.²¹

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

21 Surveys of Charter School Research

22 It's been about 30 years since the first charter school law was passed. In the last
23 decade, researchers have published several surveys of the research on charter

²¹This goal was added in 1998.

1 schools. The first two decades (1990–2010) were somewhat experimental and
2 different enough that the research that came out of that period is less relevant than
3 more recent research. The first survey of the last decade, “Beyond Ideological
4 Warfare: The Maturation of Research on Charter Schools,” is by Smith et al. It is a
5 systematic review of charter school research as it existed in 2011. Smith et al. (2011)
6 are interested, not so much in the conclusions of the studies they looked at, but how
7 the research was performed, how was it structured, what facets of charter schools
8 were looked at, and what was the subject of the research in order to “separate
9 empirical evidence from politicized conjecture” (p. 460). They reviewed a total of 323
10 peer-reviewed articles and research center reports and found that student and school
11 outcomes were the most commonly studied topics. They noted many studies were
12 unable to generalize their findings because variations in policy between states and
13 localities. Smith et al. also noted that there was a lack of longitudinal studies which is
14 not surprising due to policy variations. Furthermore, they found that “acceptance
15 into a peer reviewed journal does not always ensure that qualitative research adheres
16 to the standards of providing substantiation that findings are credible and
17 trustworthy or that quantitative research provides evidence of the studies’ validity,
18 reliability and generalizability.” (p.466) Finally, the authors noted that many studies
19 could not draw causal connections. They concluded that more research is needed.

20 Four years later, Berends (2015) chose as his focus the various theories that
21 researchers used when looking at the social organization of charter schools. In
22 “Sociology and School Choice,” Berends (2015), found, like Smith et al., that most
23 studies concentrated on student achievement and neglected educational attainment
24 such as high school graduation, college admission, and the granting of a degree. He
25 notes that “the effects of charter schools on student achievement are mixed (some
26 positive, some negative and some neutral)” (p. 170) Berends thinks the context in

1 which charter schools operate is important in order to understand the magnitude of
2 any effects and to understand what we can expect from school reform. He identifies
3 longer school days, a focus on achievement, behavioral policies, teacher coaching and
4 feedback, and data-based decision-making as characteristics most often associated
5 with effective charter schools. Lastly he looks at innovation and distinguishes
6 between curriculum and class-room based changes, and organizational changes and
7 finds that charter schools mostly innovate on the structural side rather than the
8 academic side. He concluded that more research is needed.

9 Next, Epple et al. (2016), in *Charter Schools*, did much the same as Berends, but
10 concentrated on the technical aspects of study design (Epple et al., 2016). They
11 observed that which the research question being answered by a particular study was
12 often much narrower or significantly different than the research question authors set
13 out to answer or thought they were answering. The heart of their review is an
14 analysis of “the methodological challenges in evaluating charter effectiveness” (p.141),
15 and the strength and weaknesses of the various approaches that have been used.
16 They find that researchers used one of five statistical methods: lottery-based design,
17 fixed-effect approaches, matching procedures, ordinary least squares (OLS)
18 regression, and instrumental variable approaches (p. 165), and they evaluate each
19 approach. Epple et al. also discuss the much scrutinized virtual control record
20 method of matching charter school students to public school students that came out
21 of Stanford’s Center for Research on Education Outcomes (CREDO) which was
22 criticized on purely statistical grounds in Andrea Gabor (2015). Epple et al. concluded
23 that more research is needed.

24 In 2015 and then updated in 2018, Public Agenda released a guide to charter
25 school research for non-academics, a review of current charter school research that
26 was written in a way that is accessible to the public. The chapter on finance focused

1 on four questions related to how charter schools are funded, comparisons between
2 per pupil funding between charter and traditional schools (Public Agenda, 2018,
3 pp. 78–89).

4 The finance chapter must have been a difficult chapter to write because the 48
5 states with school choice programs have 48 different methods of funding public
6 schools and charter schools. In addition, each state has likely gone through several
7 iterations of models of charter school funding, and this lack of commonality prevents
8 researchers from conducting valid longitudinal studies.

9 Their answer to their first question (funding) is to point to compilations of state
10 funding. Their answer to the second question is yes, different levels of funding do
11 exist, and in some cases, by 40% to nearly 60% less. Their take on whether it matters
12 is hedged because studies differ in their conclusions for a variety of reasons. Not
13 mentioned is B. D. Baker (2018) which emphatically says that money does matter,
14 most likely because it was published after *Charter Schools in Perspective: A Guide to*
15 *Research* was. They answer their third question with an unambiguous yes, charter
16 schools do affect the finances of public schools. More recent research, Lafer (2018),
17 B. D. Baker (2019), and Miron et al. (2021) validates their conclusion. Finally, they
18 conclude that charter schools do spend their revenues differently, in part because
19 charters spend more on administration than public schools do and sometimes more
20 on facilities. The authors conclude that more research is needed.

21 The last of the four academic surveys, Zimmer et al. (2019), consider who was
22 served, racial segregation effects, both academic and non-academic outcomes,
23 management structure, and financial effects of charter schools. Since Zimmer is a
24 co-author of both this survey and of the previously cited Epple et al. (2016), the kinds
25 of study designs analyzed are similar. Zimmer et al. intend to synthesize “the best
26 research to inform the debate [about the value of charter schools]” (p. 2). They go

1 beyond the 2016 study and survey studies on racial segregation, cream skimming,
2 and student pushout. Zimmer et al. conclude that charter schools lead to greater
3 segregation for African Americans, but not necessarily for whites or Hispanics. They
4 find that charter schools do engage in sometimes subtle forms of cream skimming
5 and student pushout. (Independently, and two years later, Mommandi and Welner
6 document thirteen major ways that charter schools effectively choose who they enroll
7 (Mommandi & Welner, 2021).) After summarizing three different kinds of research
8 (fixed effects, lottery-based, and match and other regression), they turn their
9 attention to research on non-cognitive outcomes. Their penultimate chapter looks at
10 research on indirect effects. They conclude in their last chapter that more research is
11 needed.

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

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

8 *Research on Charter School Finances*

9 Charter schools have been much studied, and the last decade has produced a
10 number of reports examining charter school finances based on carefully collected
11 evidence. For example, in 2014, Lafer (2014), now at In the Public Interest, published
12 an analysis of a proposed law in Milwaukee, WI (Lafer, 2014) that was specifically
13 tailored to benefit a to-be-opened Rocketship school. Lafer went on to author two
14 other studies on charter schools, public policy, and finance: *Spending Blind: The Failure*
15 *of Policy Planning in California Charter School Funding* (Lafer, 2017b) and *Breaking Point:*
16 *The Cost of Charter Schools for Public School Districts* (Lafer, 2018). Carol Burris, Executive
17 Director of the Network for Public Education, and several co-authors have produced
18 three reports on money and charter schools: Burris and Pflieger (2020), Burris and
19 Bryant (2020), and Burris and Cimarusti (2021). The National Education Policy
20 Center, a research center based at the University of Colorado, Boulder, with over 150
21 scholars and academics from institutions across the U.S. whose goal is "to produce
22 and disseminate high-quality, peer-reviewed research to inform education policy
23 discussions" ("National Education Policy Center," n.d.), has produced hundreds of
24 reviews of research, policy and legislative briefs, some of which are annual surveys of
25 charter schools. The series on profiles of EMOs have been produced annually for

1 fifteen years; the series on virtual charter schools, for ten years.

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

9 Lafer (2017b)'s report, *Spending Blind: The Failure of Policy Planning in California*
10 *Charter School Funding* is particularly scathing. He says, "Any time there is a low bar of
11 entry for firms seeking to access government funds, one can expect to find
12 corruption, and the charter industry is no exception." (p.18) But even absent
13 corruption, there is ample opportunity to make lots of money. Lafer documents \$2.5B
14 of Californian taxpayer money spent over fifteen years on charter school facilities, in
15 many cases where there is no documented educational need and where the charter
16 school is of lower quality than nearby public schools. Lafer says, "It's as if legislators
17 turned on a faucet of money and then just walked away." (p.12) It is saddening that in
18 the four years since Lafer's report came out, nothing has fundamentally changed.

19 Rocketship

20 Rocketship is well-known in the charter school world. It even has been the subject
21 of a "biography", *On the Rocketship* (Whitmire, 2014).²² Rocketship's leaders and
22 supporters routinely describe it as "high performing", "deserving of huge credit",
23 "dynamic", and "nationally lauded". Rocketship schools, it is claimed, outperform

²²Just 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 some of the best public schools in the country. Rocketship “believe[s] that every
2 student deserves the right to dream, to discover, and to develop their own unique
3 talent”. Rocketship, charter school advocates, and privatizers excel at choosing
4 names and tag lines that are impossible to argue against.

5 Rocketship is one of the largest non-profit charter school chains in the United
6 States. They operate 21 schools in the United States; thirteen in California, three in
7 each in Nashville, TN and Washington, D.C., and two in Milwaukee, WI. In Santa
8 Clara County, CA, they have eight TK-5 elementary schools authorized by the county
9 that served 4,254 students in the 2019–20 school year plus 1,240 students in two
10 district authorized schools, for a total of 5,494 students.

11 *Founders and Supporters*

12 Rocketship was founded by John Danner in February 2006. Danner, Don Shalvey,
13 Jennifer Andaluz, and Eric Resnick are listed as the initial members of Rocketship
14 Education’s board of directors. Danner had significant teaching experience
15 (Nashville, TN public schools) prior to Rocketship, as did Shalvey (Aspire Public
16 Schools) and Andaluz (Downtown College Prep). Resnick, the fourth member of the
17 founding group was a hedge fund manager who had a “a deep understanding of
18 financial management and real estate transactions” (Danner, 2006, p. 13). The
19 inclusion of Resnick, an expert in real estate transactions, at the very beginning of
20 Rocketship, is interesting because one of the preferred ways for charter school
21 investors and founders to generate profits is via real estate deals. John Danner
22 eventually left Rocketship in 2013 to found Zeal, an online math tutoring tool, and
23 was replaced by Preston Smith who became CEO. Smith became the first principal of
24 the Rocketship’s first school, Mateo Sheedy, and was subsequently listed as a
25 Rocketship co-founder in the charter petition for Rocketship’s second school.

1 Matt Hammer, Executive Director of PACT (People Acting in Community
2 Together), brought Danner and Smith together, and has relentlessly promoted
3 charter schools through his advocacy non-profit, Innovate Public Schools.²³ Hastings
4 proselytized Rocketship to the larger charter school community and when he
5 promised Rocketship \$250K for each of the first eight Rocketship schools they opened
6 his donation caught the attention of philanthropic venture funds (Whitmire, 2014,
7 p. 50).

8 *Rocketship History*

9 The first Rocketship school, Mateo Sheedy, opened in Santa Clara County in 2007.
10 Rocketship's initial petition to the San José Unified School District was denied, so
11 they appealed to the Santa Clara County Board of Education, which granted their
12 petition. Over the years, Rocketship opened ten schools in Santa Clara County. Of
13 those ten, only two were authorized by a public school district. The remainder were
14 either countywide charters or charter schools whose petitions were denied by the
15 local public school district, but subsequently approved by the Santa Clara County
16 Board of Education. Table 2, *Rocketship Schools in Santa Clara County, California*, lists
17 the eleven Rocketship schools that were approved and the ten that opened. Note that
18 only two were approved by the school district in which there were expected to locate.
19 This lopsided result suggests that current charter school laws are tilted in favor of
20 charter schools.

21 *Rocketship Finances*

²³<https://innovateschools.org/>

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 Charter schools have a number of unique financial needs. They need startup
2 funds, operating funds, and often funds to expand, funds that public schools do
3 without. Rocketship is no exception. The *operation* of charter schools are funded by
4 federal, state, and local governments, but funding *expansion* may or may not be
5 funded with tax dollars, depending on the laws of a particular state. The difference
6 between what's funded at taxpayer expense and what's not must somehow be funded
7 with outside money. Startup money is needed for facilities, desks and chairs, teacher
8 and administrator salaries, legal fees, curriculum materials, etc., all of this before
9 even one student registers. Startup facilities cost vary widely. If the charter school
10 chooses to use public school district facilities under Proposition 39²⁴, their need for

²⁴Proposition 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" (Secretary of State, California, 2000, pp. 38—41) (Smaller Classes, Safer Schools and Financial Accountability Act, 2000). Regulations governing Prop. 39 facilities are in California Code of

1 funds will be lower than if they choose to lease or build their own facilities. Startup
2 facilities costs might involve the purchase of land and the construction of school
3 buildings, or might just involve lease payments. But since state funding is tied to
4 attendance, some startup funding is necessary. Thus the federal government
5 provides grants, administered by the states, for this purpose.

6 Rocketship has indicated from the beginning its intent to expand. In 2009,
7 Rocketship announced plans to open six new schools (Cook, 2009). It submitted a
8 petition to Santa Clara County to open countywide charters and within three years
9 had actually opened four. Like many other CMOs and EMOs, Rocketship must
10 expand in order to increase revenue enough to be worth the while of investors. A
11 single school's profit is not enough to satisfy investors, but by using economies of
12 scale, a "portfolio" of charter schools might suffice. A portfolio of charter schools is a
13 collection of schools – almost always charter schools – managed as a whole.

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

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

Regulations, Title 5, §11969.

1 Hill et al. acknowledge, in dry, understated language, that overcoming the
2 objections and criticisms of educators and scholars to their unshakable belief will be
3 difficult: “It is hard to imagine that a portfolio strategy could be introduced into a
4 major city without significant conflict.” (p.2) Portfolio strategy is most often
5 associated with Paul Hill and The Center for Reinventing Public Education, which is
6 now located at the Mary Lou Fulton Teachers College at Arizona State University.

7 *Rocketship Expansion Funding*

8 California, startup charter school funding has waxed and waned, in part because
9 federal funding has varied. Currently, the U.S. Department of Education provides
10 startup funds to states under the Charter Schools Program State Educational Agency
11 (SEA) grant program²⁵. The federal charter school funding programs are listed in
12 National Charter School Resource Center (2020). *The Federal Charter Schools Program:*
13 *2020 Annual Report* notes that

14 At the core of the Charter Schools Program are the Grants to State
15 Entities (SE Grants). The State Entity program offers competitive grants
16 to states, which then make subgrants within their states to *open new*
17 *charter schools and replicate or expand existing charter schools*. [emphasis
18 added]

19 (National Alliance for Public Charter Schools, 2020)

20 Funds like the New School Venture Fund²⁶ and the Charter School Growth Fund I
21 & II²⁷ exist to fund the development and expansion of charter schools and charter
22 management organizations. In 2007, when Rocketship Mateo Sheedy was started,

²⁵<https://www2.ed.gov/about/offices/list/oii/csp/funding.html>

²⁶<https://www.newschools.org/>

²⁷<https://chartergrowthfund.org/>

1 Rocketship used lines of credit and loans to fund its beginning (Danner, 2006, p. 260).
2 Now, charter schools have many more options for funding startup or operations.
3 Charters have at least three other sources of facilities funding: bonds, tax credits
4 and foundation or individual contributions. Betsy DeVos, who served as Secretary of
5 Education for Donald Trump, has donated \$12.6M to Rocketship. Reed Hastings, a
6 founder and now CEO Netflix has donated more than \$2M. In addition, charter
7 schools can avail themselves of the New Market Tax Credit if they meet certain
8 investment criteria, and if they do, they can get back 39% of their investment in tax
9 credits in seven years. If their investment returns, say, 20%, then combined, they are
10 looking at nearly a 60% return on their investment. A sixty percent return is fantastic.
11 Charter schools and charter school operators can also issue revenue bonds. Revenue
12 bonds are guaranteed by a revenue stream instead of by property tax revenues the
13 way general obligation bonds are. Note that both are tax-exempt. As of 2015, charter
14 schools issued over \$11B in revenue bonds according to Clark-Herrera et al. (2019).

15 *Rocketship Expansion Difficulties*

16 In 2014, the Santa Clara County Office of Education and Rocketship were sued by
17 four Santa Clara County public school districts: Alum Rock, Mount Pleasant,
18 Franklin-McKinley and Evergreen. At issue was the SCCOE's bulk authorization of
19 twenty countywide Rocketship charter schools. Sixteen months, 17,500 pages of
20 evidence, and an estimated \$435,000 later, Rocketship, the public school districts,
21 and Santa Clara County settled (Noguchi, 2015). As part of the settlement, Rocketship
22 agreed to withdraw 13 of the 20 countywide charters thus far authorized. Since one
23 of the remaining countywide charter had already been withdrawn, that left six
24 potential charters still authorized but as of yet, unopened. So far, it appears that
25 Rocketship has instead attempted to expand in locations beyond Santa Clara County:

1 San Pablo²⁸ and Concord in California, Nashville in Tennessee, Milwaukee in
2 Wisconsin, Washington, D.C. and Fort Worth in Texas.

3 *Charter School Accountability*

4 In California, all K–12 schools, including privately managed charter schools like
5 Rocketship, must submit annual budgets, Comprehensive Annual Financial Reports
6 (CAFR), and since 2014, Local Control and Accountability Plans (LCAP). LCAPs are
7 three year plans updated in years two and three and which in detail how a school will
8 use its funds to address state priorities, and to improve educational outcomes for
9 foster youth, English learners, and low-income students, along with the metrics
10 which will be used to show progress (Aguinaldo et al., 2021, pp. 66–84). These
11 characteristics make LCAPs particularly interesting from both a financial point of
12 view and from an educational point of view.

13 *Rocketship and Privatization*

14 Some contend that the central purpose of charter schools is to disguise a
15 money-making operation (Saltman, 2018). Whitmire, who now sits on the board of
16 Rocketship Education and who in 2014 published *On the Rocketship*, makes note of the
17 role that private venture funds played in Rocketship financing (Whitmire, 2014,
18 pp. 25, 65), and it is instructive to remember that private, for-profit venture funds
19 exist to make money. True, they often are “double bottom line” grantors (Clark et al.,
20 2004). As Ball (cited in Tewksbury (2016, p. 75)) makes clear

21 ... particularly with the added case of Rocketship, a blended learning
22 chain of charter schools, is that the NSVF [New Schools Venture Fund] is

²⁸unsuccessfully

1 using its clout to further blur the lines between for-profit and non-profit
2 educational projects and organizations, thus smoothing the groves
3 [grooves?] for marketizing educational policy and practices. Ball (2012)
4 makes the connections and rationalities clear: “Symbolically,
5 philanthropy provides an ‘acceptable’ alternative to the state in terms of
6 its moral legitimacy. It has also provided a kind of rehabilitation for the
7 forms of capital that were subject of ‘ill repute’ in the public imagination.
8 Strategically, philanthropy has provided a “Trojan horse” for the
9 modernizing move that opened the ‘policy door’ to new actor and new
10 ideas and sensibilities.” (Ball, 2012, p. 32)

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

15 *Privatization*

16 Charter CMOs and EMOs appear to be following the lead of prison and health
17 care privatizers. They lobby legislators intensively. They position themselves as being
18 more efficient than the “wasteful” public sector, and they claim to to be able to do
19 better than public schools, prisons or hospitals at a lower cost. Since charter schools
20 have positioned themselves as being in competition with TPSs, they need to do at
21 least as well as TPSs, or failing that, appear to do so. This calls for creative marketing,
22 and so, to that end, pro-charter advocacy organizations, some university-affiliated
23 institutions, and some think tanks have been harnessed to churn out pro-charter
24 puff pieces that are regularly debunked.²⁹ Evidently even creative marketing is not

²⁹The 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

1 enough to prod the free market to supply the educational choice that charter school
2 advocates feel is necessary, so pro-choice advocacy organizations also lobby state
3 representatives and fund pro-charter board candidates.

4 Charter school marketing is extensive. Organizations like The 74 Million, a
5 reference to the 74 million children in America, or Innovate Public Schools, an
6 advocacy organization, produce reports, news items, briefs and what claims to be
7 research that is slanted toward charter schools and away from public schools,
8 teachers, unions, school boards, and anything and anyone who doesn't buy into the
9 notion that American education is in desperate need of reform. One technique that is
10 used is to fund media outlets to write allegedly unbiased and non-partisan articles
11 and blog postings that promote "successes" while dismissing any harm that charter
12 schools might cause.

13 These influence techniques are reminiscent of how OxyContin was marketed by
14 the Sackler family, which is not surprising since Jonathan Sackler, now deceased,
15 founded or funded charter advocacy groups like 50CAN, ConnCAN, Families for
16 Excellent Schools, the Northeast Charter School Network, Education Reform Now,
17 Partnership for Educational Justice, and The 74 Million. Dubb (2017) describes the
18 similarities in marketing strategies used to sell oxycontin and those used to promote
19 charter schools, where the focus of all communications was to highlight benefits
20 while ignoring or erasing harms. While this is the standard playbook of corporate
21 marketing, we now have public education dollars being spent on such tactics. When a
22 national exposé published by National Public Radio (NPR) documented serious
23 concerns about Rocketship's practices, The 74 Million immediately published an *ad*
24 *hominem* attack accusing the NPR reporting to have been a "hit piece" on the charter

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 network instead of responding with reasonable and reasoned arguments.

2 Unlike many other forms of privatization, charter schools have competition.
3 When a local government turns over the task of supplying water to a town, for
4 example, there is not another public water company serving the same customers to
5 serve as a comparison. Privatization is often an all-or-nothing proposition. Charter
6 schools, on the other hand, can be and are often compared to the public schools in the
7 same school district. The presence of very visible competition has an interesting
8 consequence: charter schools view public schools as an existential threat, precisely
9 the opposite of the cooperative, synergistic relationship that state legislators
10 envisioned. In fact, the absence of reports on the successful sharing of innovations
11 appear so infrequently that sharing might as well be completely absent.

12 Given that charter schools in California get the same per pupil funding as do
13 public schools, there are a limited number of ways that charter schools can generate
14 “excess” funds. They can lower operating costs by hiring unqualified teachers and
15 paying them less. They can tap into state or federal facilities grants. They can collect
16 and sell student data. They can contract out to a for-profit management company.
17 They can buy technology from business partners. In all these cases, the net result is
18 always the same: money flows out of the public school system into private hands.

19 Charter schools employ fewer and less experienced teachers than public schools
20 do. A teacher with 10 or 20 years of experience can easily command a salary that is
21 twice that of a newly minted teacher. Rocketship schools have a student-to-teacher
22 ratio that’s officially as high as 36:1 (SCCOE, 2021), and if aides are counted as
23 teachers, it is an estimate which understates the number of students per teacher. The
24 combination of fewer and less expensive teachers can reduce the cost of teacher
25 salaries to one-third of what public schools pay for teachers. This reduction is
26 significant because teacher salaries typically account for from one-third to

1 three-quarters of the total expense of running a school. Charter schools that employ
2 a blended pedagogy can further reduce the cost of salaries, with virtual schools
3 dispensing entirely with teachers, effectively reducing the single largest component
4 of running a school to zero.

5 Philanthrocapitalism

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

11 I sit on a man’s back choking him and making him carry me, and yet
12 assure myself and others that I am sorry for him and wish to lighten is
13 load by all means possible ... except by getting off his back.

14 For philanthrocapitalists, the techniques and vehicles used to extract a profit
15 from public education are impressive. Saltman (2018) lists the following in *The*
16 *Swindle of Innovative Educational Finance* (pp.xii–xiii):

- 17 • social impact bonds,
- 18 • higher education lending and student income loans,
- 19 • charter school real estate, tax credit, and municipal schemes, and
- 20 • philanthrocapitalist educational technology schemes.

21 Marachi and Carpenter (2020), Burris and Cimarusti (2021), Scott (2009), B. Baker
22 and Miron (2015) all make the same point: education has been captured by big
23 business, where profits are hidden, and where the profits are substantial.

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 a 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 companies that 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 financial transactions like bonds, tax credits, loans, and grants.

The next section, *Process Overview*, describes at a very high level the four steps of inquiry this dissertation will follow. 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 by describing the normal, common financial disclosures and reports made by all districts and schools, including charter schools. It is important to remember that budgets reflect the future, and audits reflect the past. Budgets are estimates,

1 guesses, projections, whereas audits are a definitive, fixed record of the past.

2 In order to make what's being analyzed more concrete, Appendix A, *School*
3 *Financing in California* contains some example tables drawn from the Los Altos School
4 District (LASD) for the 2019–20 school year. These are standard financial reports
5 taken from the school's SACS data, but presented in a way that is both visually
6 appealing and informative.³⁰ The high level view is given in Figure 5, *LASD 2019–20 All*
7 *Funds Summary*. That view is further broken down in five more tables. The last table is
8 a projection of LASD's of financial numbers for the current year (2018–19), the year
9 whose budget is being presented (2019–20), and five years into the future. The first
10 half of the table contains the assumptions used to generate the amounts in the
11 second half.

12 Once the overall financing landscape has been described, the study can start to
13 analyze actual data from Rocketship. There are three such groups of data: petitions,
14 financial reports, and other data. Each will be covered in the third section, *Charter*
15 *School Financing* of this chapter.

16 Once all the data have been gathered, the analyses can begin. The first such
17 analysis is of profits that do not accrue to Rocketship itself, but rather to associated
18 entities. They are covered in section *Indirect Profits*.

19 The fifth section, *Are There Gaps or Anomalies in the Data?*, discusses how potential
20 gaps or anomalies in the financial data might be discovered. This is where
21 triangulation can be used to cross-check the validity of that data. Does everything
22 add up? Are there important, missing documents? How much do these gaps or
23 anomalies matter? Are the oddities long-standing or fleeting? Examples of
24 triangulation might be comparing Rocketship's LCAPs to their budget, or comparing

³⁰LASD's annual reports have consistently won the Meritorious Budget Award for Excellence from the Association of School Business Officials International for the quality and comprehensiveness of its financial statements for each of the last 15 years.

1 IRS Form 990 data to their audited financial statement of salary expenses.

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

7 Process Overview

8 Explaining the real estate-related finances of Rocketship Education is the heart of
9 this dissertation. Where do Rocketship's revenues come from? Where are they
10 spending that revenue? Are there investors who make money off of Rocketship? And,
11 critically, if Rocketship takes in more money than it spends on education, where does
12 that money go?

13 To respond to these questions, the basic process steps for this dissertation will
14 include the following:

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

1 4. Identify to the extent possible how people or entities that are not part of
2 Rocketship may nonetheless profit from Rocketship.

3 Analyzing the finances of Rocketship Education means, for example, determining
4 if general obligation or revenue bonds are purchased by entities that are related to
5 Rocketship, i.e. they are not arm's length transactions. All bonds are risky to some
6 extent, some more than others, and purchasers of those bonds are compensated for
7 taking on that risk by being paid interest on the amount borrowed. An immediate
8 question comes to mind: Is the interest rate appropriate for the risk being taken on?
9 Answering that question entails comparing Rocketship Education to other, similar
10 borrowers. If the interest rate is higher than expected, then Rocketship Education is
11 effectively giving away some of its revenue. Another question one might ask is, "How
12 is Rocketship Education spending its bond proceeds?" Are those expenses in line with
13 what other charter school chains or public school districts are spending their bond
14 proceeds on?

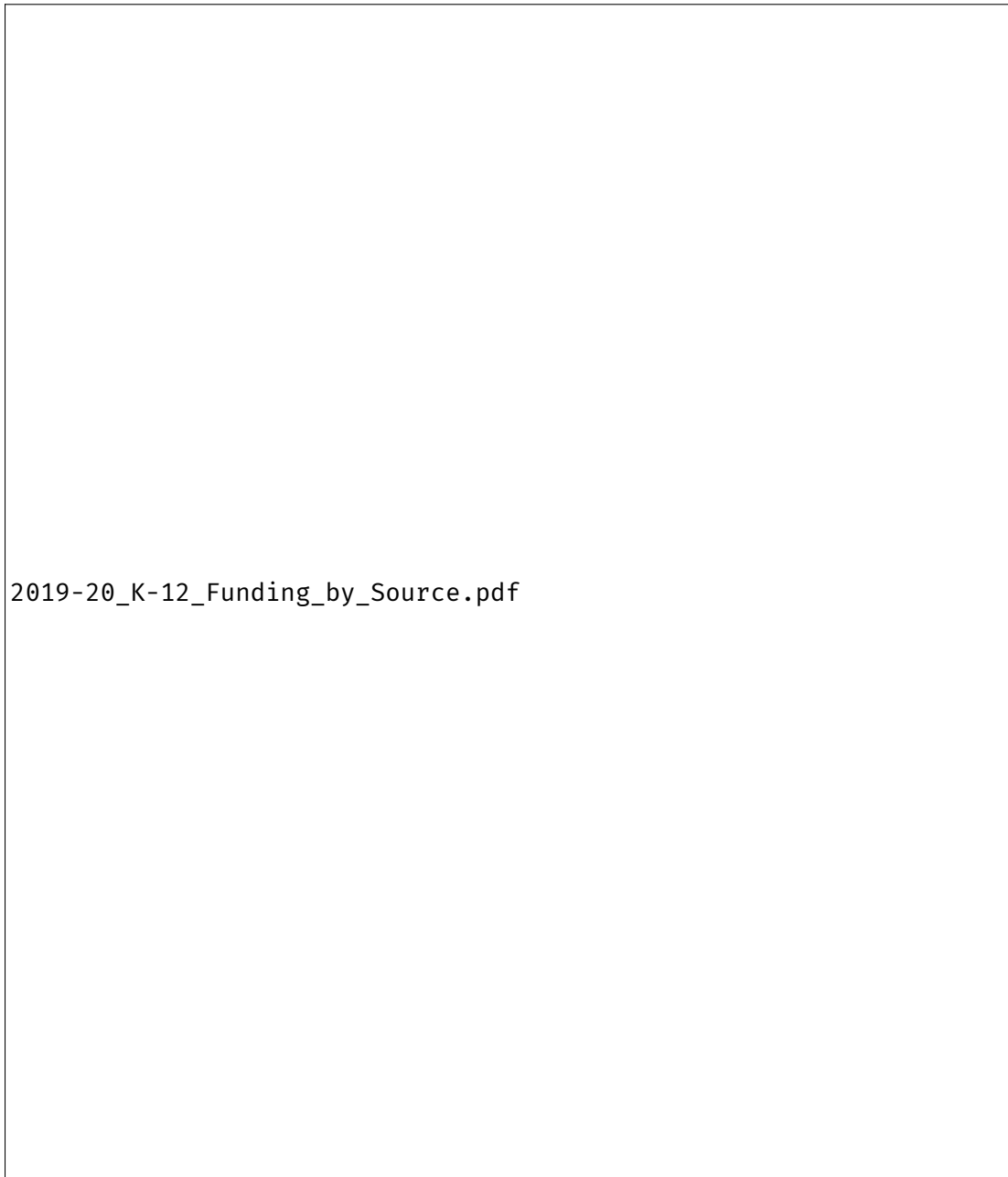
15 An Overview of California School Financing

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

22 In June of every year, the California Legislature passes a budget for the next fiscal
23 year (July 1 – June 30) and the Governor signs it into law. This is called the enacted
24 budget. This version of the budget describes the *intent* of the Governor and the

Figure 1

California 2019–20 K–12 Funding by Source



2019-20_K-12_Funding_by_Source.pdf

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

1 Legislature, but does not fund anything. The real work is done in what are called
2 *trailer bills* that are passed piecemeal in the months following the adoption of the
3 budget. During the course of the fiscal year, revisions are made to this enacted
4 budget either because of circumstance or because of changed priorities, and at the
5 end of the fiscal year, this is now called the revised budget. After the budget year has
6 passed, technical adjustments are still made: Exactly how much money was spent, or
7 what was misclassified and improperly allocated will change the revised budget
8 numbers. This then becomes the final budget. The upshot of this is that there are
9 actually three versions of California’s education budget: the one for next year
10 (enacted), the one for the current year (revised) and the one for the prior year (final).
11 Normally, the enacted budget is the one that is meant when people speak of the
12 budget.

13 Figure 1 on the preceding page, *California 2019–20 K–12 Funding by Source*, shows
14 what money California has to fund its primary and secondary educational system,
15 i.e. grades K–12. This money is then allocated to local educational agencies (LEAs),
16 through a formula known as the Local Control Funding Formula (LCFF). LEAs include
17 individual charter schools, county offices of education, and local public school
18 districts. The total amount of money for K–12 funding is allocated using a formula
19 that was enacted by voters in 1988 (LAO, 2017): Proposition 98. Prop. 98 was originally
20 meant to be a minimum guaranteed funding level, but has evolved into a ceiling. The
21 Legislative Analyst’s Office (LAO), which serves as an independent, non-partisan
22 research arm of the California Legislature in much the same way that the
23 Congressional Research Service serves the U.S. Congress, calls Prop. 98 “A Tale of
24 Complexity” (p.5) and says that “A Plethora Tests and Rules Govern the Minimum
25 Guarantee” (p.5), and that “State Has Made Myriad Adjustments to the Proposition 98
26 Calculations” (p.5). Undoubtedly LCFF is complex, but LCFF is more transparent, has

1 fewer rules, is more equitable, and is more responsive to the needs of public school
2 districts that have a high proportion of under-served students than the Revenue
3 Limit System that came before it. The Revenue Limit System was also complex, but in
4 a completely difference way; it had many separately funded programs, called
5 categorical programs, each with their own set of requirements, rules, durations, and
6 funding levels. Each passing year saw more programs being added to the set of
7 categorical programs until the collection of categorical programs became so unwieldy
8 it threatened to soak up all of a district's financial resources.

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

14 Some districts are funded outside of the LCFF system. These are called “basic aid”
15 districts, or the preferred term, “community funded” districts. Districts whose
16 annual property tax revenue is greater than their annual LCFF entitlement are
17 community funded since they get only “basic aid”, i.e. the constitutionally required
18 minimum funding (the greater of \$120 per pupil or \$2,400 per district) from the
19 state. For non-community funded districts, the state contribution is the difference
20 between a district's LCFF entitlement and its share of district property taxes. In other
21 words, the state ensures that each district gets at least its LCFF entitlement, an
22 amount which is determined by Prop. 98.³¹

23 *Budgets & Interim Reports*

³¹A 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.

1 Budgets, in California, are the first of four important financial documents that
2 schools produce during a fiscal year. For any given fiscal year, which runs from July 1
3 to June 30, the first financial document produced is the annual budget, a forward
4 looking financial statement, which is approved before the end of the prior fiscal
5 year.³² Next are two (unaudited) interim reports, one in December, and another in
6 March, which track how well the school or district is adhering to the approved annual
7 budget, and finally, after a certified public accountant has audited the school or
8 district, a comprehensive annual financial report (CAFR). State law requires that an
9 independent auditor certify this retrospective account of the school or district's
10 financial activity as being an accurate representation of the school's finances for the
11 previous fiscal year.

12 *Local Control Accountability Plans (LCAPs)*

13 An important, recurring, non-financial report of schools is the Local Control
14 Accountability Plan (LCAP). Although the LCAP is a three year plan, it is updated
15 annually. The focus of an LCAP is on the programs that the school (public or charter)
16 is going to implement, finance, and monitor that will allow it meet the goals that the
17 state has set. These are goals that the California Department of Education sets
18 periodically, primarily to ensure that students with the greatest needs are in fact
19 served and are in addition to the seven goals that the Legislature set for charter
20 schools in general. Furthermore, the school's community must be offered the
21 opportunity to provide input to a school's LCAP and this is why a separate meeting
22 specifically and only on the LCAP is a requirement.

23 Typically LCAP goals remain the same over their three year lifespan, but their

³²Since a school's budget must 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 financing may change if the metrics used to measure progress toward achieving
2 those goals aren't showing progress. In unusual circumstances, how the goals are to
3 be achieved might change. LCAPs are the State of California's way of ensuring that all
4 public schools, including charter schools, meet the same set of priorities or goals.
5 LCAPs contain specifications for how a school or district will meet all of the state's
6 current goals and how achievement will be measured. Apparently, some LCAPs have
7 been on the order of 500 pages long, although the norm is much less.

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

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

19 *Comprehensive Annual Financial Reports*

20 A major source of financial data are the annual, independently audited,
21 comprehensive financial statements of Rocketship Education. Comprehensive
22 Annual Financial Reports (CAFRs) are sent to the California Department of Education
23 (CDE) and to a charter's County Office of Education (COE) annually. They cover the
24 previous fiscal year and are similar to annual budgets because they report the same
25 information, perhaps in a different format. CAFRs are retrospective whereas budgets

1 are prospective. The major difference is that CAFRs are independently audited and
2 budgets are not.

3 Similarly to bond underwriters, financial auditors are liable for “omitting,
4 misstating, or obscuring [items which] could reasonably be expected to influence
5 decisions that the primary users make on the basis of those financial statements”
6 (Cayamanda, 2020), and this requirement tends to increase the diligence of the
7 auditors. However, potential liability doesn’t always result in truly comprehensive
8 financial statements; sometimes the lure of accounting fees overwhelms any
9 misgivings, as was the case with Enron and Arthur Andersen in 2001, and apparently
10 with Donald Trump in 2022. Errors and sloppiness may exist, but in general, fraud is
11 thankfully rare, in part because fraud on the part of auditors would likely result in the
12 loss of the auditor’s license, effectively ending their business.

13 In order to make what’s being analyzed more concrete, I present in Appendix A
14 on page 94 some examples drawn from the Los Altos School District (LASD) for the
15 2019–20 school year. These LASD documents make good models because they have
16 consistently won the Meritorious Budget Award for Excellence from the Association
17 of School Business Officials International for the quality and comprehensiveness of
18 its financial statements for each of the last 15 years.

19 Charter School Financing

20 In California, charter schools are financed the same way as public schools are,
21 from the same pot of money, using the same set of rules, except for one significant
22 difference: how they finance facilities. Unlike public schools, charter schools have no
23 taxing authority, so they cannot pass bond measures or parcel taxes. This lack of a
24 taxing authority means that charter schools must either occupy existing public

1 school facilities (potentially displacing existing public school students) or seek grants
2 and donations. The federal government provides significant amounts of facilities
3 grant money and delegates to the states the administration of the program and the
4 disbursement of the actual grants.

5 The topic of charter school finances is broader than that of public schools because, in
6 addition to all of the financial dealings of traditional public schools, almost all of
7 which also apply to charter schools, charter schools have large and immediate needs
8 for facilities that TPSs don't have. This brings into the picture bonds, loans, grants,
9 leases, construction, and the purchase and sale of real estate. TPSs do issue several
10 kinds of bonds, levy parcel taxes, and buy real estate on which they build schools, but
11 they do so infrequently. Usually public schools have done this years ago, but charter
12 schools have an immediately and reoccurring need for facilities. They face these
13 needs once when they start up, and whenever they outgrow their facilities because of
14 increased enrollment. This a charter schools' need for facilities and the financing
15 associated with obtaining those facilities is more pressing, more immediate, and
16 more common than the corresponding needs of TPSs whose enrollment doesn't
17 fluctuate as much.³³

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

³³Usually a TSP sees a change in enrollment because of significant demographic changes like immigration or emigration, birth rate increases or declines. Charter schools can see enrollment changes absent any demographic change, with the total number of students residing in a district staying the same. In some instances, increased enrollment in charter schools comes from public school students switching from the public school system to charter schools. This is what is happening to Oakland, CA and it produces simultaneous but opposite changes in enrollment.

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

5 *Charter Financial Documents*

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

Table 3

Charter School Financial Documents

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

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

1 Petitions & Renewals

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

9 Before a charter school is allowed to begin operation, every charter school in
10 California is required to present to a chartering authority a petition which must
11 contain certain required elements. The absence of one of these elements is grounds
12 for denying the charter's petition to operate. For example, what is the intent of the
13 charter school? How is the charter school going to measure its success or failure?
14 What population is it targeting? And, what are its financial projections?

15 These petitions run anywhere from a hundred or so pages to over a thousand.
16 They contain a wealth of data on curriculum, demographics, pedagogy, discipline,
17 teacher recruitment, and, of course, on the charter school's finances. Only a few
18 financial statements are needed to get a good overall picture of a school's or district's
19 finances. These are the enacted annual budget and interim reports, the audited
20 Comprehensive Annual Financial Report (CAFR), parts of the Local Control
21 Accountability Plan (LCAP), and for charter schools, the financial portions of their
22 petitions.

23 Fortunately, these documents are all publicly available and could, if needed, be the
24 subject of a California Public Records Act (CPRA) request. The CPRA is the California
25 equivalent of the federal Freedom of Information Act (FOIA). Many of the documents

1 mentioned in this dissertation should be available from the California Departments
2 of Education and Finance, or from the Santa Clara County Office of Education.³⁴

3 Since Rocketship schools are all operated by a single entity, (currently) Rocketship
4 Education, DBA Rocketship Public Schools, a 501(c)(3) non-profit, their financial
5 statements and those of their affiliates are rolled up into a single document, the
6 Consolidated Financial Statements and Supplementary Information. Every school is
7 included as are separate Launchpad Development LLC's that own the facilities leased
8 to individual schools.

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

- 14 • The six year forecast spreadsheet that LASD uses, an example of which is
15 reproduced in Figure 11 *LASD 2019–20 Multi-Year Projection* on page 102. Most of
16 the elements of a forecast are combinations of SACS³⁵ codes. The main
17 drawback of using this framework is that each school would have to have its
18 elements extracted from their SACS submissions. 'The main benefit is that
19 these elements have been used for years and so are known to be useful in
20 budgeting.
- 21 • A spreadsheet of the 9 high-level SACS object codes. This option is has the
22 advantage that these sums can be calculated automatically using reports

³⁴Since these documents are publicly available and may be freely copied, so no copyright is applicable, nor can one be claimed.

³⁵The 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.*)

1 available on Annual Financial Data web page³⁶ maintained by the California
2 Department of Education. These reports go back to FY2003–4. The main
3 disadvantage is that any gaps or anomalies may not show up in the aggregate
4 numbers.

- 5 • A third way of approaching the problem of making sense of large amounts of
6 data is to use a model. Some possible models are

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

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

20 *Other Data*

21 Vast amounts of data are available from the federal, state and local governments,
22 easily over half a million datasets. Unfortunately these data have been collected in
23 different formats, over different time periods, using different inclusion criteria,

³⁶<https://www.cde.ca.gov/ds/fd/fd>

1 more or less carefully. Picking a subset of educational data to use and then cleaning it
2 is a huge endeavor well beyond the scope of this dissertation. That being said, a very
3 small subset of available datasets will be consulted, based on the immediate need at
4 hand. The most likely datasets to be consulted are those maintained by:

- 5 • California Department of Education and the State Board of Education
- 6 • The County of Santa Clara and the Santa Clara County Office of Education
- 7 • The California Open Data Portal
- 8 • National Center for Education Statistics (NCES) at the Institute for Education
9 Sciences (IES)
- 10 • Stanford Educational Data Archive (SEDA)
- 11 • School Finance Indicators Database
- 12 • EdSource, Ed-Data, and other aggregators of educational data specific to
13 California

14 State and Federal Filings

15 Two filings are of particular interest: FPPC Form 700, Statement of Economic
16 Interests, and IRS Form 990, Return of Organization Exempt from Income Tax. Both
17 forms force the disclosure of personal financial information (Form 700) or personal
18 financial information and business financial information (Form 990).

19 Some officers of Rocketship may be required to submit annually to the California
20 Fair Political Practices Commission (FPPC) Form 700, Statement of Economic
21 Interests. This particular requirement of charter school officers is not settled law, but
22 if Form 700 is filed, it will list the submitter's assets and income. The intent is to
23 prevent related-party transactions by enumerating an officer's economic interests so
24 that the school can avoid doing business with entities that might benefit an officer.

1 The federal Internal Revenue Service grants income tax exemptions to
2 organizations that meets the requirements of §501(c)(3) of the Internal Revenue
3 Code.³⁷ These organizations must file Form 990 annually that provides some minimal
4 financial data. (Tax returns of for-profit organizations are not public documents and
5 their contents do not have to be disclosed; however, in order to sell stock to the public,
6 i.e. on a stock exchange, firms are required to publish various financial documents,
7 which like bond prospectuses, are required to be informative and complete.)

8 Bond prospectuses

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

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

23 Unlike many studies, there is not a paucity of data on Rocketship, rather there is a
24 surfeit. The data collected so far is voluminous. The current number of pages of

³⁷26 USC 501, i.e. Title 26, Subtitle A, Chapter 1, Subchapter F Part I § 501(c)(3)

1 initial and renewal petitions runs to 7371 pages. Three bond prospectuses total over
2 1000 pages. And there are many financial data documents yet to obtain. For example,
3 of the six categories of financial data listed in Table 3, only half have been collected.

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

12 Indirect Profits

13 It is not necessarily the case that all profit be derived from Rocketship itself.
14 Other people or entities could profit indirectly from Rocketship's activities. For
15 example, contracts which are not at arm's length are automatically suspect.

16 Leases are another area where profits can be made. Some charter schools receive
17 a per-pupil rent subsidy which reduces their effective net rent (gross rent –
18 government subsidy). But, if the operator of a charter school is also the owner of the
19 facilities, then a profit is to be made. It is the difference between the (market) rent
20 charged and the net rent. Furthermore, if the rent (paid by the charter to a third
21 party) is actually a mortgage payment by the third party to a bank, then the sale of of
22 the property can result in a significant profit. The mortgage (effectively) was paid for
23 by the government, but the proceeds of the sale accrue to the third party, the owner of
24 the facilities.

1 Tax credits are another potential source of profit. The New Markets Tax Credit is
2 a 39% tax credit, usable over seven years, available to those who make an investment
3 in specified economically depressed neighborhoods. A 39% tax credit is roughly twice
4 the current corporate tax rate which means that this credit wipes out the taxes on
5 gains equal to twice the initial investment (which also has a return).

6 The NewSchools Venture Funds, the Charter School Fund, and the Charter School
7 Growth Fund are just a few examples of venture funds that specialize in charter
8 schools. Since it is unlikely that investors will invest in a fund that does not return a
9 profit, establishing exactly how these funds turn a profit is going to be a key goal of
10 this study's explorations.³⁸

11 Are There Gaps or Anomalies in the Data?

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

19 In some fashion or another, all profit must originate from Rocketship's revenue.
20 In the case of the sale-leaseback of facilities, for example, the rent over and above
21 market rates constitutes profit to the property owners, and this is an operational
22 expense ultimately paid for by tax payers. If facilities are bought with public dollars

³⁸It is interesting that none of the web sites of these funds mentions that fund's return. The absence of any indication of a return on investment is either an innocent mistake or (more likely) an attempt at obfuscation.

1 (i.e. federal grants) and subsequently sold, the net proceeds are profit that might
2 accrue to an organization other than Rocketship. If technology is being used and the
3 contracts are not at arm's length, then someone or some organization is making
4 more than the usual profit. If student data is being sold by a for-profit entity that
5 operates non-profit charter schools, that's revenue that rightfully belongs to the
6 students or to the non-profit schools.

7 Determining whether there are gaps or anomalies in a charter school's financial
8 data is time-consuming but not very complex. Reviewing the data is not difficult –
9 usually there are no advanced algorithms to apply; basic arithmetic may be used to
10 check if all the numbers add up. When looking at financial statements, one should be
11 alert to unusual year-to-year changes, ratios (e.g. salaries to total expenses) that are
12 markedly different from the norm, entries that are missing components, or entries
13 that are not supported by detail elsewhere. Complex third-party transactions that
14 don't seem to add value are also indicators that further investigation is needed.

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

- 16 • Are the data available and accessible? Charter schools are notorious for simply
17 not filing required documents or filing them horrendously late, or submitting
18 documents that are incomplete. Petitions are not usually a problem because
19 without a petition, or with a materially incomplete petition, the petition will
20 not be granted. However, once a school is operational, late or missing filings
21 will not bring everything to a halt. Although Rocketship was fined for failing an
22 attendance audit, it was allowed to continue to operate.
- 23 • Have the data been misrepresented? There are forensic techniques (e.g.
24 Benford's Law) that can point to suspect data (Zhu et al., 2021). There is also
25 triangulation which involves comparing one source of data with another to see
26 if they match. For example, charter petitions make forecasts of revenue and

1 expenses. How accurate were those forecasts? Were the reasons given for
2 anomalies plausible? foreseeable? reasonable? One mistake is not usually a sign
3 that something is being covered up, but several large mistakes usually are.

- 4 • California requires that LEAs meet the numbers they previously forecast or
5 explain why they didn't meet those numbers. Were those goals met, and if not,
6 were the reasons proffered legitimate? When preparing a budget, LEAs must
7 also certify they can meet their financial obligations for the current year, and
8 for the next two years. If an LEA cannot certify that they can, they might receive
9 a visit from the California Department of Education's Financial Crisis &
10 Management Assistance Team (FCMAT), and in the extreme case be subject to a
11 state takeover or to involuntary closure.

12 *Triangulation*

13 Another technique for determining if there are gaps or anomalies is to use
14 triangulation. Triangulation is the use of multiple sources of data. While
15 triangulation in social science research often refers to the mixed methods use of
16 quantitative and qualitative methodologies, the common definition refers to the
17 analysis of multiple forms of corroborating evidence in the form of financial and
18 media documentation. For example, Bhandari (2022) notes that one of the forms of
19 triangulation is “[u]sing data from different times, spaces and people” and also that
20 “[t]riangulation in research means using multiple datasets, methods, theories and/or
21 investigators to address a research question. It’s a research strategy that can help you
22 enhance the validity and credibility of your findings.”³⁹

³⁹Triangulation 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.

1 Are There More Serious Financial Issues?

2 Unfortunately, charter schools and charter school chains have a long history of
3 various kinds of fraud. Lafer (2017b), In the Public Interest (2018), Burris et al. (2020),
4 and Burris and Bryant (2020), are just a few of the reports that detail fraud and waste
5 in charter schools. Although Rocketship has engaged in a number of questionable
6 activities, it has not been charged anything illegal.⁴⁰ But with billions of dollars
7 allocated to charter schools for facilities in the last 15 years in California alone (Lafer,
8 2017b, p. 4), coupled with lax or no oversight, the temptation to misappropriate funds
9 must be strong. It is also instructive to note that Californian charter schools have
10 fought tooth and nail to prevent any laws that would increase transparency or hold
11 charter operators to the same conflict-of-interest standards that public schools and
12 other government entities are held to. While the charter sector has for the most part
13 been successful in warding off demands for accountability, the Attorney General of
14 California issued an official ruling in 2018 stating that the Brown Act, the CPRA, and
15 Government Code §1090 apply to charter schools as well as to other LEAs (Becerra &
16 Medeiros, 2018).

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

20 While charter schools constructed with general obligation bonds cannot
21 be sold or used for anything other than the authorized school, schools
22 constructed with tax-exempt conduit bonds become the private property

⁴⁰Rocketship schools in Santa Clara have had ties with a virtual charter school serving special education students hundred of miles away. They have collected pandemic-relief funds intended for businesses and not available to public schools. Rocketship has been the subject of several Letters of Concern from the California Department of Education, and it has had petitions to open schools denied for substantive reasons. Many of these issues have been collected and can be viewed at <https://www.scoop.it/topic/charter-choice-closer-look> (Marachi, 2016–2022).

1 of the charter operator. Even if the charter is revoked, neither the state
2 nor a local school district can take control of this property. Additionally,
3 schools constructed with private funding subsidized by New Market Tax
4 Credits or acquired with private funds but whose mortgage payments
5 are reimbursed through the Charter Facilities Grant Program (known as
6 “SB740”) are typically owned without restriction.

7 (In the Public Interest, 2018, p. 6)

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

14 *Analyzing Rocketship’s Bond Financing*

15 Bond financing can be both complicated (a hard problem, but solution methods
16 exist) and complex (many unknowns and interrelated factors). Illustrating this are
17 two examples of the analysis from just a single prospectus, that of Rocketship’s \$42M
18 bond offering. That offering is described in the 536 pages which comprise
19 “\$42,160,000 Charter School Revenue Bonds (Rocketship Education - Obligated
20 Group).” The \$42M offering is complicated because there are many moving parts
21 which are described in the offering in the well-known language of bond finance.
22 Terms, rates, contingencies, amounts, dates, and required performance are all
23 specified in a fashion that has withstood legal onslaught many times over. But the
24 offering is also complex because it must also convince others that its predictions are
25 reasonable. The most important of those predictions is that the issuer can pay the
26 interest and repay the principal when they due.

1 Figure 2 *Flow of Funds: Overview* gives the overall picture and shows how rents
2 from schools (blue) are “intercepted” by the California Controller (red) and paid
3 directly to landlords, or paid into the Gross Revenue Fund (red) from which the
4 Master Trustee pays lessors (orange) and bond holders and expense accounts
5 (orange). What is not shown is the \$750 per ADA (in 2017, rising to \$1,211 in 2020–21)
6 that Rocketship will apply to lease payments. Since money is fungible, the State of
7 California is giving Rocketship between \$2.4 and \$3.7M depending on the year,
8 money they would otherwise not have. This is effectively profit.

Figure 2
Flow of Funds: Overview



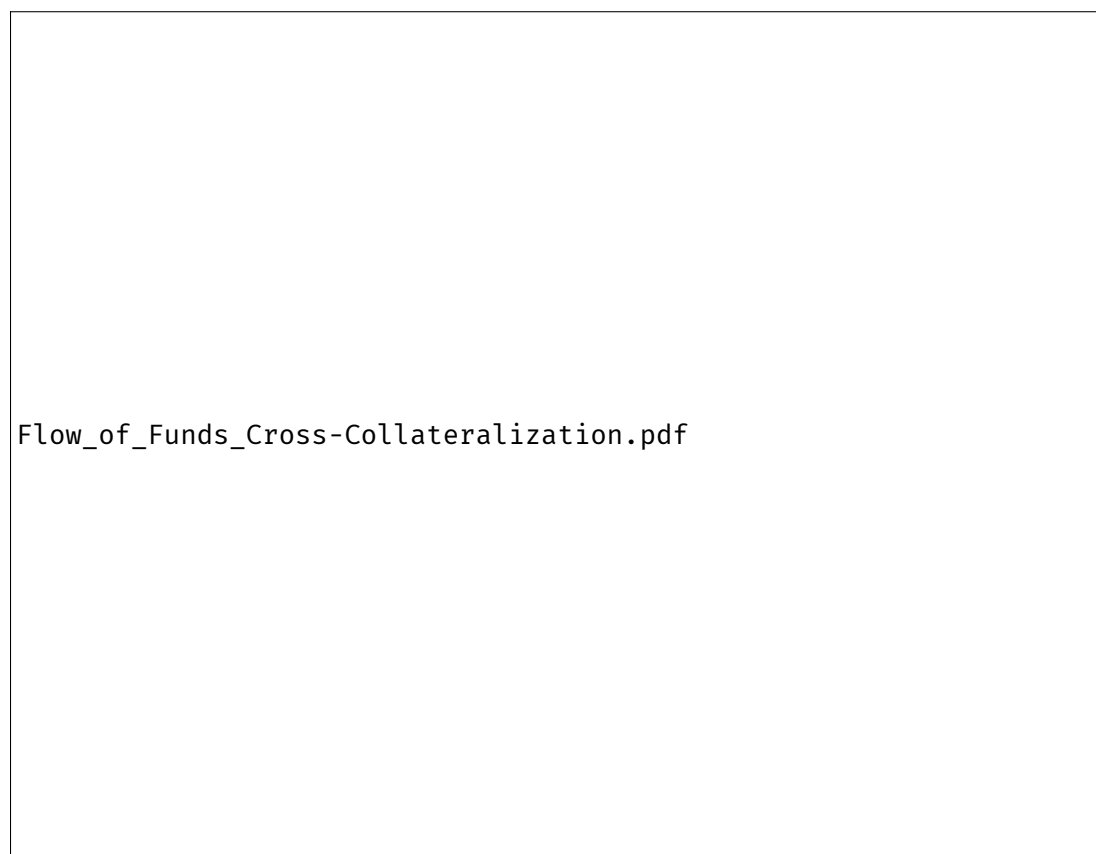
Note: California School Finance Authority (2017a, p. 53). In the public domain.

9 The next figure, Figure 3 on the following page *Flow of Funds: Cross-Collateralization*

1 adds an important detail: how Rocketship uses its assets as collateral more than
2 once.⁴¹ In this case, if the payments of “School Tenants” are insufficient, the Master
3 Trustee may require additional monthly payments from the “Obligated Group
4 Representatives and Member” to supplement those from “School Tenants”.

Figure 3

Flow of Funds: Cross-Collateralization



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

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

7 What About the Flow of Money Through Rocketship?

⁴¹*Cross-collateralization* means using an asset as collateral for two or more obligations, here lease and bond payments.

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

Figure 4
Operating Resource Flows



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

3
4 and there are no loops. Colors are used merely to distinguish the various blocks.

Findings and Results

1
2 This chapter discusses my findings and results. Recall my research question: Has
3 Rocketship structured itself and its finances, to earn a return to investors, and if so,
4 how?

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Appendices

School Financing in California

This appendix presents an example of public school financing in California.⁴² Understanding the normal, usual, default financing of schools in California is necessary in order to be able to identify where Rocketship's might differ. The description which follows is necessarily high-level; the budget document for 2022–23 that LASD submits to SCCOE and hence to the state runs to 118 pages of unadorned tables derived from accounting spreadsheets.

First, the highest possible level look at a LASD budget is presented. This is the *All Funds Summary*. Next are five tables that delve one level down from the *All Funds Summary*. Each of those tables can be further decomposed until individual SACS accounting (object) codes are reached. SACS code reflect exactly one kind of expenditure or revenue. For example, money received from the Federal Emergency Management Agency (FEMA) is recorded under SACS object code 8281 and no where else. How that money is spent is recorded under object code 8285. The lowest level of accounting is money received or money paid. All money received goes into at least one fund and is recorded under at least one object code. Payments are handled correspondingly. The intent of this process is to record unambiguously and completely every monetary transaction.

Public school districts and charter schools receive funding from the state and the federal governments which most often goes into a district's or school's General Fund. A 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.

⁴²For a more detailed look at what a complete budget document looks like, see "LASD 2022–23 Budget Document" of Item H.4 of the June 13, 2022 LASD Board Meeting (<https://simbli.eboardsolutions.com/Meetings/Attachment.aspx?S=36030305&AID=279356&MID=12479>). Note that most public school budget documents are not as comprehensive or as well put together as LASD's.)

1 The first table to look at is the aggregate of all funds as shown in Figure 5 on the
2 next page, *LASD 2019–20 All Funds Summary*. It is a very high-level summary of a
3 school’s or a district’s budget. It’s a snapshot of what the district’s revenues are
4 expected to be, roughly where that revenue is expected to come from, what the
5 district’s expenses are expected to be, and whether revenue and expenses are
6 expected to be in balance. It is the rough equivalent of a business income statement.⁴³

7 Because Figure 5 on the following page, *LASD 2019–20 All Funds Summary*, is a
8 snapshot, detecting unusual changes year-to-year is not possible. Changes are
9 detectable using Figure 6 on page 98 which compares fiscal two years. However, with
10 just a budget summary, one can nonetheless note some interesting ratios, for
11 example, the percentage of expenses spent on salaries and benefits. For LASD in
12 2021–20, this is 80.18% which is in line with what is typical of elementary school
13 districts in California. One can calculate the state-wide average for all districts for
14 2019–20 using the Data Table at www.ed-data.org/state/CA, and that comes out
15 to 83.71%. So, LASD spends a little less on salaries and benefits than the average
16 elementary school district in California does.

17 Calculating this ratio brings up a general issue: What is an appropriate
18 comparison group? In this particular case, the Ed-Data web site does not have
19 county-level financial data, so the only comparison which can easily be made is at the
20 state level. But should the state-level comparison group be all districts, or just
21 elementary school districts? Should “basic aid” districts, also called
22 “community-funded” districts, districts whose property tax revenues exceed their

⁴³Schools 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 funds 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 5
LASD 2019–20 All Funds Summary



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

1 LCFF entitlement, be included or not? Again, the Data Table tab on
2 www.ed-data.org/state/CA does not filter by type of district (although the Graph
3 tab does), so, in this case, using just the Ed-Data data, our choices are forced since we
4 cannot use state-level data.

5 The other common financial business report is the balance sheet, which identifies
6 assets and liabilities. In the educational world, this is the statement of net position.
7 Figure 6 on page 98 shows LASD's assets and liabilities at the end of the 2019–20
8 school year. Note that unlike a balance sheet, a statement of net position for schools
9 (and other governmental entities) does not balance; assets are not exactly equal to

1 liabilities.⁴⁴

2 As an example of a number which stands out and is therefore worth investigating,
3 is the large increase in Capital Assets, year over year, an increase of \$132M (line 3 of 6
4 on the next page, *LASD YE 2020 Summary of Net Position*). In “Comprehensive Annual
5 Financial Report FY 2020,” six notes appear immediately after Figure 6, and these
6 provide an explanation for the increase: LASD purchased a property whose cost was
7 \$134.9M net of \$2.7M in depreciation. This purchase shows up again in line 1 of
8 Figure 9 on page 100 and explains the enormous 9052% increase in the value of
9 LASD’s largest asset in FY2019, land.

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

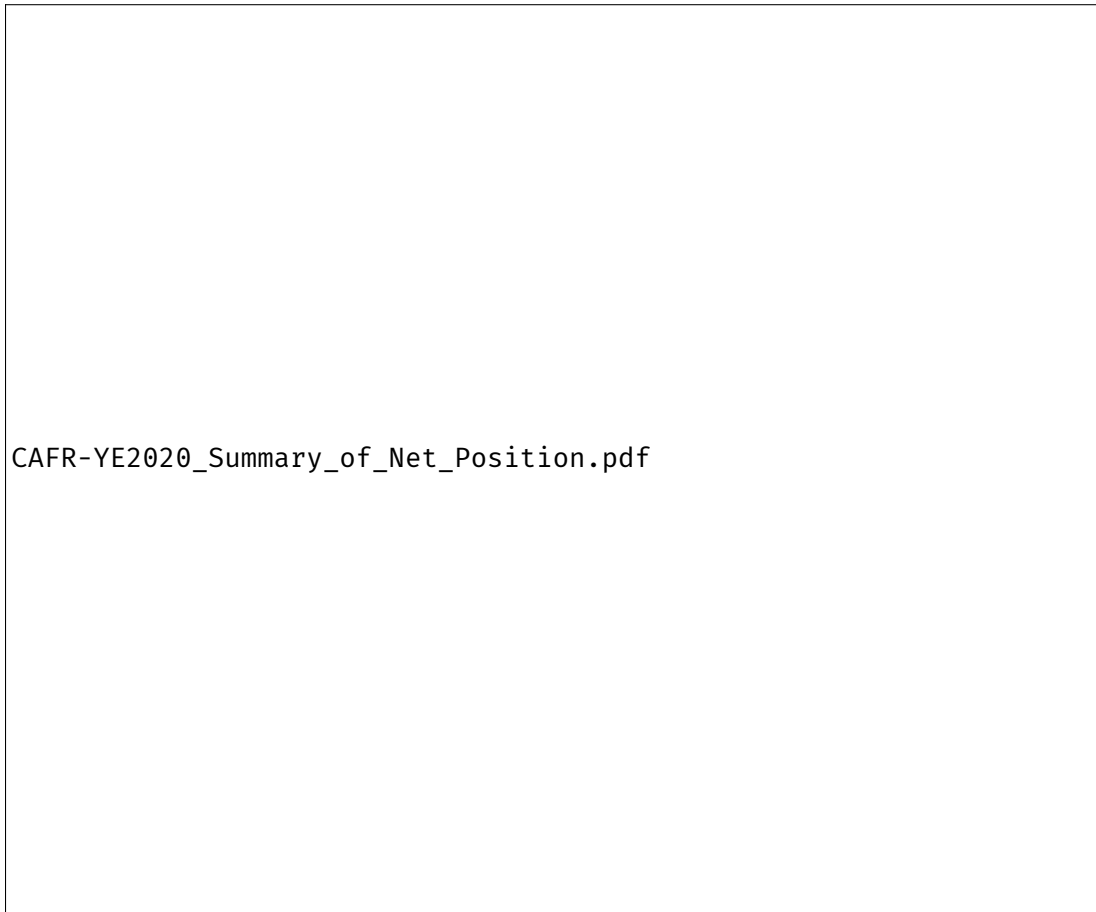
18 It’s important to remember is that although changes in finances can be
19 complicated, they should also be adequately explained in a transparent and complete
20 CAFR. When the documents are incomplete or opaque is when serious concerns
21 should be raised.

⁴⁴Business accountants achieve this seemingly low probability equality by adding a fudge factor, *owner’s equity*, so that *assets = liabilities + equity* always, exactly.

⁴⁵One 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 6

LASD YE 2020 Summary of Net Position



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

- 1 Within a CAFR are five summaries of financial tables that go one level deeper
2 than the All Funds Summary. These are
- 3 • Summary of Net Position (Figure 6)
 - 4 • Change in Net Position (Figure 7 on the following page)
 - 5 • Net Costs of Services (Figure 8 on the next page)
 - 6 • Capital Assets (Figure 9 on page 100)
 - 7 • Long-term Liabilities (Figure 10 on page 100)
- 8 LASD rolls up its detailed financial data into a single multi-year summary, as
9 shown in Figure 11 on page 102. In addition to purely financial data, the multi-year
10 summary includes the key assumptions that were behind the numbers. In fact, the

Figure 7

LASD YE 2020 Change of Net Position



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

Figure 8

LASD YE 2020 Net Cost of Services



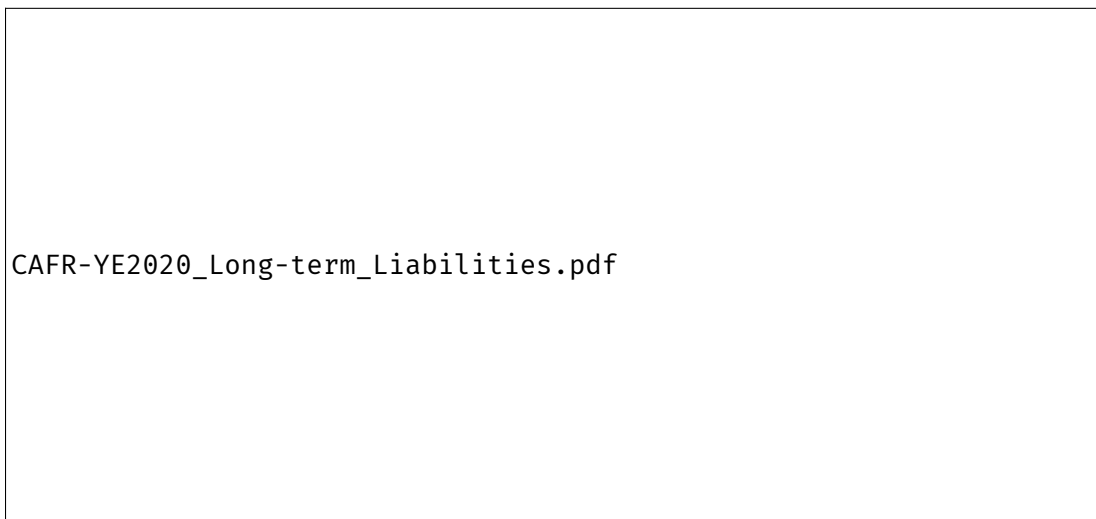
Note: Kenyon (2021a, p. 9). Public record.

Figure 9
LASD YE 2020 Capital Assets



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

Figure 10
LASD YE 2020 Long-term Liabilities



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

1 first section of Figure 11 is only assumptions, and it is those assumptions which drive
2 the numbers in Sections 2–4. The value of this summary is that it captures in one
3 table the key data needed to make budgetary decisions and thus might serve as a
4 template for what data is important.

Figure 11

LASD 2019–20 Multi-Year Projection



LASD_Multi_Year_Projection.pdf

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