


ROCKETSHIP EDUCATION:  
AN EXPLORATORY PUBLIC POLICY CASE STUDY

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Doctor of Education

by  
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by Vladimir Gresham Ivanović

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Abstract

This dissertation is an exploratory case study of the finances of the Rocketship charter school chain, especially those related to real estate. Rocketship is a not-for-profit charter management organization, one of the first in Santa Clara County, California. This study seeks to determine if the financial transactions related to Rocketship charter schools yield profits for investors, despite Rocketship itself being a non-profit entity, and if they do, how and where do they do so. In order to characterize fairly and completely the profits of Rocketship Education itself and Rocketship-related entities, this study uses publicly available documents to track money flowing in and out of Rocketship and related entities, for example, the various Launchpad Development companies. Using data from initial and renewal charter petitions, annual budget documents, filings with county, state and federal government agencies, bond prospectuses, tax credit programs, state and federal grants, plus data from publicly available datasets, this study derives an estimate of Rocketship's profitability. It found that [Results TBD]. [Conclusion TBD]. These results, it is hoped, will serve to inform local, state, and federal legislatures when they establish public policy for charter schools, not only in California, but throughout the United States.

*Keywords:* Rocketship Education, charter management organization, privatization, charter finances, education public policy, profit, real estate, bonds, venture funds, philanthrocapitalism

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## Abbreviations

<b>ARUSD</b>	Alum Rock Unified School District
<b>BAN</b>	Bond Anticipation Note
<b>CAFR</b>	Comprehensive Annual Financial Report
<b>CDE</b>	California Department Of Education
<b>CMO</b>	Charter School Management Organization
<b>COE</b>	County Office of Education
<b>COVID-19</b>	Corona Virus Disease 2019
<b>CPRA</b>	California Public Records Act
<b>CSBA</b>	California School Boards Association
<b>DOE</b>	U.S. Department of Education
<b>EC or Ed Code</b>	Education Code of California
<b>ECLS-K</b>	Early Childhood Longitudinal Study – Kindergarten class of 1998 or 2011
<b>EMO</b>	Education Management Organization
<b>FOIA</b>	(federal) Freedom of Information Act
<b>GO bond</b>	General Obligation Bond
<b>LASD</b>	Los Altos School District
<b>LCAP</b>	Local Control and Accountability Plan
<b>LCFF</b>	Local Control Funding Formula
<b>LEA</b>	Local Education Agency
<b>SACS</b>	Standardized Account Code Structure
<b>SARC</b>	School Accountability Report Card
<b>SARS-CoV-2</b>	Severe Acute Respiratory Syndrome Corona Virus #2
<b>SCCBOE</b>	Santa Clara County Board of Education
<b>SCCOE</b>	Santa Clara County Office of Education
<b>SCC</b>	Santa Clara County
<b>SEDA</b>	Stanford Educational Data Archive
<b>TPS</b>	Traditional Public School
<b>TRAN</b>	Tax Revenue Anticipation Note

## Glossary

**ADA** Average Daily Attendance, the method that the state of California uses to determine how many students are in a particular 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 educational 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.

**double bottom line grantors** Grantors (philanthropies) which measure social impact in addition to fiscal performance.

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

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

**parcel tax** A property tax that is not based on the value of the property.

**philanthrocapitalism** Using a market capitalism approach in non-profits.

**portfolio school district** A collection of diverse charter schools managed as together.

**property tax** A tax based on the assessed value of a property.

**Proposition 13** Passed by California voters in 2000 as a constitutional amendment, Prop. 13 devastated funding to local governments, including school districts by limiting the property tax to 1% of assess value and requiring a two-thirds majority to increase non-property taxes.

**Proposition 39** Passed by California voters in 2000 as a constitutional amendment and state statute, Prop. 39 mandates that public school districts *must* provide reasonably equivalent facilities to charter schools if requested.

**Proposition 98** Passed by California voters 1988 as a constitutional amendment and state statute, Prop. 98 mandated a minimum percentage of the state budget to be spent on K-14 education. The exact formula is complicated...

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

**related party transaction** A transaction, usually financial, where all parties are not independent or are self-interested, i.e. when the transaction is not an “arm's length transaction”. A synonym for “self-dealing”.

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

**school choice** The umbrella term used by “education reformers” to put positive spin on the privatization of public education. Charter schools, school vouchers, and educational savings accounts are the most common forms of school choice.

**socio-economic status** A euphemism for wealth.

**student pushout** When charter schools push their lowest performing students out.

**tax-exempt conduit bonds** Bonds issued to make loans to entities other than state or local governments are known as “conduit bonds” or “conduit issues” and state or local governments that issue these bonds are known as “conduit issuers.” Conduit issuers (usually) ensure that the revenues of the charter school are sufficient to pay off the conduit bond with interest.

**theory of action** A logical chain of reasoning that explains what needs to happen to go from a particular (current) social state to another (future) social state.

**trailer bills** Legislative bills which implement and fund elements of California's enacted budget.

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

**unduplicated pupils** The State of California augments school district revenue on a per pupil basis for every pupil that qualifies for free or reduced price lunch, or is an English language learner, or is a foster youth, but only on an unduplicated basis. Notably, children with special needs are not considered *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.<sup>1</sup> 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.<sup>2</sup>

Formerly sleepy school board elections have attracted national interest, and with that interest, a flood of money. The 2020 Los Angeles school board election cost over \$14M for just four seats and generated articles in the national press. Likewise, a November 2016

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<sup>1</sup>The 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)

<sup>2</sup>"School choice" is an Orwellian name designed to mislead, to dress up an otherwise unpalatable reality: privatization takes something that used to be available to all and restricts it exclusively to those who can afford to pay.

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

## 8 Schools and Charter Schools

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

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

---

<sup>3</sup>Details of the financing of the Great Schools Massachusetts 2016 ballot committee are spelled out in Cunningham (2021).



1 philanthrocapitalism<sup>4</sup>.

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

9       The various forms of school choice have waxed and waned, but charter schools were  
10 present at the creation of the privatization movement in education and have continued  
11 to enroll more and more students, diverting more and more dollars out of the public  
12 school system (Lafer, 2017a; Lafer, 2018; Lafer et al., 2021). School choice has spawned an  
13 entire industry devoted to marketing school choice: academic departments and  
14 institutions, educational associations, think tanks, astroturf<sup>5</sup> advocacy groups, and  
15 political action committees, all of which are examples of the marketing of the  
16 privatization of public education.

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

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<sup>4</sup>The use of a market-based approach in philanthropy

<sup>5</sup>Wordnik definition: “The disguising of an orchestrated campaign as a “grass-roots” event – i.e., a spontaneous upwelling of public opinion.”

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

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

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

15 On the other hand, the Lubienskis show in (Lubienski & Lubienski, 2014) that, after  
16 carefully analysis, public schools out perform charter schools. The Lubienskis used 2003  
17 restricted-access NAEP data from just shy of 300,000 students in 4<sup>th</sup> and 8<sup>th</sup> in 6041  
18 schools throughout the United States, plus data from the Early Childhood Longitudinal  
19 Study, Kindergarten (ECLS-K 98) class of 1998-99. <sup>7</sup> So, at best one may conclude that  
20 charter schools are, on average, unsurprisingly, just average.

21 If charter schools are on average not better than public schools, why are they so

---

<sup>6</sup>Jeffery 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.

<sup>7</sup>The Lubienskis were exceedingly thorough in their statistical analysis and devote over 80 pages in Lubienski and Lubienski (2014) to the details of their two-level hierarchical linear mode (three level for the ECLS-K 98 data). Their data is available from the National Center for Educational Statistics to qualified researchers, so their analysis can be replicated.

1 fervently touted as the answer to the perceived ills of American public education? Why  
2 are eye-popping sums (10× the usual amounts) spent supporting public school board  
3 candidates who favor charter schools? Why are charter schools still growing in both  
4 enrollment and in number? Is the profit motive is the overriding goal of charter schools,  
5 or are they instead driven by a genuine desire to improve the educational outcomes of the  
6 very children who could most benefit from a quality education? My goal in this  
7 dissertation is to offer some answers to questions like these by examining in detail the  
8 finances and financial structure of a single charter school chain, Rocketship Education,  
9 and entities associated with it.

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

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

1 Legislature set out in *The Charter School Act of 1992*.

2 What is the Purpose of this Study?

3 The goal of this case study is to analyze as carefully and fully as possible the finances of  
4 Rocketship Education and associated entities, concentrating on its real estate dealings.  
5 Why real estate? The non-real estate finances of charter schools — at least in California  
6 — are similar to public schools. Both use the same state mandated accounting structure  
7 because both have very similar needs. Although a charter school can pay more for this or  
8 less for that, fundamentally their revenues and expenses are similar to that of TPSs. Real  
9 estate, however, is different because hundreds of millions of dollars potentially at state.

10 So, this study seeks to determine if Rocketship Education is profitable? And if it is,  
11 how does it generate those profits? Are the entities related to Rocketship Education the  
12 generators of profit, or is Rocketship Education itself the primary source of profit?  
13 Furthermore, if the model that Rocketship Education uses does generate profits, can that  
14 model be used in other states besides California?

15 This study concentrates on Rocketship Education<sup>8</sup> to study because its popularity has  
16 led to core aspects of its model being adopted by other charter school chains such as the  
17 Caliber Public Schools or the Navigator Schools, both in California. It is an exemplar of a  
18 popular charter school and has had an outsized influence on public education in Santa  
19 Clara County.

20 Charter schools, Rocketship included, offer themselves as better alternatives to  
21 traditional public schools. Rocketship claims that its pedagogical model of blended

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<sup>8</sup>A 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.

1 learning

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

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

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

## 16 *Research Question*

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

19 In order to answer this research question definitively, this study must be as complete  
20 as possible, and that entails understanding the finances of public schools in California,  
21 those of charter schools in California, those of Rocketship Education and related entities.  
22 Only then will one be able to identify how Rocketship's finances differ overall from those

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<sup>9</sup>Note 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 of traditional public schools (TPSs) and whether those differences represent a profit or  
2 not.

3 More broadly, there are additional reasons for studying charter school finances. Are  
4 we (the states, the federal government) misallocating the money we spend on charter  
5 schools? Could we be spending our tax dollars more wisely? What did taxpayers get for  
6 these expenditures? These questions, however interesting and appealing they may be, are  
7 beyond the scope of this study and remain for future researchers to explore.

8 This case study is believed to be unique in that it examines in depth the finances of a  
9 single charter school chain. There have been studies of the finances of aggregations of  
10 charter school chains (e.g., all known charter school chains in the United States,<sup>10</sup> or a  
11 selected group of charter school chains). Other studies have explored the effects of  
12 charter schools on segregation or academic achievement, or the financial impact of  
13 charter schools on their surrounding public school district. But academic studies of the  
14 finances of just a single charter school chain seem to be missing.<sup>11</sup> It is hoped that the  
15 lessons learned from this case study will be used by policy makers to strengthen charter  
16 school law in California and elsewhere in order to increase desired outcomes and to  
17 minimize cost and unintended consequences.

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

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<sup>10</sup>See Miron et al. (2021) for a list of currently known charter school chains.

<sup>11</sup>I 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 Theoretical and Conceptual Frameworks

2 According to Grant and Osanloo (2014), creating and understanding the theoretical  
3 framework for one's dissertation is "one of the most important aspects in the research  
4 process." (p.12) They liken the theoretical framework of a dissertation to the blueprints  
5 that define a house. That framework both defines the organization and the structure of a  
6 dissertation, as well as what counts as elements and their relationships. A theoretical  
7 framework articulates "the researcher's understanding of how the research problem will  
8 best be explored, the specific direction the research will have to take, and the relationship  
9 between the different variables in the study." (Grant & Osanloo, 2014, pp. 16–17)

10 Further, a "conceptual framework offers a logical structure of connected concepts  
11 that help provide a picture or visual display of how ideas in a study relate to one another  
12 within the theoretical framework" (Grant & Osanloo, 2014, pp. 16–17). This dissertation  
13 uses a case study approach as its theoretical framework within a public policy  
14 framework, its conceptual framework.

## 15 *Public Policy as a Theoretical Framework*

16 A public policy framework provides a rich set of tools and techniques with which to  
17 analyze Rocketship's finances. Three factors support using a public policy framework to  
18 guide understanding and evaluating Rocketship's finances. First, charter school finance  
19 is constrained primarily by public policies set by state legislatures, the creators of charter  
20 schools. These laws regulate taxes, grants, borrowing capacity, and reporting  
21 requirements of charter schools and charter school chains (Aguinaldo et al., 2020), and  
22 by definition, whatever falls within the purview of legislators is public policy. Second,  
23 Brighthouse et al. (2018), in *Educational Goods*, provide a succinct definition of what public  
24 policy analysis is which matches the purpose of undertaking this case study. They use a

values, evidence, and decision-making framework “to make judgments about how well specific policies are likely to realize valued outcomes” (Brighthouse et al., 2018, p.1). Last, these three concerns — values, evidence, decision-making — are considered the key concerns by academics and researchers in the public policy field (Bueno de Mesquita, 2016; Clemons & McBeth, 2021; Fowler, 2013; Gupta, 2011). Using a public policy framework is appropriate when examining charter school finances.

The discipline of public policy sanctions a wide variety of tools and techniques when analyzing issues. (These tools and techniques will be discussed more fully in Chapter 3 or in Chapter ch:results if and when they are used.) Public policy has been studied for years (there are public policy departments in many universities) and it is a mature area of academic research. As in most academic fields, there are fierce debates about the merits and robustness of a particular approach compared to alternatives, but at a high level, what to do is generally agreed upon. Most identify the following five steps (or variants thereof) that are used when creating public policy:

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

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



1 This dissertation uses on two excellent guides to public policy, Clemons and McBeth  
2 (2021) and Gupta (2011). Fowler (2013) treats public policy in the field of education, but  
3 with an emphasis on power, politics, policy actors and the messy process of creating and  
4 implementing public policy. Clemons and McBeth concentrate on explicating different  
5 theoretical approaches to public policy, whereas Gupta is the most practically oriented.

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

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

#### 15 *A Case Study Approach as a Conceptual Framework*

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

21 Gerring calls small C studies *case studies*. In this dissertation I study only one entity,  
22 Rocketship Education, and only one aspect of that entity, namely Rocketship’s finances.  
23 But I consider the topic of Rocketship’s finances look at its finances broadly, examining  
24 as many different kinds of financial transactions as are publicly available for the subset of  
25 Rocketship schools that are in Santa Clara County. I discuss the elements of what makes

1 a case study a good case study in Chapter 5, *Discussion*.

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

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

14 This introduction has made the case that public education is important to many  
15 stakeholders, but that there is also discord around larger issues like values, ideology, and  
16 implementation. Charter schools have been offered as way of disrupting American public  
17 education from its hide-bound, archaic, and sclerotic present, driving it, despite  
18 opposition, into a dynamic future where education is tailored to each child’s real needs.  
19 Establishing whether financial gain plays a key or even a primary role in American  
20 educational reform by carefully examining Rocketship’s finances is both timely and  
21 important: Rocketship Education is growing, and with it, Launchpad Development. They  
22 have served as a model for other charter school 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 those myths which have been advanced to show that American’s schools are in a crisis, and hence, in desperate need of reform. 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.<sup>12</sup> 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 education reform reports listed by Pulliam and Van Patten (2007) starting in 1982 and continuing up until 2005.

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<sup>12</sup>Wikipedia has an excellent summary article on *Education in the United States* available at [https://en.wikipedia.org/wiki/Education\\_in\\_the\\_United\\_States](https://en.wikipedia.org/wiki/Education_in_the_United_States).

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

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

15 Garcia writes in *School Choice*

16 The four primary arguments put forth in support of school choice are the  
17 elimination of government bureaucracies, the interjection of competition  
18 into education through market forces, the promotion of parental choice as  
19 the most granular form of local control, and school choice as the "new" civil  
20 rights issue of our time.<sup>13</sup> (Garcia, 2018, p. 55)

21 .  
22 What is noteworthy is that none of the four arguments are about student achievement or  
23 attainment. A poorly staffed, badly run, charter school located in a dangerous  
24 neighborhood is as capable of satisfying the four requirements as is a high quality

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<sup>13</sup>Lest 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](https://en.wikipedia.org/wiki/Rogerian_argument%23Rapoport's_rules).

1 charter school. Whatever school choice is about, it's not about students and how well  
2 they are doing.

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

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

21 Downey (2020), using two ECLS-K studies, 1998 and 2011, supports this conclusion  
22 but in a slightly different way. He finds that academic inequality is reduced when  
23 children are in school, and increases when children are not in school, i.e. during the  
24 summer, which runs counter to the notion that schools exacerbate the achievement gap.

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

1 Legal Alliance Adequacy Committee found that there exists a “substantial gap in funding  
2 between what K-12 education [in California] receives and what K-12 education needs even  
3 to meet the standards prescribed by the state (Bray, 2015, *iii*). B. D. Baker et al. (2018) in  
4 their aptly titled report *The Real Shame of the Nation*, develop a *National Education Cost Model*  
5 (B. D. Baker et al., 2018) which accounts for regional cost differences as well different  
6 funding levels to show that inadequate funding is present throughout the United States.  
7 Garcia (2018) says in *School Choice* that the “existence and importance of the issues that  
8 reformers believe plague public education are based as much on tradition and reputation  
9 as they are on tangible research evidence” (Garcia, 2018, p. 54). Finally, and tellingly,  
10 grossly inadequate funding is a characteristic of communities that are racially  
11 segregated 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 years  
13 after the passage of the nation’s first state charter school law in Minnesota<sup>14</sup> and two  
14 years after the second in California<sup>15</sup> lays out a key argument against charter schools.  
15 Henig says, “[T]he real danger in the market-based choice proposals is not that they  
16 might allow some students to attend privately run schools at public expense, but that *they*  
17 *will erode the public forums in which decisions with societal consequences can democratically be*  
18 *resolved.*” (emphasis added) (J. R. Henig, 1994, *xiii*). Translated, this means that the  
19 decisions about public education’s form and content are not going to be made by parents  
20 and teachers, but by people who do not have a stake in the outcome. It is now a matter of  
21 badly misaligned incentives.

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

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<sup>14</sup>Laws of Minnesota 1991, chapter 265, article 9, section 3

<sup>15</sup>Education 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 movement  
3 will have the eventual result of a complete retreat by this society from a  
4 societal responsibility for the powerless who are difficult or expensive to  
5 educate, house, protect, etc. I believe the committee and board majority  
6 when they say that they are committed to equal access and equity. They say,  
7 trust that we will do the right thing. I do trust them, I do not trust the  
8 societal momentum of which vouchers is a part. It is a very destructive wave  
9 that has caught up many good people. It scares me to death. (Citizens  
10 League, Education Alternatives Committee, 1982, p. 48)

11 The belief that that American schools were in crisis due to poor academic outcomes,  
12 sclerotic teachers resistant to change, ineffective and bureaucratic administrators more  
13 concerned with job safety than educating children is simply not supported by the  
14 evidence. But the idea that American schools are in crisis has been relentlessly promoted,  
15 and sheer repetition has turned fiction turned into fact, and this “manufactured crisis”,  
16 to use David Berliner and Bruce Biddle’s turn of phrase (Berliner & Biddle, 1997), has been  
17 used to justify school choice in the form of vouchers and charter schools. But charter  
18 schools didn’t actually take off until “education reformers across party lines realized that  
19 charter school laws could be crafted in ways that made it possible to open nonunion  
20 public schools, or even allow public schools to be managed by for-profit companies”  
21 (Goldstein, 2015, p. 172).

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

## 1 A History of Charter Schools

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

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

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

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

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

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



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

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

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

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

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

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

quite a feat considering that African-Americans make up roughly one seventh of the population of the United States. Orfield and Frankenberg note that the percent of African-Americans in majority white schools rose from 0% in 1954 to a peak of 43.5% in 1988 before steadily declining to 23.2% in 2011. (Table 3: Percent of Black Students in Majority White Schools, 1954–2011, Orfield & Frankenberg, 2014, p. 10). Hannah-Jones also commented that American public education doesn't even live up to the Separate but Equal doctrine espoused in *Plessy v Ferguson* and overturned by *Brown v Board of Education*. More recently, Heilig et al. made the same point using 2015–16 Common Core of Data. They say, “Nationally, we find that higher percentages of charter students of every race attend intensely segregated schools.” (Heilig et al., 2019, p. 205). This segregation has an effect on the achievement of the students thus segregated: it makes the “achievement gap” worse.

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

## Charter Schools, Free Markets and Privatization

Just a year after *Brown*, Friedman (1955) published his article “The Role of Government in Education” in *Economics and the Public Interest* (Friedman, 1955) that reframed charter schools as an economic problem in education instead as a way of evading court-ordered integration. That paper ensured that charter schools would no longer be morally tainted by their association with virulent racism, but rather would take on the honorable task of breaking up what was called a monopoly. Charters, operating in a free market<sup>16</sup>, would

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<sup>16</sup>No one really wants a free market because a market completely free of regulation would have unenforceable contracts, rampant monopolies, and constant and ruinous market failures. What people really want when they use the phrase “free market” is a heavily regulated market which allows them to profit, unfettered, while restraining or excluding others.

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

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

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

17 School choice is the civil rights statement of the year, the decade and  
18 probably beyond. Because all children have to have access to quality  
19 education. A child’s zip code in America should never determine their future.  
20 (as quoted in Lennox, 2020)

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

26 B. Baker and Miron identified four major policy concerns with the privatization of

1 public education:

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

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

17 In California at least, these policy concerns have not been addressed in the six years  
18 since B. Baker and Miron wrote about them<sup>17</sup>.

19 Charter schools are now just one of the many forms of *privatization*, when public  
20 functions are performed by private parties for profit. Privatization is a manifestation of  
21 the corporate takeover of the world, first documented more than fifty years ago by  
22 Domhoff and elaborated on in seven subsequent editions. Domhoff argues that  
23 corporations and the corporate elite really run the United States, and by extension, the  
24 world. Kahn and Minnich (2005) make much the same point in their book *The Fox in the*  
25 *Henhouse: How Privatization Threatens Democracy* (Kahn & Minnich, 2005). They list  
26 “[s]chools, prisons, welfare, Social Security, water and sewer systems, buses, trains,

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<sup>17</sup>Changes in policy to address some of these concerns have been strenuously opposed by charter school advocates. For example, the California Charter Schools Association opposed an accountability bill, AB1316 *School accountability: financial and performance audits: charter schools: contracts. (2021–2022)*, which merely sought to make charter school finances more transparent.

1 subways, highways, waterways, sanitation systems” (p. 30) as examples of formerly  
2 government run functions that are in whole or part privatized. They could have also  
3 listed postal mail, space travel, and now every facet of education, as being wholly or  
4 partly privatized. Cohen and Mikaelian (2021) lay out in detail how privatization has  
5 infiltrated American life and the consequences of this takeover of public goods by private  
6 firms run for profit (Cohen & Mikaelian, 2021). *Black in Schoolhouse Burning* (Black, 2020)  
7 focuses on the less tangible but arguably more important consequences of privatization  
8 of public schools, the loss of democratic control.

9 Privatizers make money by turning goods or services that used to be publicly  
10 available into private goods and services that must be paid for before they can be used.  
11 The canonical example of privatization is the enclosure of the commons in Britain in the  
12 16<sup>th</sup> and 17<sup>th</sup> centuries whereby land that previously had been owned collectively by a  
13 village was now owned by an individual who charged villagers for the privilege of using  
14 that land (Simon Fairlie, 2009). But modern privatizers have many more ways of turning  
15 a profit. They can:

- 16 • Obtain tax benefits
- 17 • Invest in other firms with public monies
- 18 • Invest in financial instruments with public monies
- 19 • Obtain a monopoly
- 20 • Engage in fraud, corruption, or outright theft
- 21 • Engage in self-dealing
- 22 • Obtain grants or loans on favorable terms
- 23 • Sell what doesn't belong to them
- 24 • Avoid paying for externalities
- 25 • Pay below market rates for goods or services
- 26 • Skew public-private partnerships to create unearned profits

- Engage in pay-for-success contracts
- Offer social impact bonds

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

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

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

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<sup>18</sup>Ravitch (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 Types of Charter Schools

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

## 7 *Charter School Authorizers and Oversight*

8 Charter schools in California are potentially subject to a three step process to gain  
9 authorization to operate. The first step is to submit a petition to the school district in  
10 which the charter wishes to operate. This petition must contain a number of required  
11 elements, all of which are specified in Education Code §47605(c)(5)(A–O), the commonly  
12 called “15 Required Elements (A-O elements)” (Aguinaldo et al., 2021, p. 89). Besides some  
13 technical details, the petition must contain a description of the charter’s annual goals  
14 which must align with state priorities, for all pupils and for various subgroups; how these  
15 outcomes are to be measured; how the charter is to achieve a racial and ethnic balance  
16 similar to its district, its governance structure, and its finances. All of these elements are  
17 captured in “*Charter Petition Evaluation Matrix*” by FCMAT, a document intended to  
18 provide a legally sound checklist for authorizers (FCMAT, 2022).

19 If a petition contains all the required elements, then the public school district may  
20 approve the petition, possibly with additional stipulations. If the public school district  
21 denies the charter school’s petition, it must state why. The charter school may appeal that  
22 denial to that County’s Board of Education (CBOE), and if the CBOE denies the charter  
23 school’s appeal, under certain circumstances, the charter school may appeal to the State  
24 Board of Education (SBE). A denial by the SBE terminates the process, and the charter

1 school is not permitted to open.

2 Public school districts (LEAs, local education agencies, in the parlance of the  
3 California Department of Education (CDE)) may authorize one several kinds of charter  
4 schools. Table 2.1, *Attributes of Private, Charter, and Public Schools in California*, is a summary  
5 of the attributes of the types of schools in California. A public school district may  
6 sponsor a charter school directly, in which case the district exercises oversight. These  
7 dependent charter schools are authorized by the local public school board and are subject  
8 to the board's jurisdiction. It also is possible for all the schools in a district to convert to  
9 charter schools, and then the public school board becomes the charter school board.  
10 Lastly, charter schools may be authorized by a public school district or a county office of  
11 education with a governing board that is distinct and independent from the authorizer's  
12 governing board.

**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	not capped
Unionized	rarely	rarely	often
Curriculum	completely flexible	very flexible	flexible
Standardized Testing	no	yes	yes
Accountable	no	authorizer	elected board
Teacher Certification	no requirement	yes	yes
Teacher Pension	perhaps	perhaps	yes

13 *Profit-Making Status*



1       Until the 2019–20 school year, charter schools in California could be run directly or  
2 indirectly by a profit-making organization. California now prohibits profit-making  
3 organizations, either a single school or a charter management organization, from  
4 submitting an initial charter school petition or a renewal.

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

15       However, charter school board members in California have recently become subject  
16 to the conflict-of-interest laws specified in Government Code §§1090–1099 and  
17 §§87100–87314 (Becerra & Medeiros, 2018). Generally, government officials are  
18 prohibited from benefiting financially from their positions as public servants, but it  
19 remains to be seen if these conflict-of-interest laws will prevent profiteering by school  
20 board members, administrators, or relatives of either.<sup>19</sup>

## 21 *Type of Instruction*

22       Charter schools, unlike almost all public schools, vary in their instructional format.  
23 In-person instruction is similar to that in traditional public schools. On the other hand,

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<sup>19</sup>The 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 virtual charter schools have no face-to-face instruction; everything is mediated by some  
2 sort of technology, typically, computers running specialized software, paid for by  
3 taxpayers. Blended instruction is a mixture of in-person and virtual instruction.

4 Since 2013, virtual charter schools have been studied extensively by Alex Molnar, Gary  
5 Miron and others and at the National Education Policy Center, University of Colorado,  
6 Boulder (*Virtual Schools in the U.S. 2013, 2013; Virtual Schools in the U.S. 2014, 2014; Virtual*  
7 *Schools in the U.S. 2015, 2015; Miron & Gulosino, 2016; Virtual Schools in the U.S. 2017, 2017;*  
8 *Full-Time Virtual and Blended Schools: Enrollment, Student Characteristics, and Performance,*  
9 *2018; Virtual Schools in the U.S. 2019, 2019; Virtual Schools in the U.S. 2021, 2021*). Their  
10 annual reports are depressingly consistent: virtual schools not run by a public school  
11 district significantly underperform public schools. Their conclusions are echoed by  
12 Woodworth et al. (2015) and Garcia (2018). Yet, despite being clearly academically inferior  
13 to public schools, the number of students attending virtual schools has risen year after  
14 year. Their pre-pandemic growth seems to be slowing, but their performance, compared  
15 to TSPs, has not measurably improved.<sup>20</sup> (*Virtual Schools in the U.S. 2019, 2019, p. 11*).

16 Pre-pandemic, charter schools in California were legally deemed classroom-based  
17 (e.g. not virtual) if students spent no more than 20% of their time in front of a  
18 computer.<sup>21</sup> Blended charter schools, on the other hand, offer some sort of face-to-face  
19 interaction with a teacher along with online activity without face-to-face interaction.  
20 But they too offer only marginally better educational outcomes than fully virtual charter  
21 schools (*Virtual Schools in the U.S. 2019, 2019*). Rocketship schools use a blended

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<sup>20</sup>Although *Charter Schools in Perspective: A Guide to Research* is otherwise an excellent summary of the research on charter schools, they incorrectly state (p.117) that there is little research of online or virtual charter schools. The authors must not be aware of the NEPC series on virtual charter schools. However, according to *Virtual Schools in the U.S. 2019* (2019, p. 117), there is only one study on blended charter schools.

<sup>21</sup>The 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 instructional model

## 2 Charter Schools in the United States

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

10 The characteristic that home schooling and private schools share is that they are  
11 agnostic about public schools. Not so for charter schools, voucher, and  
12 freedom-of-choice plans. Charter schools, voucher programs, parent trigger programs,  
13 and freedom-of-choice plans explicitly want to supplant or replace public schools  
14 (Garcia, 2018).

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

## 1 Charter Schools in California

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

- 9 a) Improve pupil learning.
- 10 b) Increase learning opportunities for all pupils, with special emphasis on expanded  
11 learning experiences for pupils who are identified as academically low achieving.
- 12 c) Encourage the use of different and innovative teaching methods.
- 13 d) Create new professional opportunities for teachers, including the opportunity to  
14 be responsible for the learning program at the school site.
- 15 e) Provide parents and pupils with expanded choices in the types of educational  
16 opportunities that are available within the public school system.
- 17 f) Hold the schools established under this part accountable for meeting measurable  
18 pupil outcomes, and provide the schools with a method to change from  
19 rule-based to performance-based accountability systems.
- 20 g) Provide vigorous competition within the public school system to stimulate  
21 continual improvements in all public schools.<sup>23</sup>

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<sup>22</sup>Current California law can be accessed at <https://leginfo.ca.gov/faces/home.xhtml>. California Regulations are at <https://ccr.oal.ca.gov>. California's Education Code (Ed.Code) is at <https://leginfo.ca.gov/faces/codesTOCSelected.xhtml?tocCode=EDC&tocTitle=+Education+Code+-+EDC>

<sup>23</sup>This goal was added in 1998.

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

## 6 Surveys of Charter School Research

7 It's been about 30 years since the first charter school law was passed. In the last  
8 decade, researchers have published several surveys of the research on charter schools.  
9 The first two decades (1990–2010) were somewhat experimental and different enough  
10 that the research that came out of that period is less relevant than more recent research.  
11 The first survey of the last decade, “Beyond Ideological Warfare: The Maturation of  
12 Research on Charter Schools,” is by Smith et al. It is a systematic review of charter school  
13 research as it existed in 2011. Smith et al. (2011) are interested, not so much in the  
14 conclusions of the studies they looked at, but how the research was performed, how was  
15 it structured, what facets of charter schools were looked at, and what was the subject of  
16 the research in order to “separate empirical evidence from politicized conjecture” (p.  
17 460). They reviewed a total of 323 peer-reviewed articles and research center reports and  
18 found that student and school outcomes were the most commonly studied topics. They  
19 noted many studies were unable to generalize their findings because variations in policy  
20 between states and localities. Smith et al. also noted that there was a lack of longitudinal  
21 studies which is not surprising due to policy variations. Furthermore, they found that  
22 “acceptance into a peer reviewed journal does not always ensure that qualitative research  
23 adheres to the standards of providing substantiation that findings are credible and  
24 trustworthy or that quantitative research provides evidence of the studies’ validity,

1 reliability and generalizability.” (p.466) Finally, the authors noted that many studies could  
2 not draw causal connections. They concluded that more research is needed.

3 Four years later, Berends (2015) chose as his focus the various theories that  
4 researchers used when looking at the social organization of charter schools. In  
5 “Sociology and School Choice,” Berends (2015), found, like Smith et al., that most studies  
6 concentrated on student achievement and neglected educational attainment such as  
7 high school graduation, college admission, and the granting of a degree. He notes that  
8 “the effects of charter schools on student achievement are mixed (some positive, some  
9 negative and some neutral)” (p. 170) Berends thinks the context in which charter schools  
10 operate is important in order to understand the magnitude of any effects and to  
11 understand what we can expect from school reform. He identifies longer school days, a  
12 focus on achievement, behavioral policies, teacher coaching and feedback, and  
13 data-based decision-making as characteristics most often associated with effective  
14 charter schools. Lastly he looks at innovation and distinguishes between curriculum and  
15 class-room based changes, and organizational changes, and he found hat charter schools  
16 mostly innovate on the structural side rather than the academic side. He concluded that  
17 more research is needed.

18 Next, Epple et al. (2016), in *Charter Schools*, did much the same as Berends, but  
19 concentrated on the technical aspects of study design (Epple et al., 2016). The authors  
20 observed that which the research question being answered by a particular study was  
21 often much narrower or significantly different than the research question authors set out  
22 to answer or thought they were answering. The heart of their review is an analysis of “the  
23 methodological challenges in evaluating charter effectiveness” (p.141), and the strength  
24 and weaknesses of the various approaches that have been used. They find that  
25 researchers used one of five statistical methods: lottery-based design, fixed-effect  
26 approaches, matching procedures, ordinary least squares (OLS) regression, and

1 instrumental variable approaches (p. 165), and they evaluate each approach. Epple et al.  
2 also discuss the much scrutinized virtual control record method of matching charter  
3 school students to public school students that came out of Stanford's Center for Research  
4 on Education Outcomes (CREDO) which was criticized on purely statistical grounds in  
5 Andrea Gabor (2015). Epple et al. concluded that more research is needed.

6 In 2015 and then updated in 2018, Public Agenda released a guide to charter school  
7 research for non-academics, a review of current charter school research that was written  
8 in a way that is accessible to the public. The chapter on finance focused on four questions  
9 related to how charter schools are funded, comparisons between per pupil funding  
10 between charter and traditional schools, financial effects on traditional public schools,  
11 and differential spending patterns between traditional public and charter schools (Public  
12 Agenda, 2018, pp. 78–89).

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

18 Their answer to their first question (funding) is to refer to a compilation of state  
19 funding amounts. Their answer to the second question is yes, different levels of funding  
20 do exist, and in a few cases, by 40% to nearly 60% less. Their take on whether it matters is  
21 hedged because studies differ in their conclusions for a variety of reasons. Not  
22 mentioned is B. D. Baker (2018) which emphatically says that money does matter, most  
23 likely because it was published after *Charter Schools in Perspective: A Guide to Research* was.  
24 They answer their third question with an unambiguous yes, charter schools do affect the  
25 finances of public schools. More recent research, Lafer (2018), B. D. Baker (2019), and  
26 Miron et al. (2021) validates their conclusion. Finally, they conclude that charter schools

1 do spend their revenues differently, in part because charters spend more on  
2 administration than public schools do and sometimes more on facilities. The authors  
3 concluded that more research is needed.

4 The last of the four academic surveys, Zimmer et al. (2019), considers who was served,  
5 racial segregation effects, both academic and non-academic outcomes, management  
6 structure, and financial effects of charter schools. Since Zimmer is a co-author of both  
7 this survey and of the previously cited Epple et al. (2016), the kinds of study designs  
8 analyzed are similar. Zimmer et al. intend to synthesize “the best research to inform the  
9 debate [about the value of charter schools]” (p. 2). They go beyond the 2016 study and  
10 survey studies on racial segregation, cream skimming, and student pushout. Zimmer  
11 et al. conclude that charter schools lead to greater segregation for African Americans, but  
12 not necessarily for whites or Hispanics. They find that charter schools do engage in  
13 sometimes subtle forms of cream skimming and student pushout. (Independently, and  
14 two years later, Mommandi and Welner document thirteen major ways that charter  
15 schools effectively choose who they enroll (Mommandi & Welner, 2021).) After  
16 summarizing three different kinds of research (fixed effects, lottery-based, and match  
17 and other regression), they turn their attention to research on non-cognitive outcomes.  
18 Their penultimate chapter looks at research on indirect effects. They concluded in their  
19 last chapter that more research is needed.

20 Although Garcia (2018) is not explicitly a survey of the existing literature, Garcia  
21 (2018), in Chapter 3, contains much material on the research evidence which guides (or  
22 should guide) school choice policies. His goal is to present general trends that “reflect the  
23 weight of the evidence” (p. 93). The weight of the evidence, Garcia finds the research  
24 points to the conclusions that “school choice policies are more likely to separate, rather  
25 than integrate, students from different racial/ethnic and socioeconomic backgrounds”  
26 (pp. 159–60), “how countries and states structure school choice policies can have a



1 profound impact on how school choice functions at a practical level” (p. 160),  
2 “low-income students face obstacles to participating in school choice plans” (p. 161),  
3 lastly, “one should expect student achievement gains under school choice plans to be  
4 modest at best and inconsistent across subjects and years” (p. 161), and “a major reason  
5 for the inability of school choice to have an impact on the academic core of  
6 schools—teaching and learning—is that school choice came of age at the same time as  
7 high-stakes accountability policies that encourage standardization” (p. 162)

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

#### 14 *Research on Charter School Finances*

15 Charter schools have been much studied, and the last decade has produced a number  
16 of reports examining charter school finances based on carefully collected evidence. For  
17 example, in 2014, Lafer (2014), now at In the Public Interest, published an analysis of a  
18 proposed law in Milwaukee, WI (Lafer, 2014) that was specifically tailored to benefit a  
19 to-be-opened Rocketship school. Lafer went on to author two other studies on charter  
20 schools, public policy, and finance: *Spending Blind: The Failure of Policy Planning in California*  
21 *Charter School Funding* (Lafer, 2017b) and *Breaking Point: The Cost of Charter Schools for Public*  
22 *School Districts* (Lafer, 2018). Carol Burris, Executive Director of the Network for Public  
23 Education, and several co-authors have produced three reports on money and charter  
24 schools: Burris and Pflieger (2020), Burris and Bryant (2020), and Burris and Cimarusti  
25 (2021). The National Education Policy Center, a research center based at the University of

1 Colorado, Boulder, with over 150 scholars and academics from institutions across the  
2 U.S. whose goal is “to produce and disseminate high-quality, peer-reviewed research to  
3 inform education policy discussions” (“National Education Policy Center,” n.d.), has  
4 produced hundreds of reviews of research, policy and legislative briefs, some of which  
5 are annual surveys of charter schools. The series on profiles of EMOs have been produced  
6 annually for fifteen years; the series on virtual charter schools, for ten years.

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

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

24 Rocketship

1 Rocketship is well-known in the charter school world. It even has been the subject of  
2 a “biography”, *On the Rocketship* (Whitmire, 2014).<sup>24</sup> Rocketship’s leaders and supporters  
3 routinely describe it as “high performing”, “deserving of huge credit”, “dynamic”, and  
4 “nationally lauded”. Rocketship schools, it is claimed, outperform some of the best public  
5 schools in the country. Rocketship “believe[s] that every student deserves the right to  
6 dream, to discover, and to develop their own unique talent”. Rocketship, charter school  
7 advocates, and privatizers excel at choosing names and tag lines that are impossible to  
8 argue against.

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

#### 15 *Founders and Supporters*

16 Rocketship was founded by John Danner in February 2006. Danner, Don Shalvey,  
17 Jennifer Andaluz, and Eric Resnick are listed as the initial members of Rocketship  
18 Education’s board of directors. Danner had significant teaching experience (Nashville,  
19 TN public schools) prior to Rocketship, as did Shalvey (Aspire Public Schools) and  
20 Andaluz (Downtown College Prep). Resnick, the fourth member of the founding group  
21 was a hedge fund manager who had a “a deep understanding of financial management  
22 and real estate transactions” (Danner, 2006, p. 13). The inclusion of Resnick, an expert in  
23 real estate transactions, at the very beginning of Rocketship, is interesting because one of

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<sup>24</sup>Just two other charter schools share this distinction: Geoffrey Canada’s Harlem Children’s Zone (Tough, 2009) and the KIPP schools (Mathews, 2009; Horn, 2016)

1 the preferred ways for charter school investors and founders to generate profits is via real  
2 estate deals. John Danner eventually left Rocketship in 2013 to found Zeal, an online math  
3 tutoring tool, and was replaced by Preston Smith who became CEO. Smith became the  
4 first principal of the Rocketship's first school, Mateo Sheedy, and was subsequently listed  
5 as a Rocketship co-founder in the charter petition for Rocketship's second school.

6 Matt Hammer, Executive Director of PACT (People Acting in Community Together),  
7 brought Danner and Smith together, and has relentlessly promoted charter schools  
8 through his advocacy non-profit, Innovate Public Schools.<sup>25</sup> Hastings proselytized  
9 Rocketship to the larger charter school community and when he promised Rocketship  
10 \$250K for each of the first eight Rocketship schools they opened, his donation caught the  
11 attention of philanthropic venture funds (Whitmire, 2014, p. 50).

## 12 *Rocketship History*

13 The first Rocketship school, Mateo Sheedy, opened in Santa Clara County in 2007.  
14 Rocketship's initial petition to the San José Unified School District was denied, so they  
15 appealed to the Santa Clara County Board of Education, which granted their petition.  
16 Over the years, Rocketship opened ten schools in Santa Clara County. Of those ten, only  
17 two were authorized by a public school district. The remainder were either countywide  
18 charters or charter schools whose petitions were denied by the local public school  
19 district, but subsequently approved by the Santa Clara County Board of Education.  
20 Table 2.2, *Rocketship Schools in Santa Clara County, California*, lists the eleven Rocketship  
21 schools that were approved and the ten that opened. Note that only two were approved by  
22 the school district in which there were expected to locate. This lopsided result suggests  
23 that current charter school laws are tilted in favor of charter schools.

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<sup>25</sup><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 Rocketship Finances

2 Charter schools have a number of unique financial needs. They need startup funds,  
3 operating funds, and often funds to expand, funds that public schools do without.  
4 Rocketship is no exception. The *operation* of charter schools are funded by federal, state,  
5 and local governments, but funding *expansion* may or may not be funded with tax dollars,  
6 depending on the laws of a particular state. The difference between what's funded at  
7 taxpayer expense and what's not must somehow be funded with outside money. Startup  
8 money is needed for facilities, desks and chairs, teacher and administrator salaries, legal  
9 fees, curriculum materials, etc., all of this before even one student registers. Startup  
10 facilities cost vary widely. If the charter school chooses to use public school district  
11 facilities under Proposition 39<sup>26</sup>, their need for funds will be lower than if they choose to

<sup>26</sup> Proposition 39, passed by California voters in November 2000, contains a provision that requires

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

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

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

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

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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 Regulations, Title 5, §11969.

1 Hill et al. acknowledge, in dry, understated language, that overcoming the objections  
2 and criticisms of educators and scholars to their unshakable belief will be difficult: “It is  
3 hard to imagine that a portfolio strategy could be introduced into a major city without  
4 significant conflict.” (p.2) Portfolio strategy is most often associated with Paul Hill and  
5 The Center for Reinventing Public Education, which is now located at the Mary Lou  
6 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 program<sup>27</sup>. The federal charter school funding programs are listed in  
12 National Charter School Resource Center (2020). *The Federal Charter Schools Program: 2020*  
13 *Annual Report* notes that

14 At the core of the Charter Schools Program are the Grants to State Entities  
15 (SE Grants). The State Entity program offers competitive grants to states,  
16 which then make subgrants within their states to *open new charter schools and*  
17 *replicate or expand existing charter schools*. [emphasis added]  
18 (National Alliance for Public Charter Schools, 2020)

19 Funds like the New School Venture Fund<sup>28</sup> and the Charter School Growth Fund I &  
20 II<sup>29</sup> exist to fund the development and expansion of charter schools and charter  
21 management organizations. In 2007, when Rocketship Mateo Sheedy was started,  
22 Rocketship used lines of credit and loans to fund its beginning (Danner, 2006, p. 260).  
23 Now, charter schools have many more options for funding startup or operations.

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<sup>27</sup><https://www2.ed.gov/about/offices/list/oii/csp/funding.html>

<sup>28</sup><https://www.newschools.org/>

<sup>29</sup><https://chartergrowthfund.org/>

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

### 13 *Rocketship Expansion Difficulties*

14 In 2014, the Santa Clara County Office of Education and Rocketship were sued by four  
15 Santa Clara County public school districts: Alum Rock, Mount Pleasant,  
16 Franklin-McKinley and Evergreen. At issue was the SCCOE's bulk authorization of  
17 twenty countywide Rocketship charter schools. Sixteen months, 17,500 pages of  
18 evidence, and an estimated \$435,000 later, Rocketship, the public school districts, and  
19 Santa Clara County settled (Noguchi, 2015). As part of the settlement, Rocketship agreed  
20 to withdraw 13 of the 20 countywide charters thus far authorized. Since one of the  
21 remaining countywide charter had already been withdrawn, that left six potential  
22 charters still authorized but as of yet, unopened. So far, it appears that Rocketship has  
23 instead attempted to expand in locations beyond Santa Clara County: San Pablo<sup>30</sup> and

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<sup>30</sup>unsuccessfully



1 Concord in California, Nashville in Tennessee, Milwaukee in Wisconsin, Washington,  
2 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 three  
7 year plans updated in years two and three and which in detail how a school will use its  
8 funds to address state priorities, and to improve educational outcomes for foster youth,  
9 English learners, and low-income students, along with the metrics which will be used to  
10 show progress (Aguinaldo et al., 2021, pp. 66–84). These characteristics make LCAPs  
11 particularly interesting from both a financial point of view and from an educational  
12 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 role  
17 that private venture funds played in Rocketship financing (Whitmire, 2014, pp. 25, 65),  
18 and it is instructive to remember that private, for-profit venture funds exist to make  
19 money. True, they often are “double bottom line” grantors (Clark et al., 2004). As Ball  
20 (cited in Tewksbury (2016, p. 75)) makes clear

21 ... particularly with the added case of Rocketship, a blended learning chain of  
22 charter schools, is that the NSVF [New Schools Venture Fund] is using its  
23 clout to further blur the lines between for-profit and non-profit educational  
24 projects and organizations, thus smoothing the groves [grooves?] for

1 marketizing educational policy and practices. Ball (2012) makes the  
2 connections and rationalities clear: “Symbolically, philanthropy provides an  
3 ‘acceptable’ alternative to the state in terms of its moral legitimacy. It has  
4 also provided a kind of rehabilitation for the forms of capital that were  
5 subject of ‘ill repute’ in the public imagination. Strategically, philanthropy  
6 has provided a “Trojan horse” for the modernizing move that opened the  
7 ‘policy door’ to new actor and new ideas and sensibilities.” (Ball, 2012,  
8 p. 32)

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

### 13 *Privatization*

14 Charter CMOs and EMOs appear to be following the lead of prison and health care  
15 privatizers. They lobby legislators intensively. They position themselves as being more  
16 efficient than the “wasteful” public sector, and they claim to to be able to do better than  
17 public schools, prisons or hospitals at a lower cost. Since charter schools have positioned  
18 themselves as being in competition with TPSs, they need to do at least as well as TPSs, or  
19 failing that, appear to do so. This calls for creative marketing, and so, to that end,  
20 pro-charter advocacy organizations, some university-affiliated institutions, and some  
21 think tanks have been harnessed to churn out pro-charter puff pieces that are regularly  
22 debunked.<sup>31</sup> Evidently even creative marketing is not enough to prod the free market to  
23 supply the educational choice that charter school advocates feel is necessary, so

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<sup>31</sup>The National Educational Policy Center (<https://nepc.colorado.edu>) in the School of Education at the University of Colorado (Boulder) currently has over 150 NEPC Fellows who aim “to produce and disseminate high-quality, peer-reviewed research to inform education policy discussion” on a wide variety of topics. They often review pro-charter school publications which have been presented as academic research even though those publications have not been peer-reviewed and often have serious methodological problems which weaken or negate their conclusions.

1 pro-choice advocacy organizations also lobby state representatives and fund pro-charter  
2 board candidates.

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

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

24 Unlike many other forms of privatization, charter schools have competition. When a  
25 local government turns over the task of supplying water to a town, for example, there is  
26 not another public water company serving the same customers to serve as a comparison.

1 Privatization is often an all-or-nothing proposition. Charter schools, on the other hand,  
2 can be and are often compared to the public schools in the same school district. The  
3 presence of very visible competition has an interesting consequence: charter schools  
4 view public schools as an existential threat, precisely the opposite of the cooperative,  
5 synergistic relationship that state legislators envisioned. In fact, the absence of reports  
6 on the successful sharing of innovations appear so infrequently that sharing might as  
7 well be completely absent.

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

15       Charter schools employ fewer and less experienced teachers than public schools do. A  
16 teacher with 10 or 20 years of experience can easily command a salary that is twice that of  
17 a newly minted teacher. Rocketship schools have a student-to-teacher ratio that’s  
18 officially as high as 36:1 (SCCOE, 2021), and if aides are counted as teachers, it is an  
19 estimate which understates the number of students per teacher. The combination of  
20 fewer and less expensive teachers can reduce the cost of teacher salaries to one-third of  
21 what public schools pay for teachers. This reduction is significant because teacher  
22 salaries typically account for from one-third to three-quarters of the total expense of  
23 running a school. Charter schools that employ a blended pedagogy can further reduce  
24 the cost of salaries, with virtual schools dispensing entirely with teachers, effectively  
25 reducing the single largest component of running a school to zero.

1 Philanthrocapitalism

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

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

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

- 13 • social impact bonds,
- 14 • higher education lending and student income loans,
- 15 • charter school real estate, tax credit, and municipal schemes, and
- 16 • philanthrocapitalist educational technology schemes.

17 Marachi and Carpenter (2020), Burris and Cimarusti (2021), Scott (2009), B. Baker and  
18 Miron (2015) all make the same point: education has been captured by big business,  
19 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, constrains, and abets 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.

This chapter contains six sections. The first 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, guesses,

1 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 Financing*  
3 *in California* contains some example tables drawn from the Los Altos School District  
4 (LASD) for the 2019–20 school year. These are standard financial reports taken from  
5 LASD's SACS data, but presented in a way that is both visually appealing and  
6 informative.<sup>32</sup> The high level view is given in Figure A.1, *LASD 2019–20 All Funds Summary*.  
7 That view is further broken down in five more tables. The final, sixth table is a projection  
8 of LASD's of finances for the current year (2018–19), the year whose budget is being  
9 presented (2019–20), and five years into the future. The first half of the table contains the  
10 assumptions used to generate the amounts in the second half.

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

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

18 The fifth section, *Are There Gaps or Anomalies in the Data?*, discusses how potential gaps  
19 or anomalies in the financial data might be discovered. This is where triangulation can be  
20 used to cross-check the validity of that data. Does everything add up? Are there  
21 important, missing documents? How much do these gaps or anomalies matter? Are the  
22 oddities long-standing or fleeting? Examples of triangulation might be comparing  
23 Rocketship's LCAPs to their budget, or comparing IRS Form 990 data to their audited

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<sup>32</sup>LASD's annual budgets 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. Both LASD's annual budget and its CAFR exceed 100 pages. That information and data, although available elsewhere, is truly informative and serves as a record, a history if you will, of LASD's past, its actions, and the data which guided those actions.



1 financial statement of salary expenses.

2 Lastly, the sixth section, *What About the Flow of Money Through Rocketship?*, describes  
3 how this dissertation will study the flow of money in and out of Rocketship. Until now,  
4 this study has treated Rocketship's finances statically, i.e. at points in time. Just as  
5 important are the dynamic flows of money. Where do they come from, and where do  
6 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 spending  
10 that revenue? Are there investors who make money off of Rocketship? And, critically, if  
11 Rocketship takes in more money than it spends on education, where does that money go?

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

- 14 1. Gather financial data for the Rocketship schools being studied. The initial set of  
15 data being analyzed is discussed in the section *Charter School Financing* later in this  
16 chapter.
- 17 2. Identify any gaps or anomalies in the data. This is where triangulation is useful  
18 and is discussed further in the section *Triangulation*.
- 19 3. Analyze the flow of money in and out of Rocketship. That is covered in the section  
20 *What About the Flow of Money Through Rocketship?* which tries to determine where  
21 Rocketship funds come from, where is that money being spent, and what public  
22 policies (or lack thereof) account for Rocketship's actions.
- 23 4. Identify to the extent possible how people or entities that are not part of  
24 Rocketship may nonetheless profit from Rocketship.

1 Analyzing the finances of Rocketship Education means, for example, determining  
2 what are the terms of a bond issue. Are these bonds general obligation or revenue bonds,  
3 obligations of Rocketship Education and funded their revenues, or are they conduit  
4 bonds issued by a government agency and obligations of that government agency that  
5 are intended by not guaranteed to be funded by Rocketship's revenues? Have the bonds  
6 been purchased by entities that are related to Rocketship, i.e. they are not arm's length  
7 transactions?

8 All bonds are risky to some extent, some more than others, and purchasers of those  
9 bonds are compensated for taking on that risk by being paid interest on the amount  
10 borrowed. An immediate question comes to mind: Is the interest rate appropriate for the  
11 risk being taken on? Answering that question entails comparing Rocketship Education to  
12 other, similar borrowers. If the interest rate is higher than expected, then Rocketship  
13 Education is effectively giving away some of its revenue. Another question one might ask  
14 is, "How is Rocketship Education spending its bond proceeds?" Are those expenses in line  
15 with what other charter school chains or public school districts are spending their bond  
16 proceeds on?

## 17 An Overview of California School Financing

18 Primary and secondary schools (grades K–12) and charter schools in California are  
19 financed with a combination of federal, state, and local monies as seen in Figure 3.1,  
20 *California 2019–20 K–12 Funding by Source*. Since federal funds account for only 8% of total  
21 funding for California's elementary school children (Legislative Analyst's Office, 2021),  
22 the federal contribution will not be considered further. Note that federal facilities grants  
23 to charter schools are not part of this 8%.

24 In June of every year, the California Legislature passes a budget for the next fiscal

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

## K-12 Funding by Source

(Dollars in Millions)

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

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

1 year (July 1 – June 30) and the Governor signs it into law. This is called the enacted budget.  
2 This version of the budget describes the *intent* of the Governor and the Legislature, but  
3 does not necessarily provide any actual money. The real work is done in what are called  
4 *trailer bills* that are passed piecemeal in the months following the adoption of the budget.  
5 During the course of the fiscal year, revisions are made to this enacted budget either  
6 because of circumstance or because of changed priorities, and at the end of the fiscal  
7 year, this is now called the revised budget. After the budget year has passed, technical  
8 adjustments are still made: Exactly how much money was spent, or what was  
9 misclassified and improperly allocated will change the revised budget numbers. This  
10 then becomes the final budget. The upshot of this is that there are actually three versions  
11 of California’s education budget: the one for next year (enacted), the one for the current  
12 year (revised) and the one for the prior year (final). Normally, the enacted budget is the  
13 one that is meant when people speak of the budget.

14 Figure 3.1 on the preceding page, *California 2019–20 K–12 Funding by Source*, shows  
15 what money California has to fund its primary and secondary educational system,  
16 i.e. grades K–12. This money is then allocated to local educational agencies (LEAs),  
17 through a formula known as the Local Control Funding Formula (LCFF).<sup>33</sup> LEAs include  
18 individual charter schools, county offices of education, and local public school districts.  
19 The total amount of money for K–12 funding is allocated using a formula that was  
20 enacted by voters in 1988 (LAO, 2017): Proposition 98. Prop. 98 was originally meant to be  
21 a minimum guaranteed funding level, but has evolved into a ceiling. The Legislative  
22 Analyst’s Office (LAO), which serves as an independent, non-partisan research arm of the  
23 California Legislature in much the same way that the Congressional Research Service  
24 serves the U.S. Congress, calls Prop. 98 “A Tale of Complexity” (p.5) and says that “A

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<sup>33</sup>The LCFF actually funds community colleges as well as public primary and secondary educational institutions, so it ought to be referred to (but isn’t) as the K-14 LCFF.

1 Plethora Tests and Rules Govern the Minimum Guarantee” (p.5), and that “State Has  
2 Made Myriad Adjustments to the Proposition 98 Calculations” (p.5). Undoubtedly LCFF is  
3 complex, but LCFF is more transparent, has fewer rules, is more equitable, and is more  
4 responsive to the needs of public school districts that have a high proportion of  
5 under-served students than the Revenue Limit System that came before it. The Revenue  
6 Limit System was also complex, but in a completely difference way; it had many  
7 separately funded programs, called categorical programs, each with their own set of  
8 requirements, rules, durations, and funding levels. Each passing year saw more  
9 programs being added to the set of categorical programs until the collection of  
10 categorical programs became so unwieldy it threatened to soak up all of a district’s  
11 financial resources.

12 As seen in Figure 3.1, *California 2019–20 K–12 Funding by Source*, Proposition 98 funding  
13 accounts for nearly 70% of California’s K–12 funding, the remainder coming from local  
14 property taxes and fees, and from various other state sources. This money is distributed  
15 to county offices of education which then distribute it to public school districts. Districts  
16 then distribute funds to charter schools.

17 Some districts are funded outside of the LCFF system. These used to be called “basic  
18 aid” districts, but since the term is confusing, they are now called “community funded”  
19 districts. Districts whose annual property tax revenue is greater than their annual LCFF  
20 entitlement are community funded since they get only “basic aid”, i.e. the  
21 constitutionally required minimum funding (the greater of \$120 per pupil or \$2,400 per  
22 district) from the state. For districts which are not community funded, the state  
23 contribution is the difference between a district’s LCFF entitlement and its share of  
24 district property taxes. In other words, the state ensures that each district gets at least its  
25 LCFF entitlement, the total amount which is determined by Prop. 98.<sup>34</sup>

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<sup>34</sup>An invaluable and comprehensive description of K-12 funding in California, for both public school

## 1 *Budgets & Interim Reports*

2 Budgets, in California, are the first of four important financial documents that  
3 schools produce during a fiscal year. For any given fiscal year, which runs from July 1 to  
4 June 30, the first financial document produced by a public school district or a charter  
5 school is the annual budget, a forward looking financial statement.

6 Budgets are approved before the end of the prior fiscal year.<sup>35</sup> Next are two  
7 (unaudited) interim reports, one in December, and another in March, which track how  
8 well the school or district is adhering to the approved annual budget, and finally, after a  
9 certified public accountant has audited the school or district, a comprehensive annual  
10 financial report (CAFR). State law requires that an independent auditor certify this  
11 retrospective account of the school or district's financial activity as being an accurate  
12 representation of the school's finances for the previous fiscal year.

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

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

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districts and charter schools, can be found in Aguinaldo et al. (2021). It is (was?) an annual publication.

<sup>35</sup>Since 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 to a school's LCAP and this is why a separate meeting specifically and only to approve the  
2 LCAP is a requirement.

3 Typically LCAP goals remain the same over their three year lifespan, but their  
4 financing may change if the metrics used to measure progress toward achieving those  
5 goals aren't showing progress. In unusual circumstances, how the goals are to be  
6 achieved might change. LCAPs are California's way of ensuring that all public schools,  
7 including charter schools, meet the same set of priorities or goals. Apparently, some  
8 LCAPs have been on the order of 500 pages long, although the norm is much less.

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

14 Unlike budgets and CAFRs, LCAPs don't have to "add up", nor do they have to offer a  
15 complete financial picture, but they do have to be consistent with other financial data.  
16 Expenditures have to be budgeted, and the amounts in a school's budget must agree with  
17 what's in the LCAP. The charter or public school's board must approve an LCAP at the  
18 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 Annual  
22 Financial Reports (CAFRs) are sent to the California Department of Education (CDE) and  
23 to a charter's County Office of Education (COE) annually. They cover the previous fiscal  
24 year and are similar to annual budgets because they report the same information,  
25 perhaps in a different format. CAFRs are retrospective whereas budgets are prospective.

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

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

## 12 Charter School Financing

13 In California, charter schools are financed the same way as public schools are, from  
14 the same pot of money, using the same set of rules, except for one significant difference:  
15 how they finance facilities. Unlike public schools, charter schools have no taxing  
16 authority, so they cannot pass bond measures or parcel taxes. This lack of a taxing  
17 authority means that charter schools must either occupy existing public school facilities  
18 (potentially displacing existing public school students) or seek grants and donations. The  
19 federal government provides significant amounts of facilities grant money and delegates  
20 to the states the administration of the program and the disbursement of the actual  
21 grants.

22 The topic of charter school finances is broader than that of public schools because, in  
23 addition to all of the financial dealings of traditional public schools, almost all of which  
24 also apply to charter schools, charter schools have large and immediate needs for



1 facilities that TPSs don't have. This brings into the picture bonds, loans, grants, leases,  
2 construction, and the purchase and sale of real estate. TPSs do issue several kinds of  
3 bonds, levy parcel taxes, and buy real estate on which they build schools, but they do so  
4 infrequently. Usually public schools have done this years ago, but charter schools have an  
5 immediately and reoccurring need for facilities. They face these needs once when they  
6 start up, and whenever they outgrow their facilities because of increased enrollment.  
7 These needs of charter schools for facilities and the financing associated with obtaining  
8 those facilities is more pressing, more immediate, and more common than the  
9 corresponding needs of TPSs whose enrollment doesn't fluctuate as much.<sup>36</sup>

10 Once a charter has been granted the right to operate, it must file annually with the  
11 California Department of Education, just like public school districts, certain forms that  
12 detail its revenues and expenses. State law also mandates an annual audit by an  
13 independent accounting firm which charter schools must file with their County Office of  
14 Education. All together, these forms should provide a complete picture of a charter  
15 school's finances, and crucially, everything should be in agreement. Charters must  
16 approve and publish at a public meeting their annual budget, and they, just like TPSs,  
17 cannot spend unbudgeted money unless the governing board approves at a public  
18 meeting any changes.

### 19 *Charter Financial Documents*

20 There are numerous publicly available sources of the same charter school financial  
21 data. These are, in roughly chronological order, petitions/renewals, budgets, LCAPs,

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<sup>36</sup>Usually 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.

interim financial statements, and finally, audited Comprehensive Annual Reports (CAFRs). Table 3.1, *Charter School Financial Documents*, summarizes the financial reports which are available about charter school finances. The first two 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 <sup>th</sup>
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

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

### Petitions & Renewals

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

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

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

14 Fortunately, these documents are all publicly available and could, if needed, be the  
15 subject of a California Public Records Act (CPRA) request. The CPRA is the California  
16 equivalent of the federal Freedom of Information Act (FOIA). Many of the documents  
17 mentioned in this dissertation should be available from the California Departments of  
18 Education and Finance, or from the Santa Clara County Office of Education.<sup>37</sup>

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

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<sup>37</sup>Since these documents are publicly available and may be freely copied, so no copyright is applicable, nor can one be claimed.

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

- 6 • The six year forecast spreadsheet that LASD uses, an example of which is  
7 reproduced in Figure A.7 *LASD 2019–20 Multi-Year Projection* on page 106. Most of  
8 the elements of a forecast are combinations of SACS<sup>38</sup> codes. The main drawback of  
9 using this framework is that each school would have to have its elements extracted  
10 from their SACS submissions. The main benefit is that these elements have been  
11 used for years and so are known to be useful in budgeting.
- 12 • A spreadsheet of the 9 high-level SACS object codes. This option is has the  
13 advantage that these sums can be calculated automatically using reports available  
14 on California's Annual Financial Data web page<sup>39</sup> This data is maintained by the  
15 California Department of Education and go back to FY2003–4. The main  
16 disadvantage is that any gaps or anomalies may not show up in the aggregate  
17 numbers.
- 18 • A third way of approaching the problem of making sense of large amounts of data  
19 is to use a model. Some possible models are

- 20 – Bruce Baker's *National Education Cost Model* (B. D. Baker et al., 2018, p. 5)
- 21 – the Operating Resource Flow model from B. Baker and Miron (2015, p. 16) and

22 Figure 3.4

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<sup>38</sup>The Standardized Account Code Structure (SACS) is the chart of accounts (cost centers) used by the California Department of Education. These are defined in "California School Accounting Manual: Definitions, Instructions, and Procedures." The function (activity) codes are on pp.149–151 (\$325–3 *et seq.*)

<sup>39</sup><https://www.cde.ca.gov/ds/fd/fd>

1       – the resource cost model (RCM) or the education cost function (ECF) as developed  
2       by B. D. Baker (2018, pp. 188–197)

3       – ratio analysis or index analysis as in B. D. Baker and Richards (2004, pp. 70–86)

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

#### 10   *Other Data*

11       Vast amounts of data are available from the federal, state and local governments,  
12       easily over half a million datasets each containing anywhere from a hundred elements to  
13       a hundred thousand elements. Unfortunately these data have been collected in different  
14       formats, over different time periods, using different inclusion criteria, more or less  
15       carefully. Picking a subset of educational data to use and then cleaning it is a huge  
16       endeavor well beyond the scope of this dissertation. That being said, a very small subset  
17       of available datasets will be consulted, based on the immediate need at hand. The most  
18       likely datasets to be consulted are those maintained by:

- 19       • California Department of Education and the State Board of Education
- 20       • The County of Santa Clara and the Santa Clara County Office of Education
- 21       • The California Open Data Portal
- 22       • National Center for Education Statistics (NCES) at the Institute for Education  
23        Sciences (IES)
- 24       • Stanford Educational Data Archive (SEDA)

- School Finance Indicators Database
- EdSource, Ed-Data, and other aggregators of educational data specific to California

### State and Federal Filings

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

Some officers of Rocketship may be required to submit annually to the California Fair Political Practices Commission (FPPC) Form 700, Statement of Economic Interests. This particular requirement of charter school officers is not settled law, but if Form 700 is filed, it will list the submitter's assets and income. The intent is to prevent related-party transactions by enumerating an officer's economic interests so that the school can avoid doing business with entities that might benefit an officer. Rocketship's initial petition for Mateo Sheedy states that Form 700, Statement of Economic Interest, shall be filed by all board members, candidates for board membership, corporate officers, principals and assistant principals, among others.

The federal Internal Revenue Service grants income tax exemptions to organizations that meets the requirements of §501(c)(3) of the Internal Revenue Code.<sup>40</sup> These organizations must file Form 990 annually that provides some minimal financial data. (Tax returns of for-profit organizations are not public documents and their contents do not have to be disclosed; however, in order to sell stock to the public, i.e. to be listed on a stock exchange, firms are required to publish various financial documents, which like bond prospectuses, are required to be informative and complete.)

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<sup>40</sup> 26 USC 501, i.e. Title 26, Subtitle A, Chapter 1, Subchapter F Part I § 501(c)(3)

1       Bond prospectuses

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

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

15       Unlike many studies, there is not a paucity of data on Rocketship, rather there is a  
16 surfeit. The data collected so far is voluminous. The current number of pages of initial  
17 and renewal petitions runs to 7371 pages. Three bond prospectuses total over 1000 pages.  
18 And there are many financial data documents yet to obtain. For example, of the six  
19 categories of financial data listed in Table 3.1, only half have been collected.

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

1 is likely to lead to work which will need to be redone using a different framework.

## 2 Indirect Profits

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

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

14 Tax credits are another potential source of profit. The New Markets Tax Credit is a  
15 39% tax credit, usable over seven years, available to those who make an investment in  
16 specified economically depressed neighborhoods. A 39% tax credit is roughly twice the  
17 current corporate tax rate which means that this credit wipes out the taxes on gains  
18 equal to twice the initial investment (which also has a return).

19 The NewSchools Venture Funds, the Charter School Fund, and the Charter School  
20 Growth Fund are just a few examples of venture funds that specialize in charter schools.  
21 Since it is unlikely that investors will invest in a fund that does not return a profit,  
22 establishing exactly how these funds turn a profit is going to be a key goal of this study's  
23 explorations.<sup>41</sup>

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<sup>41</sup>It is interesting that none of the web sites of these funds mentions that fund's return on investment (ROI). The absence of any indication of a return on investment is either an innocent mistake or much more



1 Are There Gaps or Anomalies in the Data?

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

9 In some fashion or another, all profit must originate from Rocketship's revenue. In  
10 the case of the sale-leaseback of facilities, for example, the rent over and above market  
11 rates constitutes profit to the property owners, and this is an operational expense  
12 ultimately paid for by tax payers. If facilities are bought with public dollars (i.e. federal  
13 grants) and subsequently sold, the net proceeds are profit that might accrue to an  
14 organization other than Rocketship. If technology is being used and the contracts are not  
15 at arm's length, then someone or some organization is making more than the usual  
16 profit. If student data is being sold by a for-profit entity that operates non-profit charter  
17 schools, that's revenue that rightfully belongs to the students or to the non-profit schools.

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

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likely, an attempt at obfuscation.

1 value are also indicators that further investigation is needed.

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

- 3 • Are the data available and accessible? Charter schools are notorious for simply not  
4 filing required documents or filing them horrendously late, or submitting  
5 documents that are incomplete. Petitions are not usually a problem because  
6 without a petition, or with a materially incomplete petition, the petition will not be  
7 granted. However, once a school is operational, late or missing filings will not bring  
8 everything to a halt. Although Rocketship was fined for failing an attendance audit,  
9 it was allowed to continue to operate.
- 10 • Have the data been misrepresented? There are forensic techniques (e.g. Benford's  
11 Law) that can point to suspect data (Zhu et al., 2021). There is also triangulation  
12 which involves comparing one source of data with another to see if they match. For  
13 example, charter petitions make forecasts of revenue and expenses. How accurate  
14 were those forecasts? Were the reasons given for anomalies plausible? foreseeable?  
15 reasonable? Following Hanlon's Razor<sup>42</sup>, a single anomaly is not usually a sign that  
16 something is being covered up, but several persistent anomalies usually are.
- 17 • California requires that LEAs meet the numbers they previously forecast or explain  
18 why they didn't meet those numbers. Were those goals met, and if not, were the  
19 reasons proffered legitimate? When preparing a budget, LEAs must also certify  
20 they can meet their financial obligations for the current year, and for the next two  
21 years. If an LEA cannot certify that they can, they might receive a visit from the  
22 California Department of Education's Financial Crisis & Management Assistance  
23 Team (FCMAT), and in the extreme case be subject to a state takeover or to  
24 involuntary closure.

---

<sup>42</sup>"Never attribute to malice that which is adequately explained by stupidity." Naturally, Hanlon's Razor follows Stigler's Law of Eponymy: "No scientific discovery is named after its original discoverer." Stigler's Law adheres to Stigler's Law.

## 1 *Triangulation*

2 Another technique for determining if there are gaps or anomalies is to use  
3 triangulation. Triangulation is the use of multiple sources of data. While triangulation  
4 in social science research often refers to the mixed methods use of quantitative and  
5 qualitative methodologies, the common definition refers to the analysis of multiple  
6 forms of corroborating evidence in the form of financial and media documentation. For  
7 example, Bhandari (2022) notes that one of the forms of triangulation is “[u]sing data  
8 from different times, spaces and people” and also that “[t]riangulation in research means  
9 using multiple datasets, methods, theories and/or investigators to address a research  
10 question. It’s a research strategy that can help you enhance the validity and credibility of  
11 your findings.”<sup>43</sup>

## 12 *Are There More Serious Financial Issues?*

13 Unfortunately, charter schools and charter school chains have a long history of  
14 various kinds of fraud. Lafer (2017b), In the Public Interest (2018), Burris et al. (2020),  
15 and Burris and Bryant (2020), are just a few of the reports that detail fraud and waste in  
16 charter schools. Although Rocketship has engaged in a number of questionable activities,  
17 it has not been charged anything illegal.<sup>44</sup> But with billions of dollars allocated to charter  
18 schools for facilities in the last 15 years in California alone (Lafer, 2017b, p. 4), coupled  
19 with lax or no oversight, the temptation to misappropriate funds must be strong. It is

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<sup>43</sup>Triangulation does not imply exactly three concepts or ideas; often, as is in this dissertation, more than three concepts, ideas, data are combined in the analysis.

<sup>44</sup>Rocketship 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 also instructive to note that Californian charter schools have fought tooth and nail to  
2 prevent any laws that would increase transparency or hold charter operators to the same  
3 conflict-of-interest standards that public schools and other government entities are held  
4 to. While the charter sector has for the most part been successful in warding off  
5 demands for accountability, the Attorney General of California issued an official ruling in  
6 2018 stating that the Brown Act, the CPRA, and Government Code §1090 apply to charter  
7 schools as well as to other LEAs (Becerra & Medeiros, 2018).

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

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

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

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

27 *Analyzing Rocketship's Bond Financing*

1 Bond financing can be both complicated (a hard problem, but solution methods exist)  
2 and complex (many unknowns and interrelated factors). Illustrating this are two  
3 examples of the analysis from just a single prospectus, that of Rocketship's \$42M bond  
4 offering. That offering is described in the 536 pages which comprise "\$42,160,000 Charter  
5 School Revenue Bonds (Rocketship Education - Obligated Group)." The \$42M offering is  
6 complicated because there are many moving parts which are described in the offering in  
7 the well-known language of bond finance. Terms, rates, contingencies, amounts, dates,  
8 and required performance are all specified in a fashion that has withstood legal  
9 onslaught many times over. But the offering is also complex because it must also  
10 convince others that its predictions are reasonable. The most important of those  
11 predictions is that the issuer can pay the interest and repay the principal when they due.

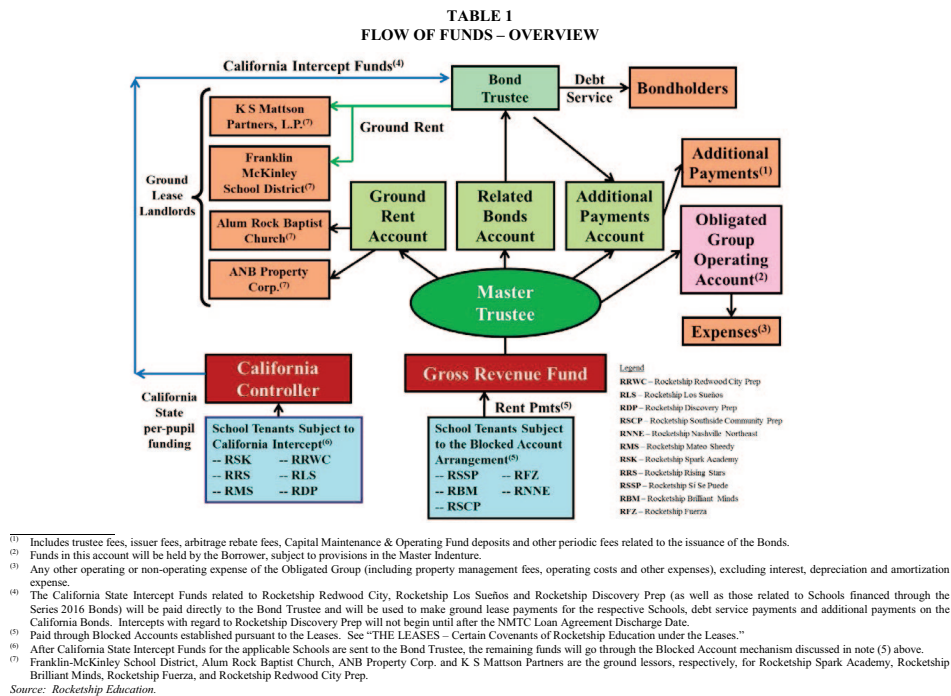
12 Figure 3.2 on the following page *Flow of Funds: Overview* gives the overall picture and  
13 shows how rents from schools (blue) are "intercepted" by the California Controller (red)  
14 and paid directly to landlords, or paid into the Gross Revenue Fund (red) from which the  
15 Master Trustee pays lessors (orange) and bond holders and expense accounts (orange).  
16 What is not shown is the \$750 per ADA (in 2017, rising to \$1,211 in 2020–21) that  
17 Rocketship will apply to lease payments. Since money is fungible, the State of California  
18 is giving Rocketship between \$2.4 and \$3.7M depending on the year, money they would  
19 otherwise not have. This is effectively profit.

20 The next figure, Figure 3.3 on page 73 *Flow of Funds: Cross-Collateralization* adds an  
21 important detail: how Rocketship uses its assets as collateral more than once.<sup>45</sup> In this  
22 case, if the payments of "School Tenants" are insufficient, the Master Trustee may require  
23 additional monthly payments from the "Obligated Group Representatives and Member"  
24 to supplement those from "School Tenants".

---

<sup>45</sup>*Cross-collateralization* means using an asset as collateral for two or more obligations, here lease and bond payments.

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



53

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

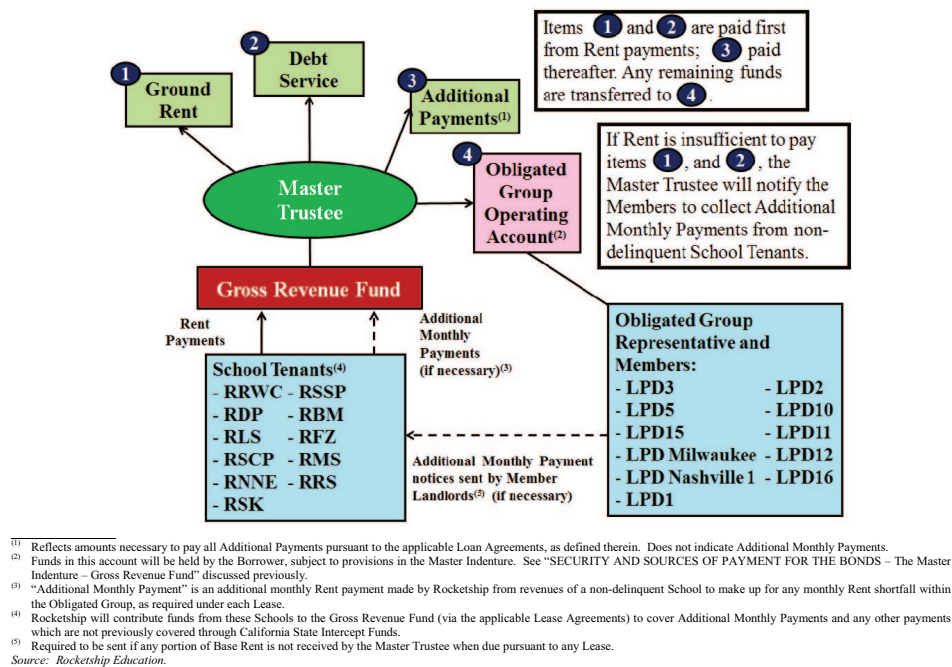
1        These two examples show the kind of analysis that is needed to characterize a bond  
2   offering.

### 3 What About the Flow of Money Through Rocketship?

Since a goal of this dissertation is to map the flow of money into and out of Rocketship, I will use diagrams similar to the one used by B. Baker and Miron (2015), which is reproduced here as Figure 3.4. In this example, money flows from left to right, and there are no loops. Colors are used merely to distinguish the various blocks.

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

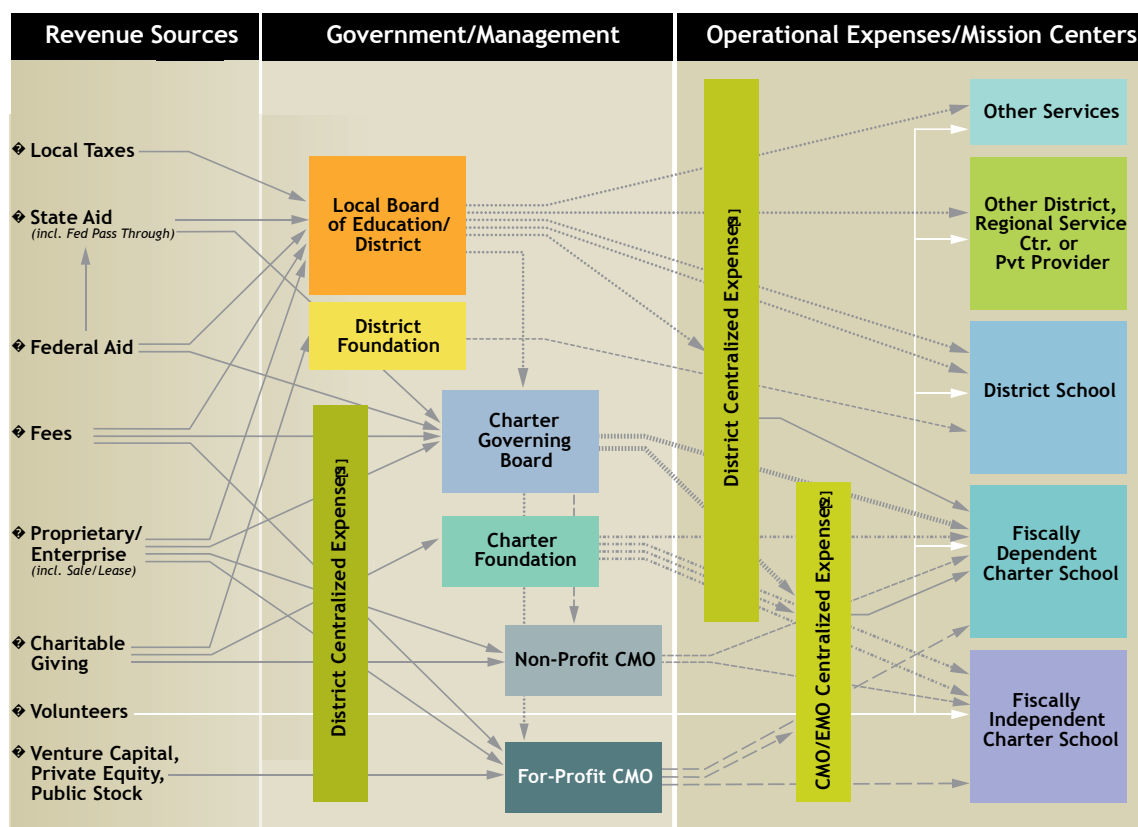
TABLE 2  
 FLOW OF FUNDS – CROSS-COLLATERALIZATION MECHANISM



55

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

**Figure 4**  
*Operating Resource Flows*



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



## 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, how?



Discussion

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# Appendices



## School Financing in California

This appendix presents an example of public school financing in California.<sup>46</sup> 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.

The first table to look at is the aggregate of all funds as shown in Figure A.1, *LASD*

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<sup>46</sup>For 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=360303058&ID=279356&MID=12479>). Note that most public school budget documents are not as comprehensive or as well put together as LASD's.)

1 2019–20 *All Funds Summary*. It is a very high-level summary of a school's or a district's  
2 budget. It's a snapshot of what the district's revenues are expected to be, roughly where  
3 that revenue is expected to come from, what the district's expenses are expected to be,  
4 and whether revenue and expenses are expected to be in balance. It is the rough  
5 equivalent of a business income statement.<sup>47</sup>

6 Because Figure A.1, *LASD 2019–20 All Funds Summary*, is a snapshot, detecting  
7 unusual changes year-to-year is not possible. Changes are detectable using Figure A.2 on  
8 page 103 which compares fiscal two years. However, with just a budget summary, one can  
9 nonetheless note some interesting ratios, for example, the percentage of expenses spent  
10 on salaries and benefits. For LASD in 2021–20, this is 80.18% which is in line with what is  
11 typical of elementary school districts in California. One can calculate the state-wide  
12 average for all districts for 2019–20 using the Data Table at  
13 [www.ed-data.org/state/CA](http://www.ed-data.org/state/CA), and that comes out to 83.71%. So, LASD spends a little  
14 less on salaries and benefits than the average elementary school district in California  
15 does.

16 Calculating this ratio brings up a general issue: What is an appropriate comparison  
17 group? In this particular case, the Ed-Data web site does not have county-level financial  
18 data, so the only comparison which can easily be made is at the state level. But should the  
19 state-level comparison group be all districts, or just elementary school districts? Should  
20 “basic aid” districts, also called “community-funded” districts, districts whose property  
21 tax revenues exceed their LCFF entitlement, be included or not? Again, the Data Table  
22 tab on [www.ed-data.org/state/CA](http://www.ed-data.org/state/CA) does not filter by type of district (although the Graph

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<sup>47</sup>Schools group their finances by funds. Most of their revenue goes into the general fund, and most of their expenses come out of the general fund. Some transactions must by law be accounted for in different funds. The three largest 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**

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

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

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

1 tab does), so, in this case, using just the Ed-Data data, our choices are forced since we  
2 cannot use state-level data.

3 The other common financial business report is the balance sheet, which identifies  
4 assets and liabilities. In the educational world, this is the statement of net position.  
5 Figure A.2 on page 103 shows LASD's assets and liabilities at the end of the 2019–20  
6 school year. Note that unlike a balance sheet, a statement of net position for schools (and  
7 other governmental entities) does not balance; assets are not exactly equal to liabilities.<sup>48</sup>

<sup>48</sup> Business accountants achieve this seemingly low probability equality by adding a fudge factor, *owner's*

1 As an example of a number which stands out and is therefore worth investigating, is  
2 the large increase in Capital Assets, year over year, an increase of \$132M (line 3 of A.2 on  
3 the facing page, *LASD YE 2020 Summary of Net Position*). In “Comprehensive Annual  
4 Financial Report FY 2020,” six notes appear immediately after Figure A.2, and these  
5 provide an explanation for the increase: LASD purchased a property whose cost was  
6 \$134.9M net of \$2.7M in depreciation. This purchase shows up again in line 1 of Figure A.5  
7 on page 105 and explains the enormous 9052% increase in the value of LASD’s largest  
8 asset in FY2019, land.

9 In addition, the “Comprehensive Annual Financial Report FY 2020” contains a  
10 section, on pp. 19–45, called *Notes to the Basic Financial Statements*. These notes are an  
11 integral part of the certified, audited annual statement, just as they are in audited  
12 financial reports in the business world; they cannot be omitted, and must be accurate  
13 and complete. Note 7B of Kenyon (2021a, p. 7), General Obligation (GO) Bond  
14 Anticipation Notes (BANs), explains how LASD uses a common technique to convert  
15 general obligation bonds into cash: issue BANs, backed by general obligation bonds, and  
16 payable when those GO bonds are issued.<sup>49</sup>

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

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

- 22 • Summary of Net Position (Figure A.2 on the facing page)

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*equity*, so that  $assets = liabilities + equity$  always, exactly.

<sup>49</sup>One reason this makes sense is that interest rate on BANs is less than the interest rate of GO bonds, so LASD makes money by issuing BANs to pay off GO bonds. In a different situation, school districts issue tax revenue anticipation notes (TRANs) because property taxes are paid by taxpayers semi-annually and salaries are paid monthly, so districts often and predictably do not have the cash on hand to pay their employees. The solution is to issue TRANs backed by anticipated revenue, and are paid off when the school or district receives the funds.

**Figure 6**  
**LASD YE 2020 Summary of Net Position**

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

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

- 1 • Change in Net Position (Figure A.3 on the next page)
- 2 • Net Costs of Services (Figure A.4 on the following page)
- 3 • Capital Assets (Figure A.5 on page 105)
- 4 • Long-term Liabilities (Figure A.6 on page 105)

5 LASD rolls up its detailed financial data into a single multi-year summary, as shown  
6 in Figure A.7 on page 106. In addition to purely financial data, the multi-year summary  
7 includes the key assumptions that were behind the numbers. In fact, the first section of  
8 Figure A.7 is only assumptions, and it is those assumptions which drive the numbers in  
9 Sections 2–4. The value of this summary is that it captures in one table the key data

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

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

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

**Figure 8***LASD YE 2020 Net Cost of Services*

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

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

**Figure 9**  
*LASD YE 2020 Capital Assets*

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

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

**Figure 10**  
*LASD YE 2020 Long-term Liabilities*

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

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

**Figure 11**  
*LASD 2019–20 Multi-Year Projection*

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

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

- 1 needed to make budgetary decisions and thus might serve as a template for what data is
- 2 important.