1 ROCKETSHIP EDUCATION:

2 AN EXPLORATORY PUBLIC POLICY CASE STUDY

3 A Dissertation Presented to

4 The Faculty of the Connie L. Lurie College of Education

5 San José State University

6 In Partial Fulfillment of the Requirements for the Degree

7 Doctor of Education

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10 August 2022

11 Version 0.7.5491 created on 2022-05-13 23:11:39-07:00

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1 ROCKETSHIP EDUCATION:

2 AN EXPLORATORY PUBLIC POLICY CASE STUDY

3 Abstract

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

1 Contents

2 [Abstract](#_bookmark0) **iv**

3 [List of Tables](#_bookmark1) **vii**

4 [List of Figures](#_bookmark2) **viii**

5 [Abbreviations](#_bookmark3) **ix**

6 [1 Introduction](#_bookmark4) **1**

7 [Schools and Charter Schools](#_bookmark7) . . . . . . . . . . . . . . . . . . . . . . . 2

8 [What is the Purpose of this Study?](#_bookmark10) . . . . . . . . . . . . . . . . . . . . 5

9 [Research Question](#_bookmark12) . . . . . . . . . . . . . . . . . . . . . . . . . 6

10 [Theoretical and Conceptual Frameworks](#_bookmark14) . . . . . . . . . . . . . . . . . 7

11 [A Case Study Approach as a Practical Framework](#_bookmark17) . . . . . . . . . . 8

12 [Public Policy as a Theoretical Framework](#_bookmark18) . . . . . . . . . . . . . . 9

13 [2 A Review of the Literature](#_bookmark19) **12**

14 [A History of Charter Schools](#_bookmark23) . . . . . . . . . . . . . . . . . . . . . . . 15

15 [The Origins of Charter Schools in Segregation](#_bookmark24) . . . . . . . . . . . . 15

16 [Charter Schools, Free Markets and Privatization](#_bookmark25) . . . . . . . . . . . . . 17

17 [Types of Charter Schools](#_bookmark29) 22

18 [Charter School Authorizers and Oversight](#_bookmark30) 22

19 [Profit-Making Status](#_bookmark31) 23

20 [Type of Instruction](#_bookmark34) 25

21 [Charter Schools in the United States](#_bookmark36) 26

22 [Charter Schools in California](#_bookmark38) 27

23 [Surveys of Charter School Research](#_bookmark40) 28

24 [Research on Charter School Finances](#_bookmark44) 32

25 [Rocketship](#_bookmark45) 34

26 [Founders and Supporters](#_bookmark47) . . . . . . . . . . . . . . . . . . . . . . 35

27 [Rocketship History](#_bookmark49) 36

28 [Rocketship Finances](#_bookmark50) 36

29 [Rocketship Expansion Funding](#_bookmark53) 39

30 [Rocketship Expansion Difficulties](#_bookmark57) 40

|  |  |
| --- | --- |
| 1 [Charter School Accountability](#_bookmark58) . . . . . . . . . . . . . . . . . . . . | 40 |
| 2 [Rocketship and Privatization](#_bookmark60) . . . . . . . . . . . . . . . . . . . . . . . | 41 |
| 3 [Privatization](#_bookmark61) . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 42 |
| 4 [Philanthrocapitalism](#_bookmark63) . . . . . . . . . . . . . . . . . . . . | 44 |
| 5 [3 Research Design and Methodology](#_bookmark64) | **46** |
| 6 [Process Overview](#_bookmark66) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 48 |
| 7 [An Overview of California School Financing](#_bookmark67) . . . . . . . . . . . . . . . . | 49 |
| 8 [Budgets & Interim Reports](#_bookmark69) . . . . . . . . . . . . . . . . . . . . . | 52 |
| 9 [Local Control Accountability Plans (LCAPs)](#_bookmark71) . . . . . . . . . . . . . | 53 |
| 10 [Comprehensive Annual Financial Reports](#_bookmark73) . . . . . . . . . . . . . . | 54 |
| 11 [Charter School Financing](#_bookmark74) . . . . . . . . . . . . . . . . . . . . . . . . . | 55 |
| 12 [Charter Financial Documents](#_bookmark75) . . . . . . . . . . . . . . . . . . . . | 56 |
| 13 [Petitions & Renewals](#_bookmark78) . . . . . . . . . . . . . . . . . . . . | 57 |
| 14 [Other Data](#_bookmark82) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 60 |
| 15 [State and Federal Filings](#_bookmark83) . . . . . . . . . . . . . . . . . . | 61 |
| 16 [Bond prospectuses](#_bookmark85) . . . . . . . . . . . . . . . . . . . . . | 62 |
| 17 [Indirect Profits](#_bookmark86) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 63 |
| 18 [Are There Gaps or Anomalies in the Data?](#_bookmark87) . . . . . . . . . . . . . . . . . | 64 |
| 19 [Triangulation](#_bookmark89) . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 66 |
| 20 [Are There More Serious Problems?](#_bookmark90) . . . . . . . . . . . . . . . . . . . . | 66 |
| 21 [Analyzing Rocketship’s Bond Financing](#_bookmark93) . . . . . . . . . . . . . . . | 68 |
| 22 [What About the Flow of Money Through Rocketship?](#_bookmark95) . . . . . . . . . . . | 69 |
| 23 [4 Findings and Results](#_bookmark99) | **72** |
| 24 [5 Discussion](#_bookmark100) | **73** |
| 25 [References](#_bookmark101) | **74** |
| 26 [A School Financing in California](#_bookmark239) | **90** |
| 27 [Glossary](#_bookmark250) | **98** |

1 List of Tables

2 [1 *Attributes of Private, Charter, and Public Schools in California*](#_bookmark32) 24

3 [2 *Rocketship Schools in Santa Clara County, California*](#_bookmark51). . . . . . . . . . . . . 37

4 [3 *Charter School Financial Documents*](#_bookmark77). . . . . . . . . . . . . . . . . . . . 57

|  |  |  |
| --- | --- | --- |
| 1 | List of Figures |  |
| 2 [1](#_bookmark68) | [*California 2019–20 K–12 Funding by Source*](#_bookmark68). . . . . . . . . . . . . . . . . | 50 |
| 3 [2](#_bookmark94) | [*Flow of Funds: Overview*](#_bookmark94). . . . . . . . . . . . . . . . . . . . . . . . . | 69 |
| 4 [3](#_bookmark97) | [*Flow of Funds: Cross-Collateralization*](#_bookmark97). . . . . . . . . . . . . . . . . . . | 70 |
| 5 [4](#_bookmark98) | [*Operating Resource Flows*](#_bookmark98). . . . . . . . . . . . . . . . . . . . . . . . . | 71 |
| 6 [5](#_bookmark241) | [*LASD 2019–20 All Funds Summary*](#_bookmark241). . . . . . . . . . . . . . . . . . . . | 91 |
| 7 [6](#_bookmark244) | [*LASD YE 2020 Summary of Net Position*](#_bookmark244). . . . . . . . . . . . . . . . . . | 94 |
| 8 [7](#_bookmark245) | [*LASD YE 2020 Change of Net Position*](#_bookmark245). . . . . . . . . . . . . . . . . . . | 95 |
| 9 [8](#_bookmark246) | [*LASD YE 2020 Net Cost of Services*](#_bookmark246). . . . . . . . . . . . . . . . . . . . . | 95 |
| 10 [9](#_bookmark247) | [*LASD YE 2020 Capital Assets*](#_bookmark247). . . . . . . . . . . . . . . . . . . . . . . | 96 |
| 11 [10](#_bookmark248) | [*LASD YE 2020 Long-term Liabilities*](#_bookmark248). . . . . . . . . . . . . . . . . . . . | 96 |
| 12 [11](#_bookmark249) | [*LASD 2019–20 Multi-Year Projection*](#_bookmark249). . . . . . . . . . . . . . . . . . . . | 97 |

1 Abbreviations

2 **ARUSD** Alum Rock Unified School District

3 **BAN** Bond anticipation note

4 **CAFR** Comprehensive Annual Financial Report

5 **CDE** California Department of Education

6 **CMO** Charter school management organization

7 **COE** County Office of Education

8 **COVID-19** Corona Virus Disease 2019

9 **CPRA** California Public Records Act

10 **CSBA** California School Boards Association

11 **DOE** U.S. Department of Education

12 **EC** Education Code of California law

13 **EMO** Education management organization

14 **FOIA** (federal) Freedom of Information Act

15 **GO bond** General obligation bond

16 **LASD** Los Altos School District

17 **LCAP** Local Control and Accountability Plan

18 **LCFF** Local Control Funding Formula

19 **LEA** Local education agency

20 **SACS** Standardized Account Code Structure

21 **SARC** School Accountability Report Card

22 **SARS-CoV-2** Severe Acute Respiratory Syndrome Corona Virus #2

23 **SCCBOE** Santa Clara County Board of Education

24 **SCCOE** Santa Clara County Office of Education

25 **SCC** Santa Clara County

26 **SEDA** Stanford Educational Data Archive

27 **TPS** Traditional Public School

28 **TRAN** Tax revenue anticipation note

1 Introduction

2 If, in Harold Lasswell’s words, politics is about who gets what, when, and how

3 (Lasswell, [1936),](#_bookmark186) then education is surely one of the most consequential — and

4 fascinating — of public policy issues. At stake is the future well-being of 56.4 million

5 students on whose behalf federal, state, and local governments spend upwards of

6 three quarters of a trillion dollars annually.[1](#_bookmark5) he number of stakeholders is huge: every

7 parent and every child is a stakeholder, as are teachers, administrators, legislators,

8 employees of fifty state departments of education, the federal Department of

9 Education, the President of the United States, the U.S. Supreme Court, and state and

10 local courts. Stakeholders exist throughout the United States, in states, counties,

11 cities, towns, villages, and in almost 100 thousand schools in thousands of school

12 districts. The COVID-19 pandemic of the last 2+ years has revealed just how

13 important public education is to stakeholders.

14 Education is the arena in which parents, legislators, unions, political parties,

15 billionaires, technologists, scholars and educators clash, all vying for influence and

16 reward. Education is where religion, politics, free market neoliberalism, and social

17 justice — all of them beliefs — intersect. One topic in particular has, in the last fifty

18 years, generated a disproportionate share of discord: the privatization of public

19 education, i.e. school choice.[2](#_bookmark6)

20 Formerly sleepy school board elections have attracted national interest, and with

21 that interest, a flood of money. The 2020 Los Angeles school board election cost over

22 $14M for just four seats and generated articles in the national press. Likewise, a

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

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

1 November 2016 statewide proposition in Massachusetts that sought to expand

2 charter schools was covered extensively by national newspapers with one advocacy

3 group spending more than $15M (not including a $425,000 fine for violating

4 campaign law). Betsy DeVos, U.S. Secretary of Education under the twice impeached

5 President Donald Trump, drew fierce criticism from the start of her tenure, criticism

6 which was endlessly reported on. What caused these uproars? Why was so much

7 money spent on these and other elections? The answer is charter schools.

8 Schools and Charter Schools

9 Schools in the United States take three basic forms: the traditional public school

10 (TPS), charter schools, and private schools. Only two states, Nebraska and North

11 Dakota, have resisted all forms of school choice; all have private schools and an

12 extensive public school system. By definition, school choice encompasses charter,

13 private, magnet, and homeschooling, i.e. every kind of school traditional except

14 public schools. But, because school vouchers in particular are becoming more

15 common, school choice now increasingly refers to school vouchers in addition to

16 charter schools (Enlow, [2022).](#_bookmark147) In this dissertation, I will use school choice to refer to

17 charter schools.

18 Schools, under this definition of school choice, take a number of forms: they can,

19 like TPSs be in-person, but unlike TPSs, they can also be online (virtual), or even a

20 blend of the two. How school choice is financed varies as well. School vouchers,

21 education savings accounts, and tax-credit education savings accounts, tax-credit

22 scholarships, individual tax-credits & deductions, have all been used, often

23 augmented by tax dollars. The phrase “school choice” is also associated with 529

24 savings accounts, student income loans, social impact bonds, and

25 philanthrocapitalism.

1 Regardless of how school choice is financed, school choice complicates what used

2 to be a system of mostly public schools plus a few private schools that had been in

3 place for over 150 years. This new kind of financing has raised some fundamental

4 questions: Who benefits from this new financing? Do the children for whom

5 education is the difference between poverty and flourishing benefit? Is education is

6 being turned into a low-risk, profitable investment for hedge funds, private equity

7 firms, investment banks, and the 1%?

8 The various forms of school choice have waxed and waned, but charter schools

9 were present at the creation of the privatization movement in education and have

10 continued to enroll more and more students, diverting more and more dollars out of

11 the public school system (Lafer, [2017a,](#_bookmark181) pp. 131–132; Lafer, [2018,](#_bookmark183) p. 18; Lafer et al., [2021,](#_bookmark184)

12 p. 9). School choice has spawned an entire industry devoted to marketing school

13 choice: academic departments and institutions, educational associations, think

14 tanks, astroturf[3](#_bookmark8) advocacy groups, and political action committees, all of which are

15 examples of the marketing of the privatization of public education.

16 According to the National Center of Education Statistics in the U.S. Department

17 of Education, there were 7,547 elementary and secondary charter schools in the

18 United States enrolling 3,431,230 students in 2019–20 school year (de Brey et al.,

19 [2022,](#_bookmark144) Table 216.90, p.144). This represents 7.7% of the total number of elementary and

20 secondary schools and 6.8% of the total number of students in the United States. The

21 state with the greatest charter school presence was California which had 1,321 schools

22 (12.7% of the total) and 674,652 students (11.0%). Within California, in the 2019–20

23 school year, charter schools in Santa Clara County enrolled 31,584 students (13.6% out

24 of 231,865) (California Department of Education, [n.](#_bookmark128)d.).

3Wordnik definition: “The disguising of an orchestrated campaign as a “grass-roots” event – i.e., a spontaneous upwelling of public opinion.”

1 These are notable patterns, and the COVID-19 pandemic has accelerated the

2 growth of charter schools, in contrast to recent years of slowing growth. This recent

3 growth appears to be almost completely due to the expansion of virtual charter

4 schools (Strauss, [2021).](#_bookmark221) Despite continued growth, charter schools remain

5 controversial and have generated heated debate. Reports and studies from charter

6 school opponents have been answered by reports and studies from charter school

7 advocates. Both sides claim their methodology to be superior and consider the other

8 side’s fatally flawed.[4](#_bookmark9)

9 What the research indicates – again and again – is that *some* charter schools,

10 under *some* circumstances, for *some* students, seem to do *somewhat* better than

11 traditional public schools. (Garcia, [2018,](#_bookmark155) p.119) Charter schools are, on average,

12 unsurprisingly, just average. If charter schools are on average not better than public

13 schools, why are they so fervently touted as the answer to the perceived ills of

14 American public education? Why are eye-popping sums (10× the usual amounts)

15 spent supporting public school board candidates who favor charter schools? Why are

16 charter schools still growing in both enrollment and in number? Is the profit motive

17 is the overriding goal of charter schools, or are they instead driven by a genuine

18 desire to radically improve the educational outcomes of children who could most

19 benefit from a quality education? My goal in this dissertation is to offer some

20 answers to questions like these by looking closely at the finances of a single charter

21 school chain, Rocketship Education.

22 I will use the term *charter school chains* to refer both to for-profit and to non-profit

23 organizations that manage more than one charter school since both take financial

24 control away from the school and centralize outside of schools. Charter school chains

4Jeffery Henig in his book *Spin Cycle: How Research is Used in Policy Debates: The Case of Charter Schools* (J. Henig, [2009),](#_bookmark165) offers a fascinating look at the war of words that resulted from just one report and one newspaper article.

1 are essentially franchise operations like McDonald’s or Hertz, but in education

2 instead of hamburgers or rental cars. For-profit charter school chains have

3 traditionally been called *educational management organizations (EMOs)* and non-profit

4 charter school chains *charter management organizations*, but since there is little

5 difference between the two, I will use *charter school chains* when the distinction is

6 unimportant.

7 The remainder of this chapter provides some context for why I conducted this

8 study. The chapter [*A Review of the Literature*](#_bookmark19) discusses the voluminous literature on

9 charter schools. The following chapter, [*Research Design and Methodology*](#_bookmark64), details what

10 data will be collected, how it will be collected, and how it will be analyzed. The

11 chapter [*Findings and Results*](#_bookmark99) provides the results of analyzing that data in context of

12 this study’s research questions. The last chapter, [*Discussion*](#_bookmark100) considers the public

13 policy implications of my study and its conclusions, and makes some suggestions for

14 how current public policy should be changed to achieve some of the seven goals that

15 the California Legislature set out in *The Charter School Act of 1992*.

16 What is the Purpose of this Study?

17 The goal of this case study is to analyze as carefully and fully as possible the

18 finances of Rocketship Education and associated entities. Is Rocketship profitable?

19 and if it is, how does it generate those profits?a I chose Rocketship Education[5](#_bookmark11) to

20 study because its popularity has led to core aspects of its model being adopted by

21 other charter school chains such as the Caliber Public Schools or the Navigator

22 Schools, both in California. It is an exemplar of a popular charter school and has had

23 an outsized influence on public education in Santa Clara County.

5Rocketship Public Schools is the new name of Rocketship Education, but since it has been known as Rocketship Education for much longer than it has been as Rocketship Public Schools, I’ve chosen to retain the former name. 5

1 Charter schools, Rocketship included, offer themselves as better alternatives to

2 traditional public schools. Rocketship claims that its pedagogical model of blended

3 learning

4 • is more efficient than that of traditional public schools,

5 • offers personalized learning[6](#_bookmark13) through computer-mediated instruction, and

6 • offers a human connection (at least part of the time) that is similar to

7 traditional public schools.

8 These are claims that can be tested in other studies by comparing individual

9 Rocketship schools to independent charter schools and to TPSs in the same district.

10 The Rocketship chain can be compared to other charter school management

11 organizations, to portfolios of charter schools, as well to traditional public school

12 districts, but such studies need to be done with care to avoid methodological errors

13 that would reduce the validity of their conclusions.

14 Many studies have looked at the outcomes of charter schools and charter chains,

15 including one specifically on Rocketship’s effect on Milwaukee’s public schools had

16 proposed legislation passed. But Rocketship’s finances, as a whole, have not been

17 studied in detail.

18 *Research Question*

19 These themes lead to the following research question: Has Rocketship structured

20 itself and its finances, to earn a return to investors, and if so, how?

21 More broadly, there are additional reasons for studying charter school finances.

22 Are we (the states, the federal government) misallocating the money we spend on

6Note 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 charter schools? Could we be spending our tax dollars more wisely? What did

2 taxpayers get for these expenditures?

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

4 of a single charter school chain. There have been studies of the finances of

5 aggregations of charter school chains (e.g.. all known charter school chains in the

6 United States,[7](#_bookmark15) or a selected group of charter school chains). Other studies have

7 looked at the effects of charter schools on segregation or academic achievement, or

8 the financial impact of charter schools on their surrounding public school district.

9 But academic studies of the finances of just a single charter school chain seem to be

10 missing.[8](#_bookmark16) It is hoped that the lessons learned from this case study will be used by

11 policy makers to strengthen charter school law in California and elsewhere in order

12 to increase desired outcomes and to minimize unintended consequences.

13 Theoretical and Conceptual Frameworks

14 According to Grant and Osanloo [(2014),](#_bookmark161) creating and understanding the

15 theoretical framework for one’s dissertation is “one of the most important aspects in

16 the research process.” (p.12) They liken the theoretical framework of a dissertation to

17 the blueprints that define a house. That framework both defines the organization and

18 the structure of a dissertation, as well as what counts as elements and their

19 relationships. A theoretical framework articulates “the researcher’s understanding of

20 how the research problem will best be explored, the specific direction the research

21 will have to take, and the relationship between the different variables in the study.”

22 (Grant & Osanloo, [2014,](#_bookmark161) pp. 16–17)

7See Miron et al. [(2021)](#_bookmark195) for a list of currently known charter school chains.

8I 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 Further, a “conceptual framework offers a logical structure of connected concepts

2 that help provide a picture or visual display of how ideas in a study relate to one

3 another within the theoretical framework” (Grant & Osanloo, [2014,](#_bookmark161) pp. 16–17). This

4 dissertation uses a case study approach as its theoretical framework within a public

5 policy framework, its conceptual framework.

6 *A Case Study Approach as a Practical Framework*

7 Broadly, social science research falls into one of two categories. The research may

8 make many observations with a narrow focus, or may instead adopt a broader focus,

9 but with a correspondingly smaller number of observations. Gerring calls these

10 “large C” or “small C” studies, respectively (Gerring, [2017,](#_bookmark157) p. xvii). Of course, the

11 boundary between large C and small C studies is not sharply defined.

12 Gerring calls small C studies *case studies*. In this dissertation I look at one entity,

13 Rocketship Education, and at only one aspect of Rocketship, its finances. But I look at

14 its finances broadly, examining as many different kinds of financial transactions as

15 are publicly available for the subset of Rocketship schools that are in Santa Clara

16 County. I discuss the elements of what makes a case study a good case study in

17 chapter [5, *Discussion*](#_bookmark100).

18 McCombes [(2019)](#_bookmark193) says that case studies are a “detailed study of a specific subject,

19 such as a person, group, place, event, organization, or phenomenon”. They are ‘good

20 for describing, comparing, evaluating and understanding kdifferent aspects of a

21 research problem” and are “an appropriate research design when it allows you to

22 explore the key characteristics, meanings, and implications of the case.” Two papers

23 go into detail about using the case study approach: Crowe et al. [(2011)](#_bookmark141) and Rashid

24 et al. [(2019).](#_bookmark206) Yin [(2018)](#_bookmark236) provides a detailed methodology for doing case study research

25 well.

1 A case study framework for public policy research is ideal because the theory and

2 practice of case studies is well-known and has been used both for public policy

3 research and in public policy analysis for years. A case study framework formalizes

4 an in-depth examination of a single topic, in this case, Rocketship’s finances.

5 *Public Policy as a Theoretical Framework*

6 A public policy framework provides a rich set of tools and techniques with which

7 to analyze Rocketship’s finances. Three factors support using a public policy

8 framework to guide understanding and evaluating Rocketship’s finances. First,

9 charter school finance is constrained primarily by public policies set by state

10 legislatures, the creators of charter schools. These laws regulate taxes, grants,

11 borrowing capacity, and reporting requirements of charter schools and charter

12 school chains (Aguinaldo et al., [2020),](#_bookmark101) and by definition, whatever falls within the

13 purview of legislators is public policy. Second, Brighouse et al. [(2018),](#_bookmark120) in *Educational*

14 *goods*, provide a succinct definition of what public policy analysis is which matches

15 the purpose of undertaking this case study. They use a values, evidence, and

16 decision-making framework “to make judgments about how well specific policies are

17 likely to realize valued outcomes” (Brighouse et al., [2018,](#_bookmark120) p.1). Last, these three

18 concerns — values, evidence, decision-making — are considered the key concerns by

19 academics and researchers in the public policy field (Bueno de Mesquita, [2016;](#_bookmark122)

20 Clemons & McBeth, [2021;](#_bookmark138) Fowler, [2013;](#_bookmark149) Gupta, [2011).](#_bookmark162) Using a public policy framework

21 is appropriate when examining charter school finances.

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

23 when analyzing issues. Public policy has been studied for years (there are public

24 policy departments in many universities) and it is a mature area of academic

25 research. As in most academic fields, there are fierce debates about the merits and

1 robustness of a particular approach compared to alternatives, but at a high level,

2 what to do is generally agreed upon. Most identify the following five steps (or

3 variants thereof) that are used when creating public policy:

4 1. Define the issues and set the agenda.

5 2. Formulate one or more policies that address the issues identified.

6 3. Evaluate those policies using tools and techniques like cost-benefit analysis,

7 value analysis, political feasibility, game theory, and economic analysis.

8 4. Implement those policies by passing legislation, changing practices, or by

9 using the courts.

10 5. Evaluate the effectiveness of the policy changes.

11 Two keys to identifying alternatives during policy formation and later when

12 evaluating consequences are choosing or creating a model, and forecasting. Models

13 identify what is going to be studied and their relationships, and forecasting is a

14 prediction of the future whose consequences are (hopefully) identified in a model.

15 Page [(2018)](#_bookmark203) lists 26 major models that have been used in science, business, and

16 medicine.

17 This dissertation relies on two excellent guides to public policy: Fowler [(2013),](#_bookmark149)

18 which offers a broad and complete treatment of public policy specifically in the field

19 of education, and Clemons and McBeth [(2021)](#_bookmark138) which offers a number of well-tried

20 tools and techniques useful in analyzing public policy. An additional comprehensive

21 treatment of public policy can be found in Gupta [(2011).](#_bookmark162)

22 This introduction makes the case that public education is important to many

23 stakeholders, but that there is also discord around larger issues like values, ideology,

24 and implementation. Charter schools have been offered as way of disrupting

25 American public education from its hide-bound, archaic, and sclerotic present,

1 driving it, despite opposition, into a dynamic future where education is tailored to

2 each child’s real needs. Establishing whether financial gain plays a key or even a

3 primary role in American educational reform by carefully examining Rocketship’s

4 finances is both timely and important: Rocketship is growing and has served as a

5 model for other charter school chains.

6 The next chapter reviews what other researchers and scholars have said about the

7 origins of charter schools, their history, and their ostensible goals before

8 characterizing first the finances of all public schools in California and then the

9 unique aspects of charter school finance. Finally, it reviews the history of Rocketship

10 Education.

1 A Review of the Literature

2 American public education has – allegedly – been a failure, and hence, in

3 desperate need of reform ever since the idea of free public education took hold in the

4 early 1800s.[9](#_bookmark20) Since then, a succession of educators and reports have documented the

5 abysmal [sic] state of American education. Prior to the Civil War, Horace Mann

6 introduced widely copied reforms (Pulliam & Van Patten, [2007)](#_bookmark205) into a system which

7 was not free, not open to all, and not compulsory. Those schools had hardly changed

8 since the founding of the Boston Latin School on April 23, 1635. In the early 1900s,

9 John Dewey, an educational leader of the Progressive Era (1896–1916) preached

10 reform, but it was not until the publication of *Nation at Risk* in 1983 that the modern

11 zeal for education reform took form. Pulliam and Van Patten [(2007)](#_bookmark205) list 29 major

12 education reform reports from 1982 to 2005. That American public education needed

13 reform was repeated constantly, mainly by conservatives, despite underwhelming

14 evidence of its veracity and substantial evidence to the contrary. Through repetition,

15 the need for reform has become accepted wisdom. The answer to this need was to

16 take the government’s “monopoly in education” (Milton Friedman’s characterization)

17 out of the hands of faceless bureaucrats and subject it to the rigors of free markets

18 which would, it was asserted with scant evidence, increase efficiency, choice, and

19 quality. Thus vouchers and charter schools were legitimized.

20 No amount of research, it seems, can dispel the *idée fixe* that American education

21 is in dire straits, and further, piecemeal changes were simply not enough to make

22 substantive changes. No matter what J. R. Henig [(1994)](#_bookmark166) or Berliner and Biddle [(1997)](#_bookmark113)

23 or Nichols and Berliner [(2007)](#_bookmark200) or Glass [(2008)](#_bookmark159) or Berliner and Glass [(2014)](#_bookmark114) wrote, the

9Wikipedia has an excellent summary article on *Education in the United States* available at

<https://en.wikipedia.org/wiki/Education_in_the_United_States>.

1 idea that American education needed fundamental, pervasive reform persisted;

2 education reform was an evidence-free endeavor.

3 To be clear, it is not the case that every American school is a model for the rest of

4 the world: systematic and persistent, pervasive inequities and injustices abound and

5 have been powerfully written about in Kozol [(1992)](#_bookmark178) and again in Kozol [(2005),](#_bookmark179)

6 Valenzuela [(1999),](#_bookmark226) Heitzeg [(2009),](#_bookmark164) and Roithmayr [(2014).](#_bookmark209) But it is also clear that those

7 schools have been systematically underfunded for decades; their dismal performance

8 is more likely the result of the poverty of their neighborhoods and their lack of

9 funding than it is the other way around. For example, the California School Boards

10 Association’s (CSBA) Education Legal Alliance Adequacy Committee found that there

11 exists a “substantial gap in funding between what K-12 education [in California]

12 receives and what K-12 education needs even to meet the standards prescribed by the

13 state (Bray, [2015,](#_bookmark118) *iii*). B. D. Baker et al. [(2018)](#_bookmark109) in their aptly titled report *The Real Shame*

14 *of the Nation*, develop a *National Education Cost Model* (B. D. Baker et al., [2018)](#_bookmark109) which

15 accounted for regional cost differences as well different funding levels to show that

16 inadequate funding is present throughout the United States. Garcia [(2018)](#_bookmark155) says in

17 *School Choice* that the “existence and importance of the issues that reformers believe

18 plague public education are based as much on tradition and reputation as they are on

19 tangible research evidence” (Garcia, [2018,](#_bookmark155) p. 54). Finally, and tellingly, grossly

20 inadequate funding is a characteristic of communities that are racially segregated

21 and which are not white (Darling-Hammond, [2012;](#_bookmark143) Rothstein, [2017).](#_bookmark212)

22 J. R. Henig [(1994)’s](#_bookmark166) book, *Rethinking school choice*, which came out a mere three

23 years after the passage of the nation’s first state charter school law in Minnesota[10](#_bookmark21)

24 and two years after the second in California[11](#_bookmark22) lays out a key argument against charter

10Laws of Minnesota 1991, chapter 265, article 9, section 3

11Education Code, Title 2, Division 4 Part 26.8, §47600 *et. seq*

1 schools. Henig says, “[T]he real danger in the market-based choice proposals is not

2 that they might allow some students to attend privately run schools at public

3 expense, but that *they will erode the public forums in which decisions with societal*

4 *consequences can democratically be resolved*.” (emphasis added) (J. R. Henig, [1994,](#_bookmark166) *xiii*).

5 Translated this means that the decisions about public education’s form and content

6 are not going to be made by parents and teachers, but by people who do not have a

7 stake in the outcome. It’s a matter of badly misaligned incentives.

8 But even before that, in 1982, Earl Craig, Jr. attached a minority report to

9 *Rebuilding Education to Make It Work* which advocated for vouchers. He says in a

10 paragraph that is as accurate today as it was in 1982:

11 In conclusion, this report is part of a national movement toward

12 privatization of public services and responsibilities. I believe this

13 movement will have the eventual result of a complete retreat by this

14 society from a societal responsibility for the powerless who are difficult

15 or expensive to educate, house, protect, etc. I believe the committee and

16 board majority when they say that they are committed to equal access

17 and equity. They say, trust that we will do the right thing. I do trust

18 them, I do not trust the societal momentum of which vouchers is a part.

19 It is a very destructive wave that has caught up many good people. It

20 scares me to death. (Citizens League, Education Alternatives

21 Committee, [1982,](#_bookmark135) p. 48)

22 The belief that that American schools were in crisis is simply not supported by the

23 evidence. But the idea that American schools are in crisis has been relentlessly

24 promoted, and sheer repetition has turned fiction turned into fact; charter schools

25 then became an idea whose time had come. Charter schools didn’t actually take off

26 until “education reformers across party lines realized that charter school laws could

27 be crafted in ways that made it possible to open nonunion public schools, or even

28 allow public schools to be managed by for-profit companies” (Goldstein, [2015,](#_bookmark160) p. 172).

1 This literature review will first examine charter schools, their origins and the

2 early research, before reviewing the types of charters which exist. Then it looks at the

3 various models of charter schools like virtual charter schools, charters which use

4 blended learning, and charter management organizations before taking a closer look

5 charter schools in Santa Clara County and in Rocketship in particular. It ends with a

6 consideration of the finances of charter schools.

7 A History of Charter Schools

8 Charter schools (privately run, but publicly financed) had an ugly racist origin in

9 the post-*Brown v Board of Education* era as a method of evading the U.S. Supreme

10 Court’s mandate to educate both black and white Americans equally and not

11 separately. Fifty years later, charter schools turned segregation academies into the

12 preferred vehicle for privatizing public schools for profit while maintaining

13 segregation.

14 *The Origins of Charter Schools in Segregation*

15 The first charter schools were not founded for educational or economic reasons.

16 Charter schools had their origin in the aftermath of *“Brown v. Board of Education”*.

17 “[*Brown*] was the genesis of school choice as a public policy mechanism.” (Garcia,

18 [2018,](#_bookmark155) p. 8) In the Deep South, academies sprung up as part of the massive resistance

19 to the U.S. Supreme Court’s unanimous 1954 ruling which answered the question

20 Does segregation of children in public schools solely on the basis of race,

21 even though the physical facilities and other “tangible” factors may be

22 equal, deprive children of the minority group of equal educational

23 opportunities? (Warren, [1954,](#_bookmark233) p. 9)

24 with “We believe that it does.” (p.9)

1 In order to circumvent *Brown*, white parents in eleven states formed thousands of

2 private schools, and until the early 1970’s, these segregation academies received

3 public funds (Rooks, [2017).](#_bookmark210) These origins of charter schools have been amply

4 documented, in Frankenberg et al. [(2010),](#_bookmark150) Frankenberg et al. [(2011),](#_bookmark152) and especially in

5 Suitts [(2019)](#_bookmark222) and Suitts [(2020).](#_bookmark223) Alexander in *The new Jim Crow* quotes Rosenberg [(1991,](#_bookmark211)

6 p. 52) “The statistics from the Southern states are truly amazing. For ten years,

7 1954–1964, virtually *nothing happened*.” [emphasis in (Alexander, [2011,](#_bookmark103) p. 223)] She goes

8 on to say,

9 Not a single black child attended an integrated public grade school in

10 South Carolina, Alabama, or Mississippi as of the 1962–1963 school year.

11 Across the South as a whole, a mere 1 percent of black school children

12 were attending school with whites in 1964—a full decade after *Brown* was

13 decided.

14 In the years after *Brown*, some localities went further than merely forming

15 segregation academies. Prince Edward County in Virginia closed all of its schools for

16 five years rather than integrate. Others closed pools, parks, zoos, and recreational

17 facilities instead of integrating. This deliberate evasion of racial equality continued

18 until a 1968 Supreme Court ruling put a stop to the practice of closing public facilities

19 to avoid integrating them (Brennan, [1968).](#_bookmark119)

20 The irony is that while charter schools started life as 100% white, they now serve

21 intensely segregated students of color. Frankenberg et al. [(2019)](#_bookmark151) noted that

22 Nearly three out of four students in the typical black student’s charter

23 school are also black. This indicates extremely high levels of isolation,

24 particularly given the fact that black students comprise less than

25 one-third of charter students. Latino isolation is also high, but not as

26 severe as for blacks or whites across all charter schools. (p. 47)

1 Unfortunately, these segregation academies still exist, but instead of excluding

2 children of color the way segregation academies did, they disproportionately target

3 and enroll children of color. While these schools are no longer referred to as

4 segregation academies, they make up a sizable subset of charter schools and often

5 include the word “Academy” in their name. In Santa Clara County, for example, 11 out

6 of 21 charter schools authorized by the county currently include “Academy” in their

7 name (SCCOE, [2021).](#_bookmark214)

8 Nikole Hannah-Jones, in her keynote speech at the Network for Public Education’s

9 Fourth Annual Conference, said that it has never been the case that a majority of

10 African-Americans have attended majority white schools (“Keynote at the Network

11 for Public Education’s 4th Annual Conference,” [2017).](#_bookmark176) She then added ruefully, that

12 this was quite a feat considering that African-Americans make up roughly one

13 seventh of the population of the United States. Orfield and Frankenberg note that the

14 percent of African-Americans in majority white schools rose from 0% in 1954 to a peak

15 of 43.5% in 1988 before steadily declining to 23.2% in 2011. (Table 3: Percent of Black

16 Students in Majority White Schools, 1954–2011, Orfield & Frankenberg, [2014,](#_bookmark202) p. 10).

17 Hannah-Jones also commented that American public education doesn’t even live up

18 to the Separate but Equal doctrine espoused in *Plessy v Ferguson* and overturned by

19 *Brown v Board of Education*: Schools are still segregated and are still unequal.

20 Charter Schools, Free Markets and Privatization

21 Just a year after *Brown*, Friedman [(1955)](#_bookmark153) published his article “The Role of

22 Government in Education” in *Economics and the Public Interest* (Friedman, [1955)](#_bookmark153) that

23 reframed charter schools as an economic problem in education instead as a way of

24 evading court-ordered integration. That paper ensured that charter schools would no

25 longer be morally tainted by their association with virulent racism, but rather would

1 take on the honorable task of breaking up what was called a monopoly. Charters,

2 operating in a free market[12](#_bookmark26), would allow parents to choose the best alternative from

3 an array of competing choices. Tellingly left unspecified was exactly how the free

4 market would ensure that the array of competing choices actually offered valuable

5 educational alternatives rather than merely alternatives in different locations.

6 In 1981, Ronald Reagan ran and became President of the United States based on a

7 platform of less government is better government. This platform included

8 eliminating the U.S. Department of Education (“The Republican Party platform of

9 1980,” [1980).](#_bookmark208) True, eliminating the Department of Education is not the same as

10 shutting down an entire school district the way white parents did in 1964, but the

11 thought is there. Haney-López [(2014)](#_bookmark163) expertly dissects how it’s possible to voice racist

12 thoughts without actually using racial words, a practice perfected by President

13 Ronald Reagan (Haney-López, [2014).](#_bookmark163)

14 Now, only liberty and freedom matter, in education, as in other fields. It’s school

15 choice or bust; school choice is proffered not only as *the* panacea for all that ails

16 America’s schools, but is even touted as the morally right thing to do. With trace of

17 irony, the twice impeached President Donald Trump framed school choice as the

18 “civil rights issue of our time” in a garbled statement at the signing of an executive

19 order on Safe Policing for Safe Communities:

20 School choice is the civil rights statement of the year, the decade and

21 probably beyond. Because all children have to have access to quality

22 education. A child’s zip code in America should never determine their

23 future.

24 (as quoted in Lennox, [2020)](#_bookmark188)

12No 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 Education reformers have latched on to the notion that schools need to be

2 privatized and freed from bureaucratic control for reasons of efficiency, increased

3 flexibility, and accountability (Garcia, [2018).](#_bookmark155)This claim is made despite educational

4 management organizations (EMOs) themselves being high overhead, opaque

5 bureaucracies with scant accountability.

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

7 of public education:

8 1. A substantial share of public expenditure intended for the delivery of

9 direct educational services to children is being extracted

10 inadvertently or intentionally for personal or business financial gain,

11 creating substantial inefficiencies;

12 2. Public assets are being unnecessarily transferred to private hands, at

13 public expense, risking the future provision of “public” education;

14 3. Charter school operators are growing highly endogenous,

15 self-serving private entities built on funds derived from lucrative

16 management fees and rent extraction which further compromise the

17 future provision of “public” education; and

18 4. Current disclosure requirements make it unlikely that any related

19 legal violations, ethical concerns, or merely bad policies and practices

20 are not realized until clever investigative reporting, whistleblowers or

21 litigation brings them to light.

22 (B. Baker & Miron, [2015,](#_bookmark105) p. 3)

23 In California at least, these policy concerns have not been addressed in the six years

24 since B. Baker and Miron wrote about them[13](#_bookmark27).

25 Charter schools are now just one of the many forms of *privatization*, when public

26 functions are performed by private parties for profit. Privatization is a manifestation

13Changes 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 of the corporate takeover of the world. More than fifty years ago, Domhoff [(2014)](#_bookmark145)

2 published the first of eight editions of *Who rules America?* in which he argues that

3 corporations and the corporate elite really run the United States, and by extension,

4 the world. Kahn and Minnich [(2005)](#_bookmark171) make much the same point in their book *The fox*

5 *in the henhouse: How privatization threatens democracy* (Kahn & Minnich, [2005).](#_bookmark171) They list

6 “[s]chools, prisons, welfare, Social Security, water and sewer systems, buses, trains,

7 subways, highways, waterways, sanitation systems” (p. 30) as examples of formerly

8 government run functions that are in whole or part privatized. They could have also

9 listed postal mail, space travel, and now every facet of education, as being wholly or

10 partly privatized. Cohen and Mikaelian [(2021)](#_bookmark139) lay out in detail how privatization has

11 infiltrated American life and the consequences of this takeover of public goods by

12 private firms run for profit (Cohen & Mikaelian, [2021).](#_bookmark139) Black in *Schoolhouse Burning*

13 (Black, [2020)](#_bookmark116) focuses on the less tangible but arguably more important consequences

14 of privatization of public schools, the loss of democratic control.

15 Privatizers make money by turning goods or services that used to be publicly

16 available into private goods and services that must be paid for before they can be

17 used. The canonical example of privatization is the enclosure of the commons in

18 Britain in the 16th and 17th centuries whereby land which had previously been owned

19 collectively by a village was now owned by an individual who charged villagers for the

20 privilege of using that land (Simon Fairlie, [2009).](#_bookmark217) But modern privatizers have many

21 more ways of turning a profit. They can:

22 • Obtain tax benefits

23 • Invest in other firms with public monies

24 • Invest in financial instruments with public monies

25 • Obtain a monopoly

26 • Engage in fraud, corruption, or outright theft

1 • Engage in self-dealing

2 • Obtain grants or loans on favorable terms

3 • Sell what doesn’t belong to them

4 • Avoid paying for externalities

5 • Pay below market rates for goods or services

6 • Skew public-private partnerships to create unearned profits

7 • Engage in pay-for-success contracts

8 • Offer social impact bonds

9 Charter school opearators have even more options. They can inflate enrollment,

10 charge excessive management fees, mis-characterize expenses, omit or inaccurately

11 report financial data, fail to open a school or close one soon after receiving a grant,

12 and sell their facilities to investors and lease them back, both at inflated prices. Many

13 charter schools have a long history of duplicitous or fraudulent actions (In the Public

14 Interest, [2018;](#_bookmark170) Burris & Bryant, [2020;](#_bookmark123) B. Baker & Miron, [2015).](#_bookmark105)

15 School choice has been relentlessly marketed and promoted by billionaires who

16 do not send their children to public schools.[14](#_bookmark28) The Walton family, Eli Broad, Bill

17 Gates, the Koch brothers, the Zuckerbergs, and Laurene Jobs, are all on the list of the

18 500 richest people in the world. Their collective wealth exceeds half a trillion dollars,

19 and they are busily engaged using that wealth to fix the very problems that their

20 accumulation of wealth caused. Giridharadas [(2018)](#_bookmark158) whose book, *Winners Take All*: *The*

21 *Elite Charade of Changing the World*, says that it’s a

22 “Trying-to-Solve-the-Problem-with-the-Tools-That-Caused-It” issue (Giridharadas,

23 [2018,](#_bookmark158) p. 142).

24 The effects of billioniaire spending on education cannot be over emphasized. Bill

25 Gates made $2B in grants aimed at creating smaller schools (Gates, [2009,](#_bookmark156) p. 11),

14Ravitch [(2010)](#_bookmark207) lumps these billionaires together, calling them the “Billionaires Boys Club”, an epithet first used in *The Death and Life of the Great American School System*.

1 despite a lack of evidence that they were educationally valuable. The grants were

2 eventually discontinued when the initiative didn’t produce the intended results.

3 Gates was also instrumental in funding and promoting the Common Core State

4 Standards and associated assessments whose premise was that if we only had high

5 enough academic standards, student outcomes would improve, again without

6 evidence that the reforms were educationally valuable.

7 Types of Charter Schools

8 Charter schools can be broadly classified along three axes. The

9 authorizer/oversight axis has to do with what entity approved their charter and who

10 will exercise oversight. The profit/non-profit axis classifies schools by their intent to

11 generate a profit, or not. Lastly, the in-person/blended/virtual axis characterizes

12 pedagogical approach. Are their classes in-person, virtual, or a blend of the two?

13 *Charter School Authorizers and Oversight*

14 Charter schools in California are potentially subject to a three step process to gain

15 authorization to operate. The first step is to submit a petition to the school district in

16 which the charter wishes to reside. This petition must contain a number of required

17 elements, all of which are specified in Education Code §47605(c)(5)(A–O), the

18 so-called “15 Required Elements (A-O elements)” (Aguinaldo et al., [2021,](#_bookmark102) p. 89).

19 Besides some technical details, the petition must contain a description of the

20 charter’s annual goals which must align with state priorities, for all pupils and for

21 various subgroups; how these outcomes are to be measured; how the charter is to

22 achieve a racial and ethnic balance similar to its district, its governance structure, and

23 its finances. All of these elements are captured in *“Charter Petition Evaluation Matrix”*

24 by FCMAT, a document intended to provide a legally sound checklist for authorizers.

1 If a petition contains all the required elements, then the public school district

2 may approve the petition, possibly with additional stipulations. If the public school

3 district denies the charter school’s petition, the charter school may appeal that denial

4 to that County’s Board of Education (CBOE), and if the CBOE denies the charter

5 school’s appeal, under certain circumstances, the charter school may appeal to the

6 State Board of Education (SBE). A denial by the SBE terminates the process, and the

7 charter school is not permitted to open.

8 Public school districts (LEAs, local education agencies, in the parlance of the

9 California Department of Education (CDE)) may authorize one several kinds of

10 charter schools. A district may sponsor a charter school directly, in which case the

11 LEA exercises oversight. These dependent charter schools are authorized by the local

12 public school board and are subject to the board’s jurisdiction. It also is possible for

13 all the schools in a district to convert to charter schools, and then the public school

14 board becomes the charter school board. Table [1, *Attributes of Private, Charter, and*](#_bookmark32)

15 [*Public Schools in California*](#_bookmark32), is a summary of the attributes of the types of schools in

16 California.

17 *Profit-Making Status*

18 Until the 2019–20 school year, charter schools in California could be run directly

19 or indirectly by a profit-making organization. California now prohibits

20 profit-making organizations, either a single school or a charter management

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

22 Even though profit-making charters are banned, there are many ways of getting

23 around this restriction. Charter operators can contract with outside firms to provide

24 all or just some services, and those firms may be profit-making firms. Charter

25 operators are able to lease, buy, or sell their facilities, and those transactions might

**Table 1**

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

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

1 generate a profit. Charter operators can sell their facilities and lease them back from

2 the buyer. This kind of financial transaction converts an illiquid asset (buildings) into

3 a liquid asset, cash, and also generates a revenue stream from the rental income, all

4 of which is ultimately paid for by taxpayers. Charter operators may also charge

5 schools a management fee or an expansion fee. Charter operators are not restricted

6 in the salaries they pay administrators.

7 However, charter school board members in California have recently become

8 subject to the conflict-of-interest laws specified in Government Code §§1090–1099

9 and §§87100–87314 (Becerra & Medeiros, [2018).](#_bookmark111) Generally, government officials are

10 prohibited from benefiting financially from their positions as public servants, but it

11 remains to be seen if these conflict-of-interest laws will prevent profiteering by

12 school board members, administrators, or relatives of either.[15](#_bookmark33)

15The law is necessarily complex. Two useful guides (total: 300 pages) are Chaney et al. [(2010)](#_bookmark134) and Kevin Ennis et al. [(2016).](#_bookmark175) A more general guide to local government ethics is “Understanding the Basics of Public Service Ethics” from California’s Institute for Local Government.

1 *Type of Instruction*

2 Charter schools, unlike almost all public schools, vary in their instructional

3 format. In-person instruction is similar to that in traditional public schools. On the

4 other hand, virtual charter schools have no face-to-face instruction; everything is

5 mediated by some sort of technology, typically, computers running specialized

6 software, paid for by taxpayers. Blended instruction is a mixture of in-person and

7 virtual instruction.

8 Virtual charter schools have been studied extensively by Alex Molnar, Gary Miron

9 and others and at the National Education Policy Center, University of Colorado,

10 Boulder since 2013. (*Virtual Schools in the U.S. 2013*, [2013;](#_bookmark227) *Virtual Schools in the U.S. 2014*,

11 [2014;](#_bookmark228) *Virtual Schools in the U.S. 2015*, [2015;](#_bookmark229) Miron & Gulosino, [2016;](#_bookmark194) *Virtual Schools in the*

12 *U.S. 2017*, [2017;](#_bookmark230) *Full-Time Virtual and Blended Schools: Enrollment, Student Characteristics,*

13 *and Performance*, [2018;](#_bookmark154) *Virtual Schools in the U.S. 2019*, [2019;](#_bookmark231) *Virtual Schools in the U.S.*

14 *2021*, [2021)](#_bookmark232) Their annual reports are depressingly consistent: virtual school not run by

15 a public school district significantly underperform public schools. Their conclusions

16 are echoed by Woodworth et al. [(2015)](#_bookmark235) and Garcia [(2018).](#_bookmark155) Yet, despite being clearly

17 academically inferior to public schools, the number of students attending virtual

18 schools has risen year after year. Their pre-pandemic growth seems to be slowing,

19 but their performance, compared to TSPs, has not measurably improved.[16](#_bookmark35) (*Virtual*

20 *Schools in the U.S. 2019*, [2019,](#_bookmark231) p. 11).

21 Pre-pandemic, charter schools in California were legally deemed

22 classroom-based (e.g. not virtual) if students spent no more than 20% of their time in

16Although *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,](#_bookmark231) p. 117), there is only one study on blended charter schools.

1 front of a computer.[17](#_bookmark37) Blended charter schools, on the other hand, offer some sort of

2 face-to-face interaction with a teacher along with online activity without face-to-face

3 interaction. But they too offer only marginally better educational outcomes than fully

4 virtual charter schools (*Virtual Schools in the U.S. 2019*, [2019,](#_bookmark231) p. 52). Rocketship schools

5 use a blended instructional model.

6 Charter Schools in the United States

7 Charter schools are one of several different kinds of school choice that are or have

8 been available in the United States. Vouchers, private schools, home schooling,

9 educational savings accounts, freedom-of-choice plans, magnet schools, and open

10 enrollment are all forms of school choice. Home schooling accounts for less than 5%

11 of all the students in United States. Private schools enroll about 12% of the total.

12 Magnet school account for a few percent. Roughly, the various form of school choice,

13 including charter schools, account for just under a quarter of all American students.

14 The characteristic that home schooling and private schools share is that they are

15 agnostic about public schools. Not so for charter schools, voucher, and

16 freedom-of-choice plans. Charter schools, voucher programs, parent trigger

17 programs, and freedom-of-choice plans explicitly want to supplant or replace public

18 schools (Garcia, [2018).](#_bookmark155)

19 The first charter schools, other than segregation academies, were founded in

20 Milwaukee, Wisconsin in 1991, followed by California starting in 1993. Conceptually,

21 charter schools were based on an amalgam of ideas from Milton Friedman, Albert

22 Shanker, and Ray Budde. Milton Friedman came at it from an ideological point of

17The 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. 26

1 view couched in economic terms. Albert Shanker, in 1988, in a speech at the National

2 Press Club, proposed that *teachers* in conjunction with *parents* be allowed to form a

3 school *within* a school district. Shanker made no mention of competition, or free

4 markets, or even of charter schools. Shanker’s speech emphasized curriculum and

5 learning, not governance or finance. Ray Budde first thought of charter schools in the

6 early 1970s, but his proposal generated no interest and it was not until 1988 that he

7 published his ideas (Budde, [1988).](#_bookmark121)

8 *Charter Schools in California*

9 Charter schools, in California as elsewhere in the United States, enter into a

10 contract (the charter) with a chartering authority that specifes what they are to do

11 and how, and in return, are exempt from the entirety of California’s Education Code

12 (with the exception of five technical provisions). The California Legislature, when it

13 enacted the *The Charter School Act of 1992*[18](#_bookmark39) (Ed. Code §47600), spelled out its intent in

14 passing that legislation. The Act has been amended many times in its nearly 30 years

15 of existence, but its intent has remained the same. Charter schools should:

16 a) Improve pupil learning.

17 b) Increase learning opportunities for all pupils, with special emphasis on

18 expanded learning experiences for pupils who are identified as academically

19 low achieving.

20 c) Encourage the use of different and innovative teaching methods.

21 d) Create new professional opportunities for teachers, including the

22 opportunity to be responsible for the learning program at the school site.

18Current California law can be accessed at <https://leginfo.legislature.ca.gov/faces/home.xhtml>. California Regulations are at [https://ccr.oal.ca.gov](https://ccr.oal.ca.gov/). California’s Education Code (Ed.Code) is at [https://leginfo.legislature.ca.gov/faces/codesTOCSelected.xhtml?tocCode=EDC&](https://leginfo.legislature.ca.gov/faces/codesTOCSelected.xhtml?tocCode=EDC&tocTitle=%2BEducation%2BCode%2B-%2BEDC) [tocTitle=+Education+Code+-+EDC](https://leginfo.legislature.ca.gov/faces/codesTOCSelected.xhtml?tocCode=EDC&tocTitle=%2BEducation%2BCode%2B-%2BEDC)

1 e) Provide parents and pupils with expanded choices in the types of educational

2 opportunities that are available within the public school system.

3 f) Hold the schools established under this part accountable for meeting

4 measurable pupil outcomes, and provide the schools with a method to change

5 from rule-based to performance-based accountability systems.

6 g) Provide vigorous competition within the public school system to stimulate

7 continual improvements in all public schools.[19](#_bookmark41)

8 It is important to keep these seven goals in mind because charter schools have

9 contractually agreed to meet these goals in return for funding, independently of

10 whatever other goals they explicitly specified in their charter. Note, in particular, that

11 nothing has been said about profitability, and in fact, California enacted a

12 prohibition against for-profit charter schools (Ed. Code §47604 et seq.) in 2018.

13 Surveys of Charter School Research

14 It’s been about 30 years since the first charter school law was passed. In the last

15 decade, researchers have published several surveys of the research on charter

16 schools. The first two decades ( 1990–2010) were somewhat experimental and

17 different enough that the research that came out of that period is less relevant than

18 more recent research. The first survey of the last decade, “Beyond ideological warfare:

19 the maturation of research on charter schools,” is by Smith et al. It is a systematic

20 review of charter school research as it existed in 2011. Smith et al. [(2011)](#_bookmark219) are

21 interested, not so much in the conclusions of the studies they looked at, but how the

22 research was performed, how was it structured, what facets of charter schools were

23 looked at, and what was the subject of the research in order to “separate empirical

19This goal was added in 1998.

1 evidence from politicized conjecture” (p. 460). They reviewed a total of 323

2 peer-reviewed articles and research center reports and found that student and school

3 outcomes were the most commonly studied topics. They noted many studies were

4 unable to generalize their findings because variations in policy between states and

5 localities. Smith et al. also noted that there was a lack of longitudinal studies which is

6 not surprising due to policy variations. Furthermore, they found that “acceptance

7 into a peer reviewed journal does not always ensure that qualitative research adheres

8 to the standards of providing substantiation that findings are credible and

9 trustworthy or that quantitative research provides evidence of the studies’ validity,

10 reliability and generalizability.” (p.466) Finally, the authors noted that many studies

11 could not draw causal connections. They conclude that more research is needed.

12 Four years later, Berends [(2015)](#_bookmark112) chose as his focus the various theories that

13 researchers used when looking at the social organization of charter schools. In

14 “Sociology and School Choice,” Berends [(2015),](#_bookmark112) found, like Smith et al., that most

15 studies concentrated on student achievement and neglected educational attainment

16 such as high school graduation, college admission, and the granting of a degree. He

17 notes that “the effects of charter schools on student achievement are mixed (some

18 positive, some negative and some neutral)” (p. 170) Berends thinks the context in

19 which charter schools operate is important in order to understand the magnitude of

20 any effects and to understand what we can expect from school reform. He identifies

21 longer school days, a focus on achievement, behavioral policies, teacher coaching and

22 feedback, and data-based decision-making as characteristics most often associated

23 with effective charter schools. Lastly he looks at innovation and distinguishes

24 between curriculum and class-room based changes, and organizational changes and

25 finds that charter schools mostly innovate on the structural side rather than the

26 academic side. He concludes that more research is needed.

1 Next, Epple et al. [(2016),](#_bookmark148) in *Charter schools*, did much the same as Berends, but

2 concentrated on the technical aspects of study design (Epple et al., [2016).](#_bookmark148) They

3 observed that which the research question being answered by a particular study was

4 often much narrower or significantly different than the research question authors set

5 out to answer or thought they were answering. The heart of their review is an

6 analysis of “the methodological challenges in evaluating charter effectiveness” (p.141),

7 and the strength and weaknesses of the various approaches that have been used.

8 They find that researchers used one of five statistical methods: lottery-based design,

9 fixed-effect approaches, matching procedures, ordinary least squares (OLS)

10 regression, and instrumental variable approaches (p. 165), and they evaluate each

11 approach. Epple et al. also discuss the much scrutinized virtual control record

12 method of matching charter school students to public school students that came out

13 of Stanford’s Center for Research on Education Outcomes (CREDO) which was

14 criticized on purely statistical grounds in Andrea Gabor [(2015).](#_bookmark104) Epple et al. concluded

15 that more research is needed.

16 In 2015 and then updated in 2018, Public Agenda released a guide to charter

17 school research for non-academics, a review of current charter school research that

18 was written in a way that is accessible to the public. The chapter on finance focused

19 on four questions related to how charter schools are funded, comparisons between

20 per pupil funding between charter and traditional schools, financial effects on

21 traditional public schools, and differential spending patterns between traditional

22 public and charter schools (Public Agenda, [2018,](#_bookmark204) pp. 78–89).

23 The finance chapter must have been a difficult chapter to write because the 48

24 states with school choice programs have 48 different methods of funding public

25 schools and charter schools. In addition, each state has likely gone through several

26 iterations of models of charter school funding, and this lack of commonality prevents

1 researchers from conducting valid longitudinal studies.

2 Their answer to their first question is to point to compilations of state funding.

3 Their answer to the second question is yes, and in some cases, by 40% to nearly 60%

4 less. Their take on whether it matters is hedged because studies differ in their

5 conclusions for a variety of reasons. Not mentioned is B. D. Baker [(2018)](#_bookmark106) which

6 emphatically says that money does matter, perhaps because it was published after

7 *Charter Schools in Perspective: A Guide to Research* was. They answer their third question

8 with an unambiguous yes. More recent research, Lafer [(2018),](#_bookmark183) B. D. Baker [(2019),](#_bookmark107) and

9 Miron et al. [(2021)](#_bookmark195) validates their conclusion. Finally, they conclude that charter

10 schools do spend their revenues differently, in part because spend more on

11 administration than public schools do and sometimes more on facilities. The authors

12 conclude that more research is needed.

13 The last of the four academic surveys, Zimmer et al. [(2019),](#_bookmark238) considered who was

14 served, racial segregation effects, both academic and non-academic outcomes,

15 management structure, and financial effects of charter schools. Since Zimmer is a

16 co-author of both this survey and of the previously cited Epple et al. [(2016),](#_bookmark148) the kinds

17 of study designs analyzed are similar. Zimmer et al. intend to synthesize “the best

18 research to inform the debate [about the value of charter schools]” (p. 2). They go

19 beyond the 2016 study and survey studies on racial segregation, cream skimming[20](#_bookmark42),

20 and student pushout[21](#_bookmark43). They conclude that charter schools lead to greater segregation

21 for African Americans, but not necessarily for whites or Hispanics. They find that

22 charter schools do engage in sometimes subtle forms of cream skimming and

23 student pushout. After summarizing three different kinds of research (fixed effects,

24 lottery-based, and match and other regression), they turn their attention to research

20selecting the best students from TPSs

21pushing out their lowest performing students

1 on non-cognitive outcomes. Their penultimate chapter looks at research on indirect

2 effects. They conclude in their last chapter that more research is needed.

3 Although Garcia [(2018)](#_bookmark155) is not explicitly a survey of the existing literature, Garcia

4 [(2018),](#_bookmark155) in Chapter 3 (pp. 91–146), contains much material on the research evidence

5 which guides (or should guide) school choice policies. His goal is to present general

6 trends that “reflect the weight of the evidence” (p. 93). The weight of the evidence,

7 Garcia finds the research points to the conclusions that “school choice policies are

8 more likely to separate, rather than integrate, students from different racial/ethnic

9 and socioeconomic backgrounds” (pp. 159–60), “how countries and states structure

10 school choice policies can have a profound impact on how school choice functions at

11 a practical level” (p. 160), “low-income students face obstacles to participating in

12 school choice plans” (p. 161), lastly, “one should expect student achievement gains

13 under school choice plans to be modest at best and inconsistent across subjects and

14 years” (p. 161), and “a major reason for the inability of school choice to have an impact

15 on the academic core of schools—teaching and learning—is that school choice came

16 of age at the same time as high-stakes accountability policies that encourage

17 standardization” (p. 162)

18 Garcia makes a point that hasn’t been made before: Since both public schools and

19 charter schools are measured the same way (standardized tests), “the incentives to

20 implement innovative pedagogical strategies are curtailed because the methods by

21 which students are able to demonstrate their learning are uniform across all schools

22 and restricted to the format of the tests.” (p. 163) He does not conclude that more

23 research is needed, but instead predicts that school choice in its many forms will

24 continue to expand.

25 *Research on Charter School Finances*

1 Charter schools have been much studied, and the last decade has produced a

2 number of reports examining charter school finances based on carefully collected

3 evidence. For example, in 2014, Lafer [(2014),](#_bookmark180) now at In the Public Interest, published

4 an analysis of a proposed law in Milwaukee, WI (Lafer, [2014)](#_bookmark180) that was specifically

5 tailored to benefit a to-be-opened Rocketship school. Lafer went on to author two

6 other studies on charter schools, public policy, and finance: *Spending blind: the failure*

7 *of policy planning in california charter school funding* and *Breaking point: The cost of charter*

8 *schools for public school districts*. Carol Burris, Executive Director of the Network for

9 Public Education, and several co-authors have produced three reports on charter

10 schools: Burris and Pfleger [(2020),](#_bookmark126) Burris and Bryant [(2020),](#_bookmark123) and Burris and

11 Cimarusti [(2021).](#_bookmark124) The National Education Policy Center is a research center based at

12 the University of Colorado, Boulder, with over 150 scholars and academics from

13 institutions across the U.S. whose goal is “to produce and disseminate high-quality,

14 peer-reviewed research to inform education policy discussions” (“National Education

15 Policy Center,” [n.](#_bookmark198)d.). The NEPC has produced hundreds of reviews of research, policy

16 and legislative briefs, some of which are annual surveys of charter schools. The series

17 on profiles of EMOs have been produced annually for fifteen years; the series on

18 virtual charter schools, for ten years.

19 Bruce Baker’s contributions to the NEPC are especially noteworthy. He is an

20 author or co-author of 28 reviews of reports, studies, or articles on school finance, in

21 addition to six policy, legislative, or research briefs. Baker co-wrote with Gary Miron

22 *The business of charter schooling: Understanding the policies that charter operators use for*

23 *financial benefit.* B. Baker and Miron [(2015)](#_bookmark105) which introduces many of the tools and

24 techniques for evaluating how charter schools operate for profit. It will serve as a key

25 resource for this dissertation.

26 Lafer [(2017b)’s](#_bookmark182) report, *Spending blind: the failure of policy planning in california charter*

1 *school funding* is particularly scathing. He says, “Any time there is a low bar of entry for

2 firms seeking to access government funds, one can expect to find corruption, and the

3 charter industry is no exception.” (p.18) But even absent corruption, there is ample

4 opportunity to make lots of money. Lafer documents $2.5B of Californian taxpayer

5 money spent over fifteen years on charter school facilities, in many cases where there

6 is no documented educational need and where the charter school is of lower quality

7 that nearby public schools. Lafer says, “It’s as if legislators turned on a faucet of

8 money and then just walked away.” (p.12) It is saddening that in the four years since

9 Lafer’s report came out, nothing has fundamentally changed.

10 Rocketship

11 Rocketship is well-known in the charter school world. It even has been the subject

12 of a “biography”, *On the rocketship* (Whitmire, [2014).](#_bookmark234)[22](#_bookmark46). Rocketship’s leaders and

13 supporters routinely describe it as “high performing”, “deserving of huge credit”,

14 “dynamic”, and “nationally lauded”. Rocketship schools, it is claimed, outperform

15 some of the best public schools in the country. Rocketship “believe[s] that every

16 student deserves the right to dream, to discover, and to develop their own unique

17 talent”. Rocketship, charter school advocates, and privatizers excel at choosing

18 names and tag lines that are impossible to argue against.

19 Rocketship is one of the largest non-profit blended charter school management

20 organization in the United States. They operate 21 schools in three states and

21 Washington, D.C.; thirteen in California, three in both Nashville, TN and

22 Washington, D.C., and two in Milwaukee, WI. In Santa Clara County, CA, they have

23 eight TK-5 elementary schools authorized by the county that served 4,254 students in

22Just two other charter schools share this distinction: Geoffrey Canada’s Harlem Children’s Zone (Tough, [2009)](#_bookmark225) and the KIPP schools (Mathews, [2009;](#_bookmark192) Horn, [2016)](#_bookmark169)

1 the 2019–20 school year plus 1240 students in two district authorized schools, for a

2 total of 5494 students.

3 *Founders and Supporters*

4 Rocketship was founded by John Danner, Don Shalvey, Jennifer Andaluz, and Eric

5 Resnick in 2007. Danner had significant teaching experience (Nashville, TN public

6 schools) prior to Rocketship, as did Shalvey (Aspire Public Schools) and Andaluz

7 (Downtown College Prep). Resnick, the fourth member of the founding group was a

8 hedge fund manager who had a “a deep understanding of financial management and

9 real estate transactions” (Danner, [2006,](#_bookmark142) p. 13). The inclusion of Resnick, an expert in

10 real estate transactions, at the very beginning of Rocketship, is interesting because

11 one of the preferred ways for charter school investors and founders to generate

12 profits is via real estate deals. John Danner eventually left Rocketship in 2013 to found

13 Zeal, an online math tutoring tool, and was replaced by Preston Smith who became

14 CEO.

15 Not mentioned in the first charter petition, nor in the Articles of Incorporation of

16 Rocketship Education, the owners of the first Rocketship school, were Preston Smith,

17 Matt Hammer, and Reed Hastings, CEO of Netflix. Smith became the first principal

18 of the Rocketship’s first school, Mateo Sheedy, and was subsequently listed as a

19 Rocketship co-founder in the charter petition for Rocketship’s second school.

20 Hammer brought Danner and Smith together, and has relentlessly promoted charter

21 schools through his advocacy non-profit, Innovate Public Schools.[23](#_bookmark48) Hastings

22 proselytized Rocketship to the larger charter school community and when he

23 promised Rocketship $250K for each of the first eight Rocketship schools they opened

23<https://innovateschools.org/>

1 his donation caught the attention of philanthropic venture funds (Whitmire, [2014,](#_bookmark234)

2 p. 50).

3 *Rocketship History*

4 The first Rocketship school, Mateo Sheedy, opened in Santa Clara County in 2007.

5 Rocketship’s initial petition to the San José Unified School District was denied, so

6 they appealed to the Santa Clara County Board of Education, which granted their

7 petition. Over the years, Rocketship opened ten schools in Santa Clara County. Of

8 those ten, only two were authorized by a public school district. The remainder were

9 either countywide charters or charter schools whose petitions were denied by the

10 local public school district, but subsequently approved by the Santa Clara County

11 Board of Education. Table [2, *Rocketship Schools in Santa Clara County, California*](#_bookmark51), lists

12 the eleven Rocketship schools that were approved and the ten that opened. Note that

13 only two were approved by the school district in which there were expected to locate.

14 This lopsided result suggests that current charter school laws are tilted in favor of

15 charter schools.

16 Rocketship Finances

17 Charter schools have a number of unique financial needs. They need startup

18 funds, operating funds, and often funds to expand, funds that public schools do

19 without. Rocketship is no exception. The *operation* of charter schools are funded by

20 federal, state, and local governments, but funding *expansion* may or may not be

21 funded with tax dollars, depending on the laws of a particular state. The difference

22 between what’s funded at taxpayer expense and what’s not must somehow be funded

23 with outside money. Startup money is needed for facilities, desks and chairs, teacher

24 and administrator salaries, legal fees, curriculum materials, etc.,all of this before

**Table 2**

*Rocketship Schools in Santa Clara County, California*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| School | Type | Opened | Renewed | Notes |
| Mateo Sheedy | District appeal | 2007 | 2009,2015 | Denied by SJUSD, |
| Sí Si Puede | District appeal | 2009 | 2011, 2017 | approved by SCCOE  Denied by ARUSD, |
| Los Sueños | Countywide | 2010 | 2015 | approved by SCCOE  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, |
| Fuerza | Countywide | 2014 | 2018 | approved by SCCOE, but withdrawn 2015  SCCOE countywide charter |
| Rising Stars | District appeal | 2016 | 2021 | Denied by FMSD, |
|  |  |  |  | approved by SCCOE |

1 even one student registers. Startup facilities cost vary widely. If the charter school

2 chooses to use public school district facilities under Proposition 39[24](#_bookmark52), their need for

3 funds will be less. Regulations drawn up by the State Board of Education further

4 define the phrase “sufficient to accommodate the charter school’s students”

5 (California Code of Regulations, Title 5, §11969.), then startup facilities cost might be

6 small; if they choose not to avail themselves of Proposition 39, then startup facilities

7 costs might involve the purchase of land and the construction of school buildings, or

8 might just involve lease payments. But since state funding is tied to attendance,

9 some startup funding is necessary. Thus the federal government provides grants,

10 administered by the states, for this purpose.

24Proposition 39, passed by California voters in November 2000, contains a provision that requires public school districts to provide charter schools facilities “sufficient to accommodate the charter school’s students” (Secretary of State, California, [2000,](#_bookmark216) pp. 38—41) (Smaller Classes, Safer Schools and Financial Accountability Act, [2000)](#_bookmark218)

1 Rocketship has indicated from the beginning its intent to expand. In 2009,

2 Rocketship announced plans to open six new schools (Cook, [2009).](#_bookmark140) It submitted a

3 petition to Santa Clara County to open countywide charters and within three years

4 had actually opened four. Like many other CMOs and EMOs, Rocketship must

5 expand in order to increase revenue enough to be worth the while of investors. A

6 single school’s profit is not enough to satisfy investors, but by using economies of

7 scale, a “portfolio” of charter schools might suffice. A portfolio of charter schools is a

8 collection of schools – almost always charter schools – managed as a whole.

9 The idea of a portfolio of schools comes from finance where a carefully chosen

10 portfolio of investments can have lower collective risk for a given level of return than

11 a mere collection of individual investments. (See “Markowitz model,” [2021,](#_bookmark191) for an

12 overview of the mathematics of modern portfolio theory). Hill et al. claim to have

13 invented the term *portfolio school district* (Hill et al., [2009,](#_bookmark168) p. 1) and with it a strategy to

14 implement such a district. Just a year later, J. R. Henig et al. define portfolio strategy

15 for schools as

16 …a loosely coupled conglomeration of ideas held together by the

17 metaphor of a well-managed stock portfolio and its proponents’

18 *unshakable belief* that the first step for successful reform must be to

19 dismantle the bureaucratic and political institutions that have built up

20 around the status quo. [emphasis added] (J. R. Henig et al., [2010)](#_bookmark167)

21 Hill et al. acknowledge, in dry, understated language, that overcoming the

22 objections and criticisms of educators and scholars to their unshakable belief will be

23 difficult: “It is hard to imagine that a portfolio strategy could be introduced into a

24 major city without significant conflict.” Portfolio strategy is most often associated

25 with Paul Hill and The Center for Reinventing Public Education, which is now located

26 at the Mary Lou Fulton Teachers College at Arizona State University.

1 *Rocketship Expansion Funding*

2 California, startup charter school funding has waxed and waned, in part because

3 federal funding has varied. Currently, the U.S. Department of Education provides

4 startup funds to states under the Charter Schools Program State Educational Agency

5 (SEA) grant program[25](#_bookmark54). The federal charter school funding programs are listed in

6 National Charter School Resource Center [(2020).](#_bookmark197) *The federal charter schools program:*

7 *2020 annual report* notes that

8 At the core of the Charter Schools Program are the Grants to State

9 Entities (SE Grants). The State Entity program offers competitive grants

10 to states, which then make subgrants within their states to *open new*

11 *charter schools and replicate or expand existing charter schools*. [emphasis

12 added]

13 (National Alliance for Public Charter Schools, [2020)](#_bookmark196)

14 Funds like the New School Venture Fund[26](#_bookmark55) and the Charter School Growth Fund I

15 & II[27](#_bookmark56) exist to fund the development and expansion of charter schools and charter

16 management organizations. In 2007, when Rocketship Mateo Sheedy was started,

17 Rocketship used lines of credit and loans to fund its beginning (Danner, [2006,](#_bookmark142) p. 260).

18 Now, charter schools have many more options for funding startup or operations.

19 Charters have at least three other sources of facilities funding: bonds, tax credits

20 and foundation or individual contributions. Betsy DeVos, who served as Secretary of

21 Education for Donald Trump, has donated $12.6M to Rocketship. Reed Hasting, a

22 founder and now CEO Netflix has donated more than $2M. In addition, charter

23 schools can avail themselves of the New Market Tax Credit if they meet certain

25<https://www2.ed.gov/about/offices/list/oii/csp/funding.html> 26<https://www.newschools.org/> 27<https://chartergrowthfund.org/>

1 investment criteria, and if they do, they can get back 39% of their investment in tax

2 credits in seven years. If their investment returns, say, 20%, then combined, they are

3 looking at nearly a 60% return on their investment. A sixty percent return is fantastic.

4 Charter schools and charter school operators can also issue revenue bonds. Revenue

5 bonds are guaranteed by a revenue stream instead of by property tax revenues the

6 way general obligation bonds are. Note that both are tax-exempt. As of 2015, charter

7 schools issued over $11B in revenue bonds according to Clark-Herrera et al. [(2019).](#_bookmark137)

8 *Rocketship Expansion Difficulties*

9 In 2014, the Santa Clara County Office of Education and Rocketship were sued by

10 four Santa Clara County public school districts: Alum Rock, Mount Pleasant,

11 Franklin-McKinley and Evergreen. At issue was the SCCOE’s bulk authorization of

12 twenty countywide Rocketship charter schools. Sixteen months, 17,500 pages of

13 evidence, and an estimated $435,000 later, Rocketship, the public school districts,

14 and Santa Clara County settled (Noguchi, [2015).](#_bookmark201) As part of the settlement, Rocketship

15 agreed to withdraw 13 of the 20 countywide charters thus far authorized. Since one

16 of the remaining countywide charter had already been withdrawn, that left six

17 potential charters still authorized but as of yet, unopened. So far, it appears that

18 Rocketship has attempted to expand in locations beyond Santa Clara County: San

19 Pablo[28](#_bookmark59) and Concord in California, Nashville in Tennessee, Milwaukee in Wisconsin,

20 Washington, D.C. and Fort Worth in Texas.

21 *Charter School Accountability*

22 In California, all K–12 schools, including privately managed charter schools like

23 Rocketship, must submit annual budgets, Comprehensive Annual Financial Reports

28unsuccessfully

1 (CAFR), and since 2014, Local Control and Accountability Plans (LCAP). LCAPs are

2 three year plans updated in years two and three and which in detail how a school will

3 use its funds to address state priorities, and to improve educational outcomes for

4 foster youth, English learners, and low-income students, along with the metrics

5 which will be used to show progress (Aguinaldo et al., [2021,](#_bookmark102) pp. 66–84). These

6 characteristics make LCAPs particularly interesting from both a financial point of

7 view and from an educational point of view.

8 Rocketship and Privatization

9 Some contend that the central purpose of charter schools is to disguise a

10 money-making operation (Saltman, [2018).](#_bookmark213) Whitmire, who now sits on the board of

11 Rocketship Education and who in 2014 published *On the rocketship*, makes note of the

12 role that private venture funds played in Rocketship financing (Whitmire, [2014,](#_bookmark234)

13 pp. 25, 65), and it is instructive to remember that private, for-profit venture funds

14 exist to make money. True, they often are “double bottom line” grantors (Clark et al.,

15 [2004).](#_bookmark136) As Ball (cited in Tewksbury [(2016,](#_bookmark224) p. 75)) makes clear

16 … particularly with the added case of Rocketship, a blended learning

17 chain of charter schools, is that the NSVF [New Schools Venture Fund] is

18 using its clout to further blur the lines between for-profit and nonprofit

19 educational projects and organizations, thus smoothing the groves

20 [grooves?] for marketizing educational policy and practices. Ball (2012)

21 makes the connections and rationalities clear: “Symbolically,

22 philanthropy provides an ‘acceptable’ alternative to the state in terms of

23 its moral legitimacy. It has also provided a kind of rehabilitation for the

24 form of capital hat were subject of ‘ill repute’ in the public imagination.

25 Strategically, philanthropy has provided a “Trojan horse” for the

26 modernizing move that opened the ‘policy door’ to new actor and new

27 ideas and sensibilities.” (Ball, [2012,](#_bookmark110) p. 32)

1 Privatizers use investment banks, hedge funds, and private equity firms as their

2 vehicle for investing (Stowell, [2018).](#_bookmark220) These investment vehicles are called *alternative*

3 *investments*, in contrast to *traditional investments* like stocks and bonds. Investment

4 banks provide the financial expertise that hedge funds and private equity firms need.

5 *Privatization*

6 Charter CMOs and EMOs appear to be following the lead of prison and health

7 care privatizers. They lobby legislators intensively. They position themselves as being

8 more efficient than the “wasteful” public sector, and they claim to to be able to do

9 better that public schools, prisons or hospitals at a lower cost. Since charter schools

10 have positioned themselves as being in competition with TPSs, they need to do at

11 least as well as TPSs, or failing that, appear to do so. This calls for creative marketing,

12 and so to that end, pro-charter advocacy organizations, some university-affiliated

13 institutions and some think tanks have been harnessed to churn out pro-charter puff

14 pieces that are regularly debunked.[29](#_bookmark62) Evidently even creative marketing is not

15 enough to prod the free market to supply the educational choice that charter school

16 advocates feel is necessary, so pro-choice advocacy organizations also lobby state

17 representatives and fund pro-charter board candidates.

18 Charter school marketing is extensive. Organizations like The 74 Million, a

19 reference to the 74 million children in America, or Innovate Public Schools, an

20 advocacy organization, produce reports, news items, briefs and what claims to be

21 research that is slanted toward charter schools and away from public schools,

29The National Educational Policy Center ([https://nepc.colorado.edu](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 teachers, unions, school boards, and anything and anyone who doesn’t buy into the

2 notion that American education is in desperate need of reform. One technique that is

3 used is to fund media outlets to write allegedly unbiased and non-partisan articles

4 and blog postings that promote “successes” while dismissing any harm that charter

5 schools might cause.

6 These influence techniques are reminiscent of how OxyContin was marketed by

7 the Sackler family, which is not surprising since Jonathan Sackler, now deceased,

8 founded or funded charter advocacy groups like 50CAN, ConnCAN, Families for

9 Excellent Schools, the Northeast Charter School Network, Education Reform Now,

10 Partnership for Educational Justice, and The 74 Million. Dubb [(2017)](#_bookmark146) describes the

11 similarities in marketing strategies used to sell oxycontin and those used to promote

12 charter schools, where the focus of all communications was to highlight benefits

13 while ignoring or erasing harms. While this is the standard playbook of corporate

14 marketing, we now have public education dollars being spent on such tactics. When a

15 national exposé published by National Public Radio (NPR) documented serious

16 concerns about Rocketship’s practices, The 74 Million immediately published an *ad*

17 *hominem* attack accusing the NPR reporting to have been a “hit piece” on the charter

18 network instead of responding with reasonable and reasoned arguments.

19 Unlike many other forms of privatization, charter schools have competition.

20 When a local government turns over the task of supplying water to a town, for

21 example, there is not another, public water company serving the same customers to

22 serve as a comparison. Privatization is often an all-or-nothing proposition. Charter

23 schools, on the other hand, can be and are often compared to the public schools in the

24 same school district. The presence of very visible competition has an interesting

25 consequence: charter schools view public schools as an existential threat, precisely

26 the opposite of the cooperative, synergistic relationship that state legislators

1 envisioned. In fact, the sharing of innovations appears so infrequently that it might

2 as well be completely absent.

3 Given that charter schools in California get the same per pupil funding as do

4 public schools, there are a limited number of ways that charter schools can generate

5 “excess” funds. They can lower operating costs. They can tap into state or federal

6 facilities grants. They can collect and sell student data. They can contract out to a

7 for-profit management company. They buy technology from business partners. In all

8 these cases, the net result is always the same: money flows out of the public school

9 system into private hands.

10 Charter schools employ fewer and less experienced teachers than public schools

11 do. A teacher with 10 or 20 years of experience can easily command a salary that is

12 twice that of a newly minted teacher. Rocketship has a student-to-teacher ration

13 that’s as high as 36:1 (SCCOE, [2021,](#_bookmark214) pp. 23–30). The combination of fewer and less

14 expensive teachers can reduce the cost of teacher salaries to one-third of what public

15 schools pay for teachers. This reduction is significant because teacher salaries

16 typically account for from one-third to three-quarters of the total expense of running

17 a school. Charter schools that employ a blended pedagogy can further reduce the cost

18 of salaries, with virtual schools dispensing entirely with teachers, effectively

19 reducing the single largest component of running a school to zero.

20 Philanthrocapitalism

21 Philanthrocapitalism is the term used to describe the approach to philanthropy

22 that prioritizes operating non-profits as businesses, i.e. making money while “doing

23 good”. The epigraph to Giridharadas’s book *Winners Take All* is a quote taken from Leo

24 Tolstoy’s *Writings on Civil Disobedience and Nonviolence* which captures the absurdity of

25 making money while “doing good”:

1 I sit on a man’s back choking him and making him carry me, and yet

2 assure myself and others that I am sorry for him and wish to lighten is

3 load by all means possible … except by getting off his back.

4 For philanthrocapitalists, the techniques and vehicles used to extract a profit

5 from public education are impressive. Saltman [(2018)](#_bookmark213) lists the following in *The swindle*

6 *of innovative educational finance* (pp.*xii*–*xiii*):

7 • social impact bonds,

8 • higher education lending and student income loans,

9 • charter school real estate, tax credit, and municipal schemes, and

10 • philanthrocapitalist educational technology schemes.

11 Marachi and Carpenter [(2020),](#_bookmark190) Burris and Cimarusti [(2021),](#_bookmark124) Scott [(2009),](#_bookmark215) B. Baker

12 and Miron [(2015)](#_bookmark105) all make the same point: education has been captured by big

13 business, profits are hidden, and the profits are substantial.

1 Research Design and Methodology

2 This dissertation is an *exploratory*, *case study* using a *public policy* lens to examine

3 the *finances* of Rocketship Education. Exploratory means that the precise data that

4 will be collected and the precise methods used to analyze those data are not fully

5 known in advance and will depend on this study’s findings as the inquiry evolves.

6 Case studies are in-depth examinations of a single topic that are limited in space or

7 time. Public policy is the set of rules, laws, regulations, and mores that affect the

8 actions of an element of society. It is “the decisions, measures, programmes,

9 strategies and courses of action adopted by the government or the legislative body”

10 (Knill & Tosun, [2020,](#_bookmark177) p. 3). Public policy mandates and constrains Rocketship

11 Education’s actions and how it structures its finances to meet its goals. Finance, as it

12 pertains to Rocketship Education, encompasses all transactions of monetary value

13 which involve the legal entity called Rocketship Education, its principals and

14 executives, and other entities with which it has significant relationships. Not only are

15 the finances of Rocketship itself included in this definition, but also those of its

16 founders who, perhaps went on to found companies that sold software to Rocketship,

17 and also any entities focused on real property from whom Rocketship might have

18 bought, leased, or sold real property. Included as well are financing transactions like

19 bonds, tax credits, loans, and grants.

20 The next section, [*Process Overview*](#_bookmark66), describes at a very high level the four steps of

21 inquiry this dissertation will follow. Since understanding how schools are financed is

22 essential to understanding Rocketship’s finances, the next section, [*An Overview of*](#_bookmark67)

23 [*California School Financing*](#_bookmark67), will give an overview of school financing in California by

24 describing the normal, common financial disclosures and reports made by all

25 districts and schools, including charter schools. It is important to remember that

26 budgets reflect the future, and audits reflect the past. Budgets are estimates,

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

2 In order to make what’s being analyzed more concrete, Appendix [A, *School*](#_bookmark239)

3 [*Financing in California*](#_bookmark239) contains some example tables drawn from the Los Altos School

4 District (LASD) for the 2019–20 school year. These are standard financial reports

5 taken from the school’s SACS data, but presented in a way that is both visually

6 appealing and informative.[30](#_bookmark65) The high level view is given in Figure [5, *LASD 2019–20 All*](#_bookmark241)

7 [*Funds Summary*](#_bookmark241). That view is further broken down in five more tables. The last table is

8 a projection of LASD’s of financial numbers for the current year (2018–19), the year

9 whose budget is being presented (2019–20), and five years into the future. The first

10 half of the table contains the assumptions used to generate the amounts in the

11 second half.

12 Once the overall financing landscape has been described, the study can start to

13 analyze actual data from Rocketship. There are three such groups of data: petitions,

14 financial reports, and other data. Each will be covered in the third section, [*Charter*](#_bookmark74)

15 [*School Financing*](#_bookmark74) of this chapter.

16 Once all the data have been gathered, the analyses can begin. The first such

17 analysis is of profits that do no accrue to Rocketship itself, but rather to associated

18 entities. They are covered in section [*Indirect Profits*](#_bookmark86).

19 The fifth section, [*Are There Gaps or Anomalies in the Data?*](#_bookmark87), discusses how potential

20 gaps or anomalies in the financial data might be discovered. This is where

21 triangulation can be used to cross-check the validity of that data. Does everything

22 add up? Are there important, missing documents? How much do these gaps or

23 anomalies matter? Are the oddities long-standing or fleeting? Examples of

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

1 triangulation might be comparing Rocketship’s LCAPs to their budget, or comparing

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

3 Lastly, the sixth section, [*What About the Flow of Money Through Rocketship?*](#_bookmark95),

4 describes how this dissertation will study the flow of money in and out of Rocketship.

5 Until now, this study has treated Rocketship’s finances statically, i.e. at points in time.

6 Just as important are the dynamic flows of money. Where do they come from, and

7 where do they go?

8 Process Overview

9 Explaining the finances of Rocketship Education is the heart of this dissertation.

10 Where do Rocketship’s revenues come from? Where are they spending that revenue?

11 Are there investors who make money off of Rocketship? And, critically, if Rocketship

12 takes in more money than it spends on education, where does that money go?

13 To respond to these questions, the basic process steps for this dissertation will

14 include the following:

15 1. Gather financial data for the Rocketship schools being studied. The initial set

16 of data being analyzed is discussed in the section [*Charter School Financing*](#_bookmark74) later

17 in this chapter.

18 2. Identify any gaps or anomalies in the data. This is where triangulation is

19 useful and is discussed further in the section [*Triangulation*](#_bookmark89).

20 3. Analyze the flow of money in and out of Rocketship. That is covered in the

21 section [*What About the Flow of Money Through Rocketship?*](#_bookmark95)which tries to

22 determine where Rocketship funds come from, where is that money being

23 spent, and what public policies (or lack thereof) account for Rocketship’s

24 actions.

1 4. Identify to the extent possible how people or entities that are not part of

2 Rocketship may nonetheless profit from Rocketship.

3 Analyzing the finances of Rocketship Education means, for example, determining

4 if general obligation or revenue bonds are purchased by entities that are related to

5 Rocketship, i.e. they are not arm’s length transactions. All bonds are risky to some

6 extent, some more than others, and purchasers of those bonds are compensated for

7 taking on that risk by being paid interest on the amount borrowed. An immediate

8 question comes to mind: Is the interest rate appropriate for the risk being taken on?

9 Answering that question entails comparing Rocketship Education to other, similar

10 borrowers. If the interest rate is higher than expected, then Rocketship Education is

11 effectively giving away some of its revenue. Another question one might ask is, “How

12 is Rocketship Education spending its bond proceeds?” Are those expenses in line with

13 what other charter school chains or public school districts are spending their bond

14 proceeds on?

15 An Overview of California School Financing

16 Primary and secondary schools (grades K–12) and charter schools in California

17 are financed with a combination of federal, state, and local monies as seen in

18 Figure [1, *California 2019–20 K–12 Funding by Source*](#_bookmark68). Since federal funds account for

19 only 8.01% of total funding for California’s elementary school children (Legislative

20 Analyst’s Office, [2021),](#_bookmark187) the federal contribution will not be considered further. Note

21 that federal facilities grants to charter schools are not part of this 8.01%.

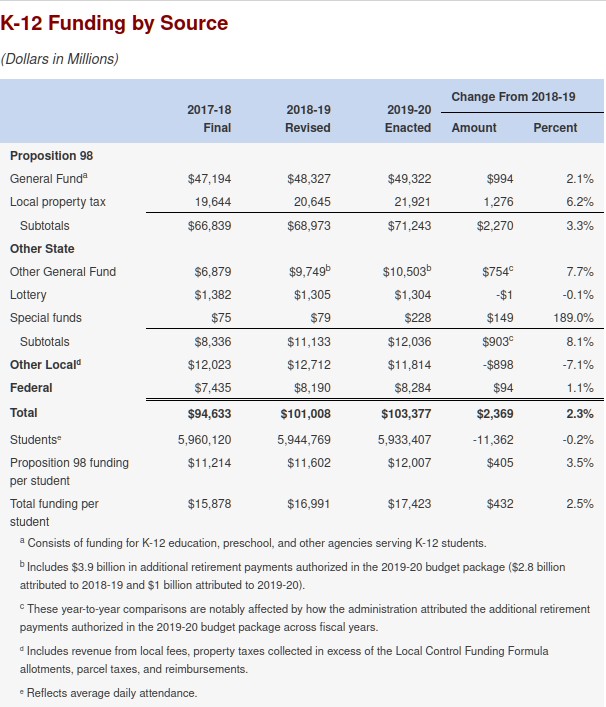
22 In June of every year, the California Legislature passes a budget for the next fiscal

23 year (July 1 – June 30) and the Governor signs it into law. This is called the enacted

24 budget. This version of the budget describes the *intent* of the Governor and the

**Figure 1**

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



*Note:* Legislative Analyst’s Office [(2021).](#_bookmark187) Public record.

1 Legislature, but does not fund anything. The real work is done in what are called

2 *trailer bills* that are passed piecemeal in the months following the adoption of the

3 budget. During the course of the fiscal year, revisions are made to this enacted

4 budget either because of circumstance or because of changed priorities, and at the

5 end of the fiscal year, this is now called the revised budget. After the budget year has

6 passed, technical adjustments are still made: Exactly how much money was spent, or

7 what was misclassified and improperly allocated will change the revised budget

8 numbers. This then becomes the final budget. The upshot of this is that there are

9 actually three versions of California’s education budget: the one for next year

10 (enacted), the one for the current year (revised) and the one for the prior year (final).

11 Normally, the enacted budget is the one that is meant when people speak of the

12 budget.

13 Figure [1, *California 2019–20 K–12 Funding by Source*](#_bookmark68), shows what money California

14 has to fund its primary and secondary educational system, i.e. grades K–12. This

15 money is then allocated to local educational agencies (LEAs), through a formula

16 known as the Local Control Funding Formula (LCFF). LEAs include individual charter

17 schools, county offices of education, and local public school districts. The total

18 amount of money for K–12 funding is allocated using a formula that was enacted by

19 voters in 1988 (LAO, [2017):](#_bookmark185) Proposition 98. Prop. 98 was originally meant to be a

20 minimum guaranteed funding level, but has evolved into a ceiling. The Legislative

21 Analyst’s Office (LAO), which serves as an independent, non-partisan research arm of

22 the California Legislature in much the same way that the Congressional Research

23 Service serves the U.S. Congress, calls Prop. 98 “A Tale of Complexity” and says that “A

24 Plethora Tests and Rules Govern the Minimum Guarantee”, and that “State Has Made

25 Myriad Adjustments to the Proposition 98 Calculations”. Undoubtedly LCFF is

26 complex, but LCFF is more transparent, has fewer rules, is more equitable, and is

1 more responsive than the Revenue Limit System which came before it. The Revenue

2 Limit System was also complex, but in a completely difference way; it had many

3 separately funded programs, called categorical programs, each with their own set of

4 requirements, rules, durations, and funding levels. Each passing year saw more

5 programs being added to the set of categorical programs until the collection of

6 categorical programs became so unwieldy it threatened to soak up all of a district’s

7 financial resources.

8 As seen in Figure [1, *California 2019–20 K–12 Funding by Source*](#_bookmark68), Proposition 98

9 funding accounts for nearly 70% of California’s K–12 funding, the remainder coming

10 from local property taxes and fees, and from various state sources. This money gets

11 distributed to county offices of education which then distribute it to public school

12 districts. Districts then distribute funds to charter schools.

13 Some districts are funded outside of the LCFF system. These are called “basic aid”

14 districts, or now the preferred term, “community funded” districts. Districts whose

15 annual property tax revenue is greater than their annual LCFF entitlement are

16 community funded since they get only “basic aid”, i.e. the constitutionally required

17 minimum funding (the greater of $120 per pupil or $2,400 in total) from the state.

18 For non-community funded districts, the state contribution is the difference between

19 a district’s LCFF entitlement and its share of district property taxes. In other words,

20 the state ensures that each district gets at least its LCFF entitlement, an amount

21 which is determined by Prop. 98.[31](#_bookmark70)

22 *Budgets & Interim Reports*

23 Budgets, in California, are the first of four important financial documents that

24 schools produce during a fiscal year. For any given fiscal year, which runs from July 1

31A detailed description of K-12 funding in California, for both public school districts and charter schools, can be found in Aguinaldo et al. [(2021).](#_bookmark102) It5is2an annual publication.

1 to June 30, the first financial document produced is the annual budget, a forward

2 looking financial statement, which is approved before the end of the prior fiscal

3 year.[32](#_bookmark72) Next are two (unaudited) interim reports, one in December, and another in

4 March, which track how well the school or district is adhering to the approved annual

5 budget, and finally, after a certified public accountant has audited the school or

6 district, a comprehensive annual financial report (CAFR). State law requires that an

7 independent auditor certify this retrospective account of the school or district’s

8 financial activity as being an accurate representation of the school’s finances for the

9 previous fiscal year.

10 *Local Control Accountability Plans (LCAPs)*

11 An important, recurring, non-financial report of schools is the Local Control

12 Accountability Plan (LCAP). Although the LCAP is a three year plan, it is updated

13 annually. The focus of an LCAP is on the programs that the school (public or charter)

14 is going to implement, finance, and monitor that will allow it meet the goals that the

15 state has set. These are goals that the California Department of Education sets

16 periodically, primarily to ensure that students with the greatest needs are in fact

17 served and are in addition to the seven goals that the Legislature set for charter

18 schools in general. Furthermore, the school’s community must be offered the

19 opportunity to provide input to a school’s LCAP and this is why a separate meeting

20 specifically and only on the LCAP is a requirement.

21 Typically LCAP goals remain the same, but their financing may change if the

22 metrics used to measure progress toward achieving those goals isn’t showing

23 progress. In unusual circumstances, how the goals are to be achieved might change.

32Since a school’s budget needs to be approved before the state budget is finalized, it is guaranteed that a school’s budget will need to be modified after it has been approved.

1 LCAPs are the State of California’s way of ensuring that all public schools, including

2 charter schools, meet the same set of priorities or goals. LCAPs contain

3 specifications for how a school or district will meet all eight of the state’s goals and

4 how achievement will be measured. Apparently, some LCAPs have been on the order

5 of 500 pages long, although the norm is much less.

6 For each activity or group of activities, schools indicate what goal is being met, if

7 the goal includes increased services for disadvantaged student, how well the school

8 or district has met that goal, and the money that has been allocated to achieving and

9 reporting those goals. (The reality of what the Department of Education wants is an

10 order of magnitude more complicated than this description, but it is accurate as far

11 as it goes.)

12 Unlike budgets and CAFRs, LCAPs don’t have to “add up”, nor do they have to offer

13 a complete financial picture, but they do have to be consistent with other data.

14 Expenditures have to be budgeted, and the amounts in a school’s budget must agree

15 with what’s in the LCAP.The charter or public school’s board must approve an LCAP at

16 the same time as it approves its annual budget.

17 *Comprehensive Annual Financial Reports*

18 A major source of financial data are the annual, independently audited,

19 comprehensive financial statements of Rocketship Education. Comprehensive

20 Annual Financial Reports (CAFRs) are sent to the California Department of Education

21 (CDE) and to a charter’s County Office of Education (COE) annually. They cover the

22 previous fiscal year and are similar to annual budgets because they report the same

23 information, perhaps in a different format. CAFRs are retrospective whereas budgets

24 are prospective. The major difference is that CAFRs are independently audited and

25 budgets are not.

1 Similarly to bond underwriters, financial auditors are liable for “omitting,

2 misstating, or obscuring [items which] could reasonably be expected to influence

3 decisions that the primary users make on the basis of those financial statements”

4 (Cayamanda, [2020),](#_bookmark133) and this requirement tends to increase the diligence of the

5 auditors. However, potential liability doesn’t always result in truly comprehensive

6 financial statements; sometimes the lure of accounting fees overwhelms any

7 misgivings, as was the case with Enron and Arthur Andersen in 2001, and apparently

8 with Donald Trump in 2022. Errors and sloppiness may exist, but in general, fraud is

9 thankfully rare, in part because fraud on the part of auditors would likely result in the

10 loss of the auditor’s license, effectively ending their business.

11 In order to make what’s being analyzed more concrete, I present in Appendix [A](#_bookmark239)

12 [on page 90](#_bookmark239) some examples drawn from the Los Altos School District (LASD) for the

13 2019–20 school year. These LASD documents make good models because they have

14 consistently won the Meritorious Budget Award for Excellence from the Association

15 of School Business Officials International for the quality and comprehensiveness of

16 its financial statements for each of the last 15 years.

17 Charter School Financing

18 In California, charter schools are financed the same way as public schools are,

19 from the same pot of money, using the same set of rules, except for one significant

20 difference: how they finance facilities. Charter schools have no taxing authority

21 unlike public schools, so they cannot pass bond measures or parcel taxes. This lack of

22 a taxing authority means that charter schools may either occupy existing public

23 school facilities (potentially displacing existing public school students) or seek grants

24 and donations. The federal government provides significant amounts of facilities

25 grant money and relies on the states to administer the program.

1 The topic of charter school finances is broader that of public schools because, in

2 addition to all of the financial dealings of traditional public schools, almost all of

3 which also apply to charter schools, charter schools have large and immediate needs

4 for facilities that TPSs don’t have. This brings into the picture bonds, loans, grants,

5 leases, construction, and the purchase and sale of real estate. TPSs do issue several

6 kinds of bonds, levy parcel taxes, and buy real estate on which they build schools.

7 Public schools usually have done this years ago, but charter schools have an

8 immediately and reoccurring need for facilities. They face these needs once when

9 they start up, and whenever they outgrow their facilities because of increased

10 enrollment. The charter schools’ need for facilities charter schools is more pressing,

11 more immediate, and more common than the corresponding needs of TPSs whose

12 enrollment doesn’t fluctuate as much.[33](#_bookmark76)

13 Once a charter has been granted the right to operate, it must file annually with

14 the California Department of Education, just like public school district, certain forms

15 that detail its revenues and expenses. State law also mandates an annual audit by an

16 independent accounting firm which charter schools must file with their County

17 Office of Education. All together, these forms should provide a complete picture of a

18 charter school’s finances, and crucially, everything should be in agreement. Charters

19 must approve and publish at a public meeting their annual budget, and they, just like

20 TPSs, cannot spend – at least in theory – unbudgeted money unless the governing

21 board approves at a public meeting any changes.

22 *Charter Financial Documents*

33Usually a TSP sees a change in enrollment because of significant demographic changes like immigration or emigration, birth rate increases or declines. Charter schools can see enrollment changes absent any demographic change, with the total number of students residing in a district staying the same. In a few 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 5op6posite changes in enrollment.

1 There are numerous publicly available sources of the same charter school

2 financial data. These are, in roughly chronological order, petitions/renewals,

3 budgets, LCAPs, interim financial statements, and finally, audited Comprehensive

4 Annual Reports (CAFRs). Table [3, *Charter School Financial Documents*](#_bookmark77), summarizes the

5 financial reports which are available about charter school finances. The first two

6 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 15th |
| 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 |

7 Viewed chronologically, the first financial statement from a charter school is

8 contained in their initial petition. Although petitions are not submitted under

9 penalty of perjury, any material change to a petition would likely be cause for a

10 re-evaluation of the petition, something that is undesirable. Petitions are presented

11 at the start of a charter school’s life and whenever a charter needs to be renewed.

12 They are discussed next.

13 Petitions & Renewals

14 Chronologically the first category of financial data that’s publicly available is

15 what’s in a charter school’s initial petition. Renewal petitions occur at five year

16 intervals and are very similar to the initial petition. One of the required elements of

17 any petition is a financial projection. Although no one expects a charter school (or

18 any school for that matter) to prepare and adhere to a budget that exactly matches

1 what’s been projected, budgets are expected to be similar to actual expenditures, for

2 some meaning of “similar”.

3 Before a charter school is allowed to begin operation, every charter school in

4 California is required to present to a chartering authority a petition which must

5 contain certain required elements. The absence of one of these elements is grounds

6 for denying the charter’s petition to operate. For example, what is the intent of the

7 charter school? How is the charter school going to measure its success or failure?

8 What population is it targeting? And, what are its financial projections?

9 These petitions run anywhere from a hundred or so pages to over a thousand.

10 They contain a wealth of data on curriculum, demographics, pedagogy, discipline,

11 teacher recruitment, and, of course, on the charter school’s finances. Only a few

12 financial statements are needed to get a good overall picture of a school’s or district’s

13 finances. These are the enacted annual budget and interim reports, the audited

14 Comprehensive Annual Financial Report (CAFR), parts of the Local Control

15 Accountability Plan (LCAP), and for charter schools, the financial portions of their

16 petitions.

17 Fortunately, these documents are all publicly available and could, if needed, be the

18 subject of a California Public Records Act (CPRA) request. The CPRA is the California

19 equivalent of the federal Freedom of Information Act (FOIA). Many of the documents

20 mentioned in this dissertation should be available from the California Departments

21 of Education and Finance, or from the Santa Clara County Office of Education.[34](#_bookmark79)

22 Since Rocketship schools are all operated by a single entity, Rocketship

23 Education, Inc., their financial statements and those of their affiliates are rolled up

24 into a single document, the Consolidated Financial Statements and Supplementary

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

1 Information. Every school is included as are separate Launchpad Development LLC’s

2 which own the facilities that are leased to individual schools.

3 The primary questions that these financial data analyses are seeking to answer

4 involves a clear mapping of the financial flows tied to Rocketship’s ten schools in

5 Santa Clara County. That mass of data needs to be organized and interpreted, and

6 using an interpretive framework will make the analysis easier. Some examples of

7 potential frameworks are:

8 • The six year forecast spreadsheet that LASD uses, an example of which is

9 reproduced in Figure [11 *LASD 2019–20 Multi-Year Projection*](#_bookmark249) on page [97.](#_bookmark249) Most of

10 the elements of a forecast are combinations of SACS[35](#_bookmark80) codes. The main

11 drawback of using this framework is that each school would have to have its

12 elements extracted from their SACS submissions. ‘The main benefit is that

13 these elements have been used for years and so are known to be useful in

14 budgeting.

15 • A spreadsheet of the 9 high-level SACS object codes. This option is has the

16 advantage that these sums can be calculated automatically using reports

17 available on Annual Financial Data web page[36](#_bookmark81) maintained by the California

18 Department of Education. These reports go back to FY2003–4. The main

19 disadvantage is that any gaps or anomalies may not show up in the aggregate

20 numbers.

21 • A third way of approaching the problem of making sense of large amounts of

22 data is to use a model. Some possible models are

35The Standardized Account Code Structure (SACS) is the chart of accounts (cost centers) used by the California Department of Education. These are defined in “California School Accounting Manual: Definitions, Instructions, and Procedures.” The function (activity) codes are on pp.149–151 (§325–3 *et seq.*)

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

1 **–** Bruce Baker’s *National Education Cost Model* (B. D. Baker et al., [2018,](#_bookmark109) p. 5)

2 **–** the Operating Resource Flow model from B. Baker and Miron [(2015,](#_bookmark105) p. 16)

3 and Figure [4](#_bookmark98)

4 **–** the resource cost model (RCM) or the education cost function (ECF) as

5 developed by B. D. Baker [(2018,](#_bookmark106) pp. 188–197)

6 **–** ratio analysis or index analysis as in B. D. Baker and Richards [(2004,](#_bookmark108)

7 pp. 70–86)

8 Of the four models mentioned, only the last is likely to be useful in this study’s

9 analysis because that method can identify quickly what’s different in a particular

10 budget or petition. Ratio and index analysis compares the relationship between

11 financial data elements. In addition to B. D. Baker and Richards [(2004)](#_bookmark108) cited above,

12 National Forum on Education Statistics [(2007,](#_bookmark199) pp. 35–44) lists a dozen or so ratios

13 and indexes that have proven useful when analyzing school finance.

14 *Other Data*

15 Vast amounts of data are available from the federal, state and local governments,

16 easily over half a million datasets. Unfortunately these data have been collected in

17 different formats, over different time periods, using different inclusion criteria,

18 more or less carefully. Picking a subset of educational data to use and then cleaning it

19 is a huge endeavor well beyond the scope of this dissertation. That being said, a very

20 small subset of available datasets will be consulted, based on the immediate need at

21 hand. The most likely datasets to be consulted are:

22 • California Department of Education and the State Board of Education

23 • The County of Santa Clara and the Santa Clara County Office of Education

24 • The California Open Data Portal

1 • National Center for Education Statistics (NCES) at the Institute for Education

2 Sciences (IES)

3 • Stanford Educational Data Archive (SEDA)

4 • School Finance Indicators Database

5 • EdSource, Ed-Data, and other aggregators of educational data specific to

6 California

7 State and Federal Filings

8 Two filings are of particular interest: FPPC Form 700, Statement of Economic

9 Interests, and IRS Form 990, Return of Organization Exempt from Income Tax. Both

10 forms force the disclosure of personal financial information (Form 700) or personal

11 financial information and business financial information (Form 990).

12 Some officers of Rocketship may be required to submit annually to the California

13 Fair Political Practices Commission (FPPC) Form 700, Statement of Economic

14 Interests. This particular requirement of charter school officers is not settled law, but

15 if Form 700 is filed, it will list the submitter’s assets and income. The intent is to

16 prevent related-party transactions by enumerating an officer’s economic interests so

17 that the school can avoid doing business with entities that might benefit an officer.

18 The federal Internal Revenue Service grants income tax exemptions to

19 organizations that meets the requirements of §501(c)(3) of the Internal Revenue

20 Code.[37](#_bookmark84) These organizations must file annually Form 990 that provides some minimal

21 financial data. (Tax returns of for-profit organizations are not public documents and

22 their contents do not have to be disclosed; however, in order to sell stock to the public,

23 i.e. on a stock exchange, firms are required to publish various financial documents,

24 which like bond prospectuses, are required to be informative and complete.)

3726 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

6 bond.

7 Bond prospectuses can be mined for data that might not appear in petitions and

8 financial statements because bond underwriters are “potential liability for any

9 material misrepresentations or omissions contained in a registration statement or

10 prospectus” (Block et al., [2008).](#_bookmark117) This liability, of course, is not unlimited. If bond

11 underwriters exercise due diligence or the misrepresentation is not material, they

12 are probably not liable. Crucially, the definitions of *material misrepresentation* and *due*

13 *diligence* depended on both statute and case law, so a bond underwriter can only make

14 a reasoned guess at their exposure to liability. The result is that bond underwriters

15 are likely to be more diligent that is absolutely necessary.

16 Unlike many studies, there is not a paucity of data on Rocketship, rather there is a

17 surfeit. The data collected so far is voluminous. The current number of pages of

18 initial and renewal petitions runs to 7371 pages. Three bond prospectuses total over

19 1000 pages. And there are many financial data documents yet to obtain. For example,

20 of the six categories of financial data listed in Table [3,](#_bookmark77) only half have been collected.

21 The challenge for this inquiry will be to organize the data so that gaps and

22 anomalies can be identified, interesting and valid comparisons can be made with

23 public schools and other charter schools, and the flows of money in and out of

24 Rocketship can be identified. One approach would be to create a common framework

25 and recast all the financial data from each school into that common framework. But,

26 until the data have actually been collected and analyses started, choosing one

1 particular framework within which to work is likely to lead to work which will need to

2 be redone using a different framework.

3 Indirect Profits

4 It is not necessarily the case that all profit be derived from Rocketship itself.

5 Other people or entities could profit indirectly from Rocketship’s activities. For

6 example, contracts which are not at arm’s length are automatically suspect.

7 Leases are another area where profits can be made. Some charter schools receive

8 a per-pupil rent subsidy which reduces their effective net rent (gross rent –

9 government subsidy). But, if the operator of a charter school is also the owner of the

10 facilities, then a profit is to be made. It is the difference between the (market) rent

11 charged and the net rent. Furthermore, if the rent (paid by the charter to a third

12 party) is actually a mortgage payment by the third party to a bank, then the sale of of

13 the property can result in a significant profit. The mortgage (effectively) was paid for

14 by the government, but the proceeds of the sale accrue to the third party, the owner of

15 the facilities.

16 Tax credits are another source of profit. The New Markets Tax Credit is a 39% tax

17 credit, usable over seven years, available to those who make an investment in

18 specified economically depressed neighborhoods. A 39% tax credit is roughly twice

19 the current corporate tax rate which means that this credit wipes out the taxes on

20 gains equal to twice the initial investment (which also has a return).

21 The NewSchools Venture Funds, the Charter School Fund, and the Charter School

22 Growth Fund are just a few examples of venture funds that specialize in charter

23 schools. Since it is unlikely that investors will invest in a fund that does not return a

24 profit, establishing exactly how these funds turn a profit is going to be a key goal of

1 this study’s explorations.[38](#_bookmark88)

2 Are There Gaps or Anomalies in the Data?

3 All of the sources mentioned above should be in basic agreement, i.e. the LCFF

4 funding received by a Rocketship charter school should match what the state thinks

5 it’s sending to the school, what the school reports to the state it received and spent,

6 what independent auditors report the school received and spent, and what it actually

7 spent. Further, bond prospectuses and Security Exchange Commission (SEC) filings

8 should be in agreement with themselves and with budgets. If these figures are not in

9 agreement, something is amiss and should be investigated.

10 In some fashion or another, all profit must originate from Rocketship’s revenue.

11 In the case of the sale-leaseback of facilities, for example, the rent over and above

12 market rates constitutes profit to the property owners, and this is an operational

13 expense ultimately paid for by tax payers. If facilities are bought with public dollars

14 (i.e. federal grants) and subsequently sold, the net proceeds are profit that might

15 accrue to an organization other than Rocketship. If technology is being used and the

16 contracts are not at arm’s length, then someone or some organization is making

17 more than the usual profit. If student data is being sold by a for-profit entity that

18 operates non-profit charter schools, that’s revenue that rightfully belongs to the

19 students or to the non-profit schools.

20 Determining whether there are gaps or anomalies in a charter school’s financial

21 data is time-consuming but not very complex. Reviewing the data is not difficult –

22 usually there a no advanced algorithms to apply; basic arithmetic may be used to

23 check if all the numbers add up. When looking at financial statements, one should be

38It is interesting that none of the web sites of these funds mentions that fund’s return. The absence of any indication of a return on investment is either an innocent mistake or (more likely) an attempt at obfuscation. 64

1 alert to unusual year-to-year changes, ratios (e.g. salaries to total expenses) that are

2 markedly different from the norm, entries that are missing components, or entries

3 that are not supported by detail elsewhere. Complex third-party transactions that

4 don’t seem to add value are also indicators that further investigation is needed.

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

6 • Are the data available and accessible? Charter schools are notorious for simply

7 not filing required documents or filing them horrendously late, or submitting

8 documents that are incomplete. Petitions are not usually a problem because

9 without a petition, or with a materially incomplete petition, the petition will

10 not be granted. However, once a school is operational, late or missing filings

11 will not bring everything to a halt. Although Rocketship was fined for failing an

12 attendance audit, it was allowed to continue to operate.

13 • Have the data been misrepresented? There are forensic techniques (e.g.

14 Benford’s Law) that can point to suspect data (Zhu et al., [2021).](#_bookmark237) There is also

15 triangulation which involves comparing one source of data with another to see

16 if they match. For example, charter petitions make forecasts of revenue and

17 expenses. How accurate were those forecasts? Were the reasons given for

18 anomalies plausible? foreseeable? reasonable? One mistake is not usually a sign

19 that something is being covered up, but several large mistakes usually are.

20 • California requires that LEAs meet the numbers they previously forecast or

21 explain why they didn’t meet those numbers. Were those goals met, and if not,

22 were the reasons proffered legitimate? When preparing a budget, LEAs must

23 also certify they can meet their financial obligations for the current year, and

24 for the next two years. If an LEA cannot certify that they can, they might receive

25 a visit from the California Department of Education’s Financial Crisis &

1 Management Assistance Team (FCMAT), and in the extreme case be subject to a

2 state takeover or to involuntary closure.

3 *Triangulation*

4 Another technique for determining if there are gaps or anomalies is to use

5 triangulation. Triangulation is the use of multiple sources of data. While

6 triangulation in the social science research often refers to the mixed methods use of

7 quantitative and qualitative methodologies, the common definition refers to the

8 analysis of multiple forms of corroborating evidence in the form of financial and

9 media documentation. For example, Bhandari [(2022)](#_bookmark115) notes that one of the forms of

10 triangulation is “[u]sing data from different times, spaces and people” and also that

11 “[t]riangulation in research means using multiple datasets, methods, theories and/or

12 investigators to address a research question. It’s a research strategy that can help you

13 enhance the validity and credibility of your findings.”[39](#_bookmark91)

14 Are There More Serious Problems?

15 Unfortunately, charter schools and charter school chains have a long history of

16 various kinds of fraud. Lafer [(2017b),](#_bookmark182) In the Public Interest [(2018),](#_bookmark170) Burris et al. [(2020),](#_bookmark125)

17 and Burris and Bryant [(2020),](#_bookmark123) are just a few of the reports that detail fraud and waste

18 in charter schools. Although Rocketship has engaged in a number of questionable

19 activities, it has not been charged anything illegal.[40](#_bookmark92) But with billions of dollars

39Triangulation does not imply exactly three concepts or ideas; often, as is in this dissertation, more than three concepts, ideas, data are combined in the analysis.

40Rocketship schools in Santa Clara have had ties with a virtual charter school serving special education students hundred of miles away. They have collected pandemic-relief funds intended for businesses and not available to public schools. Rocketship has been the subject of several Letters of Concern from the California Department of Education, and it has had petitions to open schools denied for substantive reasons. Many of these issues have been collected and can be viewed at <https://www.scoop.it/topic/charter-choice-closer-look>(Marachi, [2016–2022).](#_bookmark189)

1 allocated to charter schools for facilities in the last 15 years in California alone (Lafer,

2 [2017b,](#_bookmark182) p. 4), coupled with lax or no oversight, the temptation to misappropriate funds

3 must be strong. It is also instructive to note that Californian charter schools have

4 fought tooth and nail to prevent any laws that would increase transparency or hold

5 charter operators to the same conflict-of-interest standards that public schools and

6 other government entities are held to. While the charter sector has for the most part

7 been successful in warding off demands for accountability, the Attorney General of

8 California issued an official ruling in 2018 stating that the Brown Act, the CPRA, and

9 Government Code §1090 apply to charter schools as well as to other LEAs (Becerra &

10 Medeiros, [2018).](#_bookmark111)

11 However, it’s not necessary to misappropriate funds to make money off of charter

12 school facilities. As the report *Fraud and waste in California’s charter schools* from In the

13 Public Interest details,

14 While charter schools constructed with general obligation bonds cannot

15 be sold or used for anything other than the authorized school, schools

16 constructed with tax-exempt conduit bonds become the private property

17 of the charter operator. Even if the charter is revoked, neither the state

18 nor a local school district can take control of this property. Additionally,

19 schools constructed with private funding subsidized by New Market Tax

20 Credits or acquired with private funds but whose mortgage payments

21 are reimbursed through the Charter Facilities Grant Program (known as

22 “SB740”) are typically owned without restriction.

23 (In the Public Interest, [2018,](#_bookmark170) p. 6)

24 Rocketship has issued just shy of $90M of tax-exempt bonds to “finance and/or

25 refinance the acquisition, construction, expansion, remodeling, renovation,

26 improvement, furnishing and equipping of the land and facilities” (California School

27 Finance Authority, [2015b,](#_bookmark130) [2015a,](#_bookmark129) [2017b,](#_bookmark132) [2017a).](#_bookmark131) These conduit bonds are exactly the

1 kind referenced in In the Public Interest [(2018).](#_bookmark170) The properties owned or leased are

2 partially paid for out of public funds but are privately owned.

3 *Analyzing Rocketship’s Bond Financing*

4 Bond financing can be both complicated (a hard problem, but solution methods

5 exist) and complex (many unknowns and interrelated factors). Illustrating this are

6 two examples of the analysis from just a single prospectus, that of Rocketship’s $43M

7 bond offering. That offering is described in the 536 pages which comprise

8 “$42,160,000 Charter School Revenue Bonds (Rocketship Education - Obligated

9 Group).” The $43M offering is complicated because there are many moving parts

10 which are described in the offering in the well-known language of bond finance.

11 Terms, rates, contingencies, amounts, dates, and required performance are all

12 specified in a fashion that has withstood legal onslaught many times over. But the

13 offering is also complex because it must also convince others that its predictions are

14 reasonable. The most important of those predictions is that the issuer can pay the

15 interest and repay the principal when they due.

16 Figure [2 on the following page *Flow of Funds: Overview*](#_bookmark94) gives the overall picture and

17 shows how rents from schools (blue) are “intercepted” by the California Controller

18 (red) and paid directly to landlords, or paid into the Gross Revenue Fund (red) from

19 which the Master Trustee pays lessors (orange) and bond holders and expense

20 accounts (orange). What is not shown is the $750 per ADA (in 2017, rising to $1,211 in

21 2020–21) that Rocketship will apply to lease payments. Since money is fungible, the

22 State of California is giving Rocketship between $2.4 and $3.7M depending on the

23 year, money they would otherwise not have. This is effectively profit.

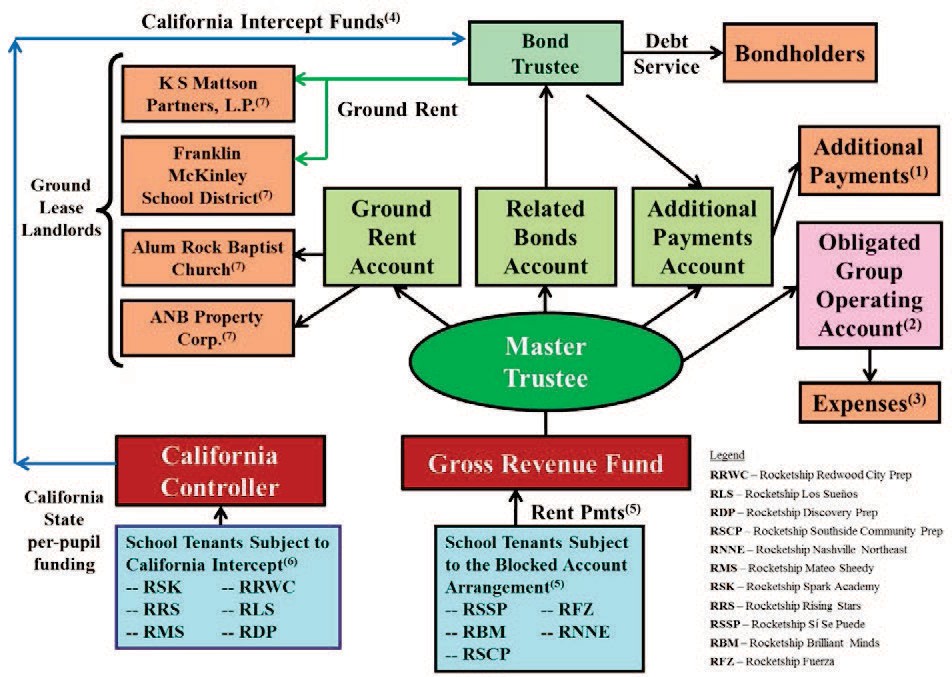
24 The next figure, Figure [3 on page 70 *Flow of Funds: Cross-Collateralization*](#_bookmark97) adds an

**Figure 2**

*Flow of Funds: Overview*

**TABLE 1**

**FLOW OF FUNDS – OVERVIEW**



(1) Includes trustee fees, issuer fees, arbitrage rebate fees, Capital Maintenance & Operating Fund deposits and other periodic fees related to the issuance of the Bonds.

(2) Funds in this account will be held by the Borrower, subject to provisions in the Master Indenture.

(3) Any other operating or non-operating expense of the Obligated Group (including property management fees, operating costs and other expenses), excluding interest, depreciation and amortization expense.

(4) The California State Intercept Funds related to Rocketship Redwood City, Rocketship Los Sueños and Rocketship Discovery Prep (as well as those related to Schools financed through the Series 2016 Bonds) will be paid directly to the Bond Trustee and will be used to make ground lease payments for the respective Schools, debt service payments and additional payments on the California Bonds. Intercepts with regard to Rocketship Discovery Prep will not begin until after the NMTC Loan Agreement Discharge Date.

(5) Paid through Blocked Accounts established pursuant to the Leases. See “THE LEASES – Certain Covenants of Rocketship Education under the Leases.”

(6) After California State Intercept Funds for the applicable Schools are sent to the Bond Trustee, the remaining funds will go through the Blocked Account mechanism discussed in note (5) above.

(7) Franklin-McKinley School District, Alum Rock Baptist Church, ANB Property Corp. and K S Mattson Partners are the ground lessors, respectively, for Rocketship Spark Academy, Rocketship Brilliant Minds, Rocketship Fuerza, and Rocketship Redwood City Prep.

*Source: Rocketship Education.*

53

*Note:* California School Finance Authority [(2017a,](#_bookmark131) p. 53). In the public domain.

1 important detail: how Rocketship uses its assets as collateral more than once.[41](#_bookmark96) In

2 this case, if the payments of “School Tenants” are insufficient, the Master Trustee may

3 require additional monthly payments from the “Obligated Group Representatives

4 and Member” to supplement those from “School Tenants”.

5 These two examples show the kind of analysis that is needed to characterize a

6 bond offering.

7 What About the Flow of Money Through Rocketship?

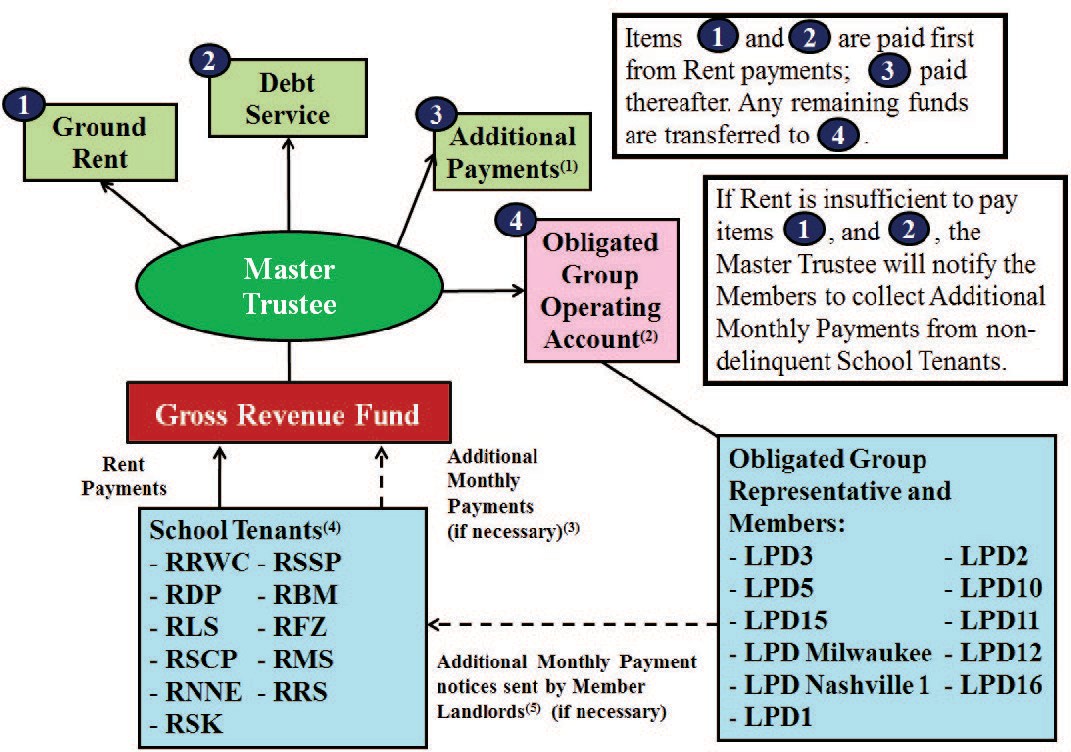
41*Cross-collateralization* means using an asset as collateral for two or more obligations, here lease and bond payments.

**Figure 3**

*Flow of Funds: Cross-Collateralization*

**TABLE 2**

**FLOW OF FUNDS – CROSS-COLLATERALIZATION MECHANISM**



(1) Reflects amounts necessary to pay all Additional Payments pursuant to the applicable Loan Agreements, as defined therein. Does not indicate Additional Monthly Payments.

(2) Funds in this account will be held by the Borrower, subject to provisions in the Master Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Master Indenture – Gross Revenue Fund” discussed previously.

(3) “Additional Monthly Payment” is an additional monthly Rent payment made by Rocketship from revenues of a non-delinquent School to make up for any monthly Rent shortfall within the Obligated Group, as required under each Lease.

(4) Rocketship will contribute funds from these Schools to the Gross Revenue Fund (via the applicable Lease Agreements) to cover Additional Monthly Payments and any other payments which are not previously covered through California State Intercept Funds.

(5) Required to be sent if any portion of Base Rent is not received by the Master Trustee when due pursuant to any Lease.

*Source: Rocketship Education.*

55

*Note:* California School Finance Authority [(2017a,](#_bookmark131) p. 55). In the public domain.

1 Since a goal of this dissertation is to map the flow of money into and out of

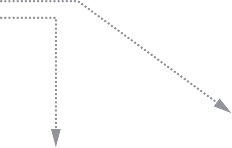
2 Rocketship, I will use diagrams similar to the one used by B. Baker and Miron [(2015),](#_bookmark105)

3 which is reproduced here as Figure [4.](#_bookmark98) In this example, money flows from left to right,

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

**Figure 4**

*Operating Resource Flows*



**Revenue Sources**

**Government/Management**

**Operational Expenses/Mission Centers**

� **Local Taxes**

� **State Aid**

*(incl. Fed Pass Through)*

� **Federal Aid**

� **Fees**

� **Proprietary/ Enterprise**

*(incl. Sale/Lease)*

� **Charitable Giving**

**Non-Profit CMO**

� **Volunteers**

� **Venture Capital, Private Equity, Public Stock**

**Charter Foundation**

**District Foundation**

**Local Board of Education/ District**

**For-Profit CMO**

**Fiscally Independent Charter School**

**Fiscally Dependent Charter School**

**District School**

**Other District, Regional Service Ctr. or**

**Pvt Provider**

**Charter Governing Board**

**Other Services**

**District Centralized Expense[s1]**

*Note:* B. Baker and Miron [(2015,](#_bookmark105) p. 16). Used with permission.

**District Centralized Expense[s1]**

**CMO/EMO Centralized Expense[s2]**

1 Findings and Results

2 This chapter discusses my findings and results. Recall my research question: Has

3 Rocketship structured itself and its finances, to earn a return to investors, and if so,

4 how?

1 Discussion

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1 School Financing in California

2 Public school districts and charter schools receive funding from the state and the

3 federal governments which most often goes into the district’s or school’s General

4 Fund. A small portion of funding is restricted to particular programs, and sometimes

5 that money goes into a specialized and restricted fund, but the norm is for the

6 General Fund to account for the majority of transactions.

7 The first table to look at is the aggregate of all funds as shown in Figure [5 on the](#_bookmark241)

8 [following page, *LASD 2019–20 All Funds Summary*](#_bookmark241). It is a very high-level summary of a

9 school’s or a district’s budget. It’s a snapshot of what the district’s revenues are

10 expected to be, roughly where that revenue is expected to come from, what the

11 district’s expenses are expected to be, and whether revenue and expenses are

12 expected to be in balance. It is the rough equivalent of a business income statement.[42](#_bookmark240)

13 Because Figure [5 on the next page, *LASD 2019–20 All Funds Summary*](#_bookmark241), is a

14 snapshot, detecting unusual changes year-to-year is not possible. Changes are

15 detectable using Figure [6 on page 94](#_bookmark244) which compares fiscal two years. However, with

16 just a budget summary, one can nonetheless note some interesting ratios, for

17 example, the percentage of expenses spent on salaries and benefits. For LASD in

18 2021–20, this is 80.18% which is in line with what is typical of elementary school

19 districts in California. One can calculate the state-wide average for all districts for

20 2019–20 using the Data Table at [www.ed-data.org/state/CA](http://www.ed-data.org/state/CA), and that comes out

21 to 83.71%. So, LASD spends a little less on salaries and benefits than the average

22 elementary school district in California does.

42Schools group their finances by funds. Most of their revenue goes into the general fund, and most of their expenses come out of the general fund. Some transactions must by law be accounted for in different funds. The three largest are the General Fund, the Special Revenue Fund, and the Capital Projects Fund, and together they account for virtually all of the financial activity of LASD.Other schools may have a different set of funds, but all contain a General Fund that is the primary fund for their day-to-day financial activities.

**Figure 5**

*LASD 2019–20 All Funds Summary*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **General**  **Fund** | | **Special** **Revenue** **Funds** | **Capital** **Project** **Funds** | **Total** **All** **Governmental** **Funds** |
| **REVENUES** |  |  |  |  |
| 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 |
| **TOTAL** **REVENUES** | **64,511,938** | **322,674** | **1,243,180** | **66,077,792** |
| **EXPENDITURES** |  |  |  |  |
| 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 |
| **TOTAL** **EXPENDITURES** | **63,959,381** | **300,000** | **1,471,474** | **65,730,855** |
| **Excess** **(Deficiency)** **of** **Revenues** **Over** **Expenditures** | **552,558** | **22,674** | **(228,294)** | **346,938** |
| **OTHER** **FINANCING** **SOURCES/USES** |  |  |  |  |
| Interfund Transfers In | - | - | - | - |
| Interfund Transfers Out | - | - | - | - |
| **TOTAL** **OTHER** **FINANCING** **SOURCES/USES** | **-** | **-** | **-** | **-** |
| **NET** **INCREASE/(DECREASE)** **IN** **FUND** **BALANCE** | **552,558** | **22,674** | **(228,294)** | **346,938** |
| **BEGINNING** **FUND** **BALANCES** | **107,727** | **3,603,040** | **1,745,439** | **5,456,206** |
| **ENDING** **FUND** **BALANCES** | **660,284** | **3,625,714** | **1,517,145** | **5,803,144** |
| *$1* *dollar* *difference* *in* *General* *Fund* *Ending* *Fund* *Balance* *due* *to* *rounding* *error.* | | | | |

*Note:* Kenyon [(2019,](#_bookmark172) p. 38). In the public domain.

1 Calculating this ratio brings up a general issue: What is an appropriate

2 comparison group? In this particular case, the Ed-Data web site does not have

3 county-level financial data, so the only comparison which can easily be made is at the

4 state level. But should the state-level comparison group be all districts, or just

5 elementary school districts? Should “basic aid” districts, also called

6 “community-funded” districts, districts whose property tax revenues exceed their

7 LCFF entitlement, be included or not? Again, the Data Table tab on

8 [www.ed-data.or/state/CA](http://www.ed-data.or/state/CA) does not filter by type of district (although the Graph

9 tab does), so, in this case, using just the Ed-Data data, our choices are forced since we

1 cannot use state-level data.

2 The other common financial business report is the balance sheet, which identifies

3 assets and liabilities. In the educational world, this is the statement of net position.

4 Figure [6 on page 94](#_bookmark244) shows LASD’s assets and liabilities at the end of the 2019–20

5 school year. Note that unlike a balance sheet, a statement of net position for schools

6 (and other governmental entities) does not balance; assets are not exactly equal to

7 liabilities.[43](#_bookmark242)

8 As an example of a number which stands out and is therefore worth investigating,

9 is the large increase in Capital Assets, year over year, an increase of $132M (line 3 of [6](#_bookmark244)

10 [on page 94, *LASD YE 2020 Summary of Net Position*](#_bookmark244)). In “Comprehensive Annual

11 Financial Report FY 2020,” six notes appear immediately after Figure [6,](#_bookmark244) and these

12 provide an explanation for the increase: LASD purchased a property whose cost was

13 $134.9M net of $2.7M in depreciation. This purchase shows up again in line 1 of

14 Figure [9 on page 96](#_bookmark247) and explains the enormous 9052% increase in the value of LASD’s

15 largest asset in FY2019, land.

16 In addition, the “Comprehensive Annual Financial Report FY 2020” contains a

17 section, on pp. 19–45, called *Notes to the Basic Financial Statements*. Theses notes are an

18 integral part of the certified, audited annual statement, just as they are in audited

19 financial reports in the business world; they cannot be omitted, and must be accurate

20 and complete. Note 7B of Kenyon [(2021a,](#_bookmark173) p. 7), General Obligation (GO) Bond

21 Anticipation Notes (BANs), explains how LASD uses a common technique to convert

22 general obligation bonds into cash: issue BANs, backed by general obligation bonds,

23 and payable when those GO bonds are issued.[44](#_bookmark243)

43Business accountants achieve this seemingly low probability equality by adding a fudge factor,

*owner’s equity*, so that *assets = liabilities + equity* always, exactly.

44One 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

1 It’s important to remember is that although changes in finances can be

2 complicated, they should also be adequately explained in a transparent and complete

3 CAFR. When the documents are incomplete or opaque is when serious concerns

4 should be raised.

5 Within a CAFR are five summaries of financial tables that go one level deeper

6 than the All Funds Summary. These are

7 • Summary of Net Position (Figure [6 on the following page)](#_bookmark244)

8 • Change in Net Position (Figure [7 on page 95)](#_bookmark245)

9 • Net Costs of Services (Figure [8 on page 95)](#_bookmark246)

10 • Capital Assets (Figure [9 on page 96)](#_bookmark247)

11 • Long-term Liabilities (Figure [10 on page 96)](#_bookmark248)

12 LASD rolls up its detailed financial data into a single multi-year summary, as

13 shown in Figure [11 on page 97.](#_bookmark249) In addition to purely financial data, the multi-year

14 summary includes the key assumptions that were behind the numbers. In fact, the

15 first section of Figure [11](#_bookmark249) is only assumptions, and it is those assumptions which drive

16 the numbers in Sections 2–4. The value of this summary is that it captures in one

17 table the key data needed to make budgetary decisions and thus might serve as a

18 template for what data is important.

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*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Table** **1:** **Summary** **of** **Net** **Position** | | | | |
| June 30, 2019 | | June 30, 2020 | *Change* | ***Percentage***  ***Change*** |
| ***Assets*** |  |  |  |  |
| 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%* |
| *Total* *Assets* | $ 109,089,859 | $ 286,570,203 | *$* *177,480,344* | *163%* |
|  | |  |  | |
| *Deferred* *Outflows* *of* *Resources* | $ 22,094,579 | $ 19,321,134 | *$* *(2,773,445)* | *13%* |
| ***Liabilities*** |  |  |  |  |
| 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%* |
| *Total* *Liabilities* | $ 144,224,575 | $ 291,686,294 | *$* *147,461,719* | *102%* |
|  | |  |  | |
| *Deferred* *Inflows* *of* *Resources* | $ 5,549,865 | $ 9,680,588 | *$* *4,130,723* | *74%* |
| ***Net*** ***Position*** |  |  |  |  |
| 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%* |
| ***Total*** ***Net*** ***Position*** | $ (18,590,002) | $ 4,524,455 | *$* *23,114,457* | *124%* |

*Note:* Kenyon [(2021a,](#_bookmark173) p. 6). Public record.

**Figure 7**

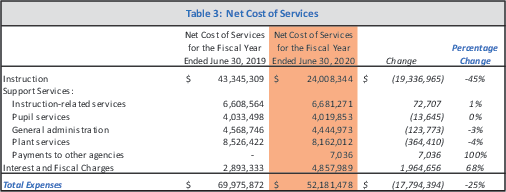
*LASD YE 2020 Change of Net Position*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Table 2: Change in Net Position** | | | | |
| June 30, 2019 | | June 30, 2020 | *Change* | ***Percentage***  ***Change*** |
| **Revenues** | |  |  | |
| 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%* |
| *Total Revenues* | 84,549,699 | 106,711,414 | *22,161,715* | *26%* |
|  | |  |  | |
| **Program Expenses** | |  |  | |
| Instruction | 52,349,163 | 54,025,994 | *1,676,831* | *3%* |
| Support Services: |  |  |  |  |
| Instruction­related 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%* |
| *Total Expenses* | 80,028,195 | 83,596,957 | *3,568,762* | *4%* |
|  | |  |  | |
| **Change in Net Position** | 4,521,504 | 23,114,457 | *18,592,953* | *411%* |
| *Beginning Net Position* | (23,111,506) | (18,590,002) | *4,521,504* | *20%* |
| *Ending Net Position* | $ (18,590,002) | $ 4,524,455 | *$ 23,114,457* | *124%* |

*Note:* Kenyon [(2021a,](#_bookmark173) p. 7). Public record.

**Figure 8**

*LASD YE 2020 Net Cost of Services*



*Note:* Kenyon [(2021a,](#_bookmark173) p. 9). Public record.

**Figure 9**

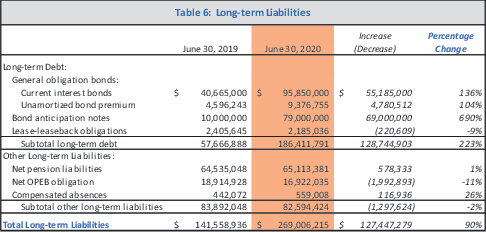
*LASD YE 2020 Capital Assets*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 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%* |
| *Total* | 136,924,628 | 271,698,219 | *134,773,591* | *98%* |
| *Less: Accumulated Depreciation* | 47,879,087 | 50,621,771 | *2,742,684* | *6%* |
| Net Capital Assets | $ 89,045,541 | $ 221,076,448 | *$ 132,030,907* | *148%* |

*Note:* Kenyon [(2021a,](#_bookmark173) p. 10). Public record.

**Figure 10**

*LASD YE 2020 Long-term Liabilities*



*Note:* Kenyon [(2021a,](#_bookmark173) 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% |
| LCFF Sources | 47,831,288 | **48,960,469** | 50,930,778 | 52,994,478 | 55,150,308 | 58,023,166 |
| Federal Sources | 2,966,976 | **1,128,389** | 1,162,015 | 1,197,456 | 1,233,380 | 1,270,382 |
| Other State Sources | 7,460,221 | **3,799,074** | 3,848,990 | 3,863,445 | 3,874,123 | 3,881,107 |
| Other Local Sources | 14,942,614 | **15,253,502** | 15,910,684 | 15,977,729 | 16,049,330 | 13,308,736 |
| **Total** **Revenues** | **73,201,099** | **69,141,434** | **71,852,467** | **74,033,108** | **76,307,141** | **76,483,390** |
| Certificated Salaries | 28,473,085 | **26,804,421** | 27,081,223 | 27,286,386 | 27,563,386 | 27,771,946 |
| Classified Salaries | 12,146,432 | **11,964,000** | 12,072,253 | 12,178,439 | 12,284,470 | 12,390,750 |
| Employee Benefits | 16,708,058 | **17,877,672** | 19,185,547 | 19,853,541 | 20,542,397 | 21,163,633 |
| Retiree Benefits | 934,490 | **960,791** | 1,001,625 | 1,044,194 | 1,088,572 | 1,134,836 |
| Books & Supplies | 3,926,089 | **1,508,677** | 1,542,077 | 1,573,747 | 1,607,611 | 1,640,136 |
| Contract Services | 9,782,495 | **8,879,712** | 8,999,752 | 9,143,511 | 9,308,868 | 9,477,329 |
| Capital Outlay | 251,893 | **235,312** | 240,835 | 246,658 | 253,080 | 259,653 |
| Other | 8,262 | **8,262** | 8,262 | 8,262 | 8,262 | 8,262 |
| **Total** **Expenses** | **72,230,804** | **68,238,847** | **70,131,574** | **71,334,737** | **72,656,646** | **73,846,545** |
| **Net** **Change** | **970,295** | **902,587** | **1,720,892** | **2,698,370** | **3,650,495** | **2,636,845** |
| 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 |
| **Total** **Reserves** | **9,025,657** | **9,968,245** | **11,749,042** **14,517,531** **18,246,998** **20,964,474** | | | |
| **%** **of** **Expense** | **12.50%** | **14.61%** | **16.75%** **20.35%** **25.11%** **28.39%** | | | |

*Note:* Kenyon [(2021b,](#_bookmark174) p. 137) Public record.

1 Glossary

2 **arm’s length transaction** A transaction, usually financial, where all parties are

3 independent and are self-interested.

4 **blended learning** A method of teaching where both in-person instruction and

5 virtual instruction are used.

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

7 **chartering authority** A governmental entity that grants charter schools the

8 authority to operate and which provides oversight. In California, a chartering

9 authority could be a public school district, a county office of education, or the

10 California Department of Education.

11 **charter management organization (CMO)** “A non-profit organization that

12 operates or manages a network of charter schools (either through a contract

13 or as the charter holder) linked by centralized support, operations, and

14 oversight.” ((CA Dept of Education), [2021)](#_bookmark127)

15 cross-collateralization A term from bond financing which indicates that an asset

16 has been used as collateral in two different obligations.

17 **education management organization (EMO)** “A for-profit entity that operates or

18 manages a network of charter schools (either through a contract or as the

19 charter holder) linked by centralized support, operations, and oversight.” ((CA

20 Dept of Education), [2021)](#_bookmark127)

21 **general obligation bonds** General obligation bonds are tax-exempt bonds

22 backed by an LEA’s property revenues. State law limits bond debt to 2.5% of

23 total assessed valuation for unified school district and 1.25% for elementary

24 and high school districts.

25 **public school** Public schools are funded by taxes and are governed by a publicly

26 elected Board of Trustees. Public schools accept any and all students who

27 wish to enroll, at any time of year, regardless of race, national origin, sexual

28 orientation, gender, religion, or citizenship.

29 **revenue bonds** Tax-exempt bonds guaranteed by a schools revenue instead of by

30 an LEA’s property tax revenue.

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

2 **unduplicated pupils** The State of California augments school district revenue on

3 a per pupil basis for every pupil that qualifies for free or reduced price lunch,

4 or is an English language learner, or is a foster youth, but only an

5 unduplicated basis. Notably, children with special needs are not considered

6 *unduplicated pupils*. Neither are homeless children.