ROCKETSHIP EDUCATION:

AN EXPLORATORY PUBLIC POLICY CASE STUDY

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by

Vladimir Gresham Ivanović

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by

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**Abstract**

ROCKETSHIP EDUCATION: AN EXPLORATORY PUBLIC POLICY CASE STUDY by

Vladimir Gresham Ivanović

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

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

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Nothing in this dissertation was written by an artificial intelligence program. I am solely responsible for any and all errors in this dissertation.

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**Abbreviations**

**ARUSD** Alum Rock Unified School District

**BAN** Bond Anticipation Note

**CAFR** Comprehensive Annual Financial Report

**CDE** California Department Of Education

**CINA** Change in Net Assets

**CMO** Charter School Management Organization

**COE** County Office of Education

**COVID-19** Corona Virus Disease 2019

**CPRA** California Public Records Act

**CSBA** California School Boards Association

**CSFA** California School Finance Authority

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

**EC or Ed Code** Education Code of California

**ECLS-K** Early Childhood Longitudinal Study – Kindergarten class of 1998 or 2011 **EMO** Education Management Organization

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

**GO bond** General Obligation Bond

**LASD** Los Altos School District

**LCAP** Local Control and Accountability Plan

**LCFF** Local Control Funding Formula

**LEA** Local Education Agency

**SACS** Standardized Account Code Structure

**SARC** School Accountability Report Card

**SARS-CoV-2** Severe Acute Respiratory Syndrome Corona Virus #2 **SCCBOE** Santa Clara County Board of Education

**SCCOE** Santa Clara County Office of Education

**SCC** Santa Clara County

**SEDA** Stanford Educational Data Archive

**TPS** Traditional Public School

**TRAN** Tax Revenue Anticipation Note

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**Glossary**

**ADA** Average Daily Attendance, the method that the state of California uses to determine how many students attend a particular school. An alternative is to use the number of students enrolled, some of whom may attend sporadically but still need to be educated when they do attend. (California Department of Education, 2019)

**arm’s length transaction** A transaction, often financial, where all parties are independent and self-interested. (Wex Definition Team, 2010)

**blended learning** A method of teaching where both in-person instruction and virtual instruction are used. (Graham, 2018)

**bond** A bond is a loan whose terms (maturity date, interest rate) are fixed. Bonds are issued by a borrower (the debtor) to investors (the creditors) who are the source of the funds borrowed. The borrower is liable for repaying the debt, usually on a fixed schedule. In return for getting the funds now, the borrower agrees to compensate the creditor by repaying both the amount loaned (the principal) and interest on the amount outstanding at an agreed upon (ther interest) rate. (Borad, 2015)

**charter school** A publicly funded but privately run school that is independent from the usual public school system. Like public schools, charter schools are tuition-free, must accept all who apply, and are governed by a school board. Unlike public schools, the school board is unelected. (California Department of Education (CDE), 2023b; California School Boards Association, 2016; Eckes, 2024)

**charter school authorizer** A governmental entity that grants charter schools the authority to operate and which provides oversight. In California, a chartering authority could be a public school district, a county office of education, or the California Department of Education. (National Association of Charter School Authorizers (NACSA), 2024)

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**charter management organization (CMO)** “A non-profit organization that operates or manages a network of charter schools (either through a contract or as the charter holder) linked by centralized support, operations, and oversight.” (U.S. Department of Education, 2021, p. 2) and (California Department of Education (CDE), 2023a).

**conduit bond** A type of municipal bond where the bond is paid back, not by a public entity’s revenue stream, but by a private entity, the conduit borrower, e.g. a limited liability company or corporation. The public entity, the conduit issuer, is merely a pass through entity between investors and the conduit borrower (Cooper, 2017). (See Government Accounting Standards Board, 2019 for details on what qualifies as a conduit bond.)

**cross-collateralization** A term from bond financing which indicates that an asset has been used as collateral in two different obligations (Lip, 2024).

**debt, convertible** An obligation (a loan or a bond) that can be converted into another form, typically common stock or equity (Chen, 2020), but in Rocketship’s case, from a loan into a grant or donation.

**double bottom line grantors** Grantors (philanthropies) which measure social impact in addition to fiscal performance (Clark et al., 2015).

**education management organization (EMO)** “A for-profit entity that operates or manages a network of charter schools (either through a contract or as the charter holder) linked by centralized support, operations, and oversight.” (U.S. Department of Education, 2021, p. 2) and (California Department of Education (CDE), 2023a).

**general obligation bonds (GO)** General obligation bonds are tax-exempt bonds backed by a public entity’s tax revenues, and not from the revenue of a project. California xvi

state law limits bond debt to 2.5% of total assessed valuation for unified school districts and 1.25% for elementary and high school districts (California Debt and Investment Advisory Commission (CDIAC), 2014).

**municipal bond** A municipal bond is a bond issued by a public entity and bought by investors. The public entity (the debtor) borrows from investors (the creditor). Investors loan money to the public entity, and the public entity pays the investors back over time with interest (Chen, 2022).

**parcel tax** A non-*ad valorem* property tax, i.e. not based on the value of the property, but assessed per parcel (Lu, 2019).

**philanthrocapitalism** Using a market capitalism approach in non-profits (Giridharadas, 2018).

**portfolio school district** A collection of diverse charter schools managed as a single organization (Lake & Hernandez, 2011).

**property tax** A tax based on the assessed value of a property, i.e. an *ad valorem* tax (California Board of Equalization (BOE), 2018).

**Proposition 13** Passed by California voters in 1978 as a constitutional amendment, Prop. 13 devastated funding to local governments, including school districts by limiting the property tax to 1% of assessed value, increases to a maximum of 2% (unless reassessed because of a change in ownership), and requiring a two-thirds majority to increase property taxes, since lowered to 55% by Prop. 39 (Aguinaldo et al., 2022).

**Proposition 39** Passed by California voters in 2000 as a constitutional amendment and state statute, Prop. 39 mandates that public school districts, if requested, must provide reasonably equivalent facilities to charter schools (Aguinaldo et al., 2022).

**Proposition 98** Passed by California voters 1988 as a constitutional amendment and state

statute, Prop. 98 defines the minimum funding level of K-14 schools in the state xvii

budget (Aguinaldo et al., 2022).

**public school** Public schools are funded by taxpayers and are governed by a publicly elected Board of Trustees. Unlike charter schools, public schools accept, at any time of year, any and all students who wish to enroll. They do not discriminate on the basis of race, national origin, sexual orientation, gender, religion, citizenship, ability, disability, or language proficiency. All are welcome (California Department of Education (CDE), 2023c). (See also Jamie Vollmer’s story about blueberries in Vollmer, 2011.)

**related party transaction** A transaction that is not an “arm’s length transaction” (Kenton, 2022).

**revenue bonds** Tax-exempt bonds guaranteed by a schools revenue instead of by an LEA’s property tax revenue (Chen, 2021).

**unduplicated pupils** The State of California augments school district revenue on a per pupil basis for every pupil that qualifies for free or reduced price lunch, or is an English language learner, or is a foster youth, but only an unduplicated basis. Notably, children with special needs are not considered *unduplicated pupils*. Neither are homeless children (California Department of Education (CDE), 2015).

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*Lucius Cassius ille quem populus Romanus verissimum et sapientissimum iudicem putabat identidem in causis quaerere solebat “cui bono” fuisset.*

The famous Lucius Cassius, whom the Roman people used to regard as a very honest and wise judge, was in the habit of asking, time and again, “To whose benefit?”

Pro Roscio Amerino, §§ 84, 86

Marcus Tullius Cicero*a*

*a*https://en.wikipedia.org/wiki/Cui\_bono

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**Introduction**

If, in Harold Lasswell’s words, politics is about who gets what, when, and how (Lasswell, 1936), then education is surely one of the most consequential—and fascinating— of public policy issues. At stake is the well-being of tens of million of students on whose behalf federal, state, and local governments spend upwards of three quarters of a trillion dollars annually.1 The number of stakeholders is huge: every parent and every child is a stakeholder, as are teachers, administrators, legislators, employees of fifty state departments of education, the federal Department of Education, the President of the United States, the U.S. Supreme Court, and state and local courts. Stakeholders exist throughout the United States, in states, counties, cities, towns, villages, and in almost 100 thousand schools in thousands of school districts. The COVID-19 pandemic of the last 2+ years has revealed just how important public education is.

Education is the arena in which parents, legislators, unions, political parties, billionaires, technologists, scholars and educators clash, all vying for recognition, influence and reward. Education is where religion, politics, free market neoliberalism, and social justice intersect. One topic in particular has, in the last fifty years, generated a disproportionate share of discord: the privatization of public education, i.e. school choice.2

Formerly sleepy school board elections have attracted national interest, and with that interest, a flood of money. The 2020 Los Angeles school board election cost over $14M for just four seats and generated articles in the national press. Likewise, a November 2016 statewide proposition in Massachusetts which sought to expand charter schools was

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 the otherwise unpalatable reality that privatization takes something that used to be available freely to all and restricts it exclusively to those who can afford to pay.

1

covered extensively by national newspapers with one advocacy group spending more than $15M (not including a $425,000 fine for violating campaign law).3 Betsy DeVos, U.S. Secretary of Education under the former President Donald Trump, drew fierce criticism from the start of her tenure with her unwavering support of charter schools, criticism which was endlessly reported on. In short, charter schools became nationally visible.

**1.1 Schools and Charter Schools**

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

Schools, under this definition of school choice, take a number of forms: they can, like traditional public schools be in-person, but unlike traditional public schools, they can also be completely online (virtual), or even a blend of virtual and in-person (blended). How states finance school choice varies as well. School vouchers, various types of tax-credits, savings accounts, and tax deductions, have all been used, often augmented by tax dollars. The phrase “school choice” is also associated with 529 savings accounts, student income loans, social impact bonds, and philanthrocapitalism.4

Regardless of how school choice is financed, school choice complicates what used to be a system of mostly public schools plus a few private schools that had been in place for over 150 years. This new kind of financing has raised some fundamental questions: Who

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

4The use of a market-based approach in philanthropy.

2

benefits from this new financing? Do the children for whom education is the difference between being poor and flourishing benefit? Is education is being turned into a low-risk, profitable investment for hedge funds, private equity firms, investment banks, and the one percent?

The various forms of school choice have waxed and waned, but charter schools were present at the creation of the privatization movement in education and have continued to enroll more and more students, diverting more and more dollars out of the public school system (Lafer, 2017a; Lafer, 2018; Lafer et al., 2021). School choice has spawned an entire industry devoted to marketing school choice: academic departments and institutions, educational associations, think tanks, astroturf5advocacy groups, and political action committees, all of which are examples of the marketing of the privatization of public education.

According to the National Center of Education Statistics in the U.S. Department of Education, there were 7,547 elementary and secondary charter schools in the United States enrolling 3,431,230 students in 2019–20 school year (de Brey et al., 2022, Table 216.90, p.144). This represents 7.7% of the total number of elementary and secondary schools and 6.8% of the total number of students in the United States. The state with the greatest charter school presence was California which had 1,321 schools (12.7% of the total) and 674,652 students (11.0%). Within California, in the 2019–20 school year, charter schools in Santa Clara County enrolled 31,584 students (13.6% out of 231,865) (California Department of Education, 2021).

These are notable patterns, and the COVID-19 pandemic has accelerated the growth of charter schools, in contrast to the small decline of recent years. However, this recent growth appears to be almost completely due to the expansion of virtual charter schools (Strauss, 2021). Despite continued growth, charter schools and school choice have

5Astroturf: “The disguising of an orchestrated campaign as a ‘grass-roots’ event.” 3

remained controversial and have generated heated debate. Reports and studies from opponents of school choice have been answered by reports and studies from advocates of school choice. Both sides claim their methodology to be clearly superior and consider the other side’s fatally flawed.6

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

On the other hand, the Lubienskis showed after careful and thorough statistical analysis in Lubienski and Lubienski (2014) that public schools out perform charter schools. The Lubienskis used restricted-access 2003 NAEP data from just shy of 300,000 students in 4th and 8th grades in 6041 schools throughout the United States, plus data from the Early Childhood Longitudinal Study, Kindergarten (ECLS-K 98) class of 1998–99.7 Based on the Lubienski’s analyses, there is no evidence that, on the whole, charter schools are superior to traditional public schools in academic performance. Rather, at best, they perform similarly, and on average, they perform worse.

If charter schools are on average no better than public schools, why are they so fervently touted as the answer to the perceived ills of American public education? Why are eye-popping sums (10× the usual amounts) spent supporting public school board candidates who favor charter schools? Why are charter schools still growing in both enrollment and in number? Is the profit motive is the overriding goal of charter schools,

6Jeffery Henig in his book *Spin Cycle: How Research is Used in Policy Debates: The Case of Charter Schools* (J. Henig, 2009), offers a detailed examination of the war of words that resulted from just one report and just one newspaper article.

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

4

or are they instead driven by a genuine desire to improve the educational outcomes of the very children who could most benefit from a higher quality education? My goal in this dissertation is to offer some answers to questions like these by examining in detail the finances and financial structure of a single charter school chain, Rocketship Education.

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

The remainder of this chapter provides some context for why I conducted this study. The chapter *A Review of the Literature* discusses the extensive literature on charter schools. The following chapter, *Research Design and Methodology*, details what data will be collected, how it will be collected, and how it will be analyzed. The chapter *Findings* provides the results of analyzing that data in context of this study’s research question. The last chapter, *Discussion* considers the limitations and public policy implications of my study and its conclusions. Finally, it makes some suggestions for how current public policy should be changed to achieve some of the seven goals that the California Legislature set out in *The Charter School Act of 1992*.

**1.2 What is the Purpose of this Study?**

The goal of this case study is to determine if Rocketship Education is, or could be, profitable, how are these profits are generated, and who benefits. It seeks to analyze as carefully and fully as possible the finances of Rocketship Education and of associated 5

entities, concentrating on their real estate dealings.

Real estate is of special significance for charter schools because they have no facilities when they submit their initial petition. They do have several ways of obtaining the needed facilities, but because they cannot in California raise property or parcel taxes, nor can they pass a bond measure that is paid for by property taxes, charter schools must either obtain facilities from their home public school district or they must lease or buy facilities using funds obtained outside the channels used by public schools. Furthermore, since Rocketship Education is incorporated as not-for-profit corporations, any profits must remain as assets of Rocketship Education with one exception: profits may be transferred to other non-profit, public benefit corporations.

The non-real estate finances of charter schools—at least in California—are similar to public schools. Both use the same state mandated accounting structure because both have very similar needs. Although a charter school may pay more for this or less for that, fundamentally the non-facility-related revenues and expenses of charter schools are similar to those of traditional public schools. But when leasing, buying and potentially constructing facilities enter the picture, a different calculus ensues: Charter school facility needs are immediate and are cannot use financing that is similar to public schools.

This study concentrates on Rocketship Education8 because its popularity has led to core aspects of its model being adopted by other charter school chains such as the Caliber Public Schools or the Navigator Schools, both in California. It is an exemplar of a popular

charter school and has had an outsized influence on public education in Santa Clara County.

8A note on names: Rocketship Public Schools is name that Rocketship Education is doing business as starting in June 2020, but since it has been known as Rocketship Education for much longer than it has been as Rocketship Public Schools, this study uses (mostly) the former name. Also, this study uses just Rocketship to refer to Rocketship Education and related entities, such as the various Launchpad Development LLCs that are associated with individual schools.

6

This study seeks to determine if Rocketship Education or related entities are generators of profit. Furthermore, if the model that Rocketship Education uses does generate profits, can that model be used by other charter school operators within California or perhaps in other states? Many studies have examined the educational outcomes of charter schools and of charter chains, including one specifically on Rocketship’s effect on Milwaukee’s public schools had proposed legislation passed, but Rocketship’s finances, with its real estate transactions as a focus, have not been studied in detail.

It should be noted that this study will not examine the educational outcomes of Rocketship. All charter schools offer themselves as better alternatives to traditional public schools. Rocketship, for example, claims that its pedagogical model of blended learning • is more efficient than that of traditional public schools,

• offers personalized learning9through computer-mediated instruction, and • yet still offers a human connection (at least part of the time) that is similar to traditional public schools.

These claims can and should be tested in other studies by comparing individual Rocketship schools to independent charter schools and to traditional public schools in the same district. The Rocketship chain may be compared to other charter school management organizations, to portfolios of charter schools, as well as to traditional public school districts, but such studies need to be done with care to avoid methodological errors that could reduce the validity of their conclusions. ***Research Question***

These questions and themes lead to the following research question: Has Rocketship structured itself to earn a return for its founders and investors, focusing especially on its real estate transactions? In order to answer this research question definitively, this study

9Note 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.

7

must be as complete as possible, and that entails understanding the finances of public schools in California, those of charter schools in California, and finally, those of Rocketship Education and related entities.

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

This case study is unique in that it examines in depth the finances of a single charter school chain. There have been studies of the finances of aggregations of charter school chains (e.g.. all known charter school chains in the United States,10 or a selected group of charter school chains). Other studies have explored the effects of charter schools on segregation, academic achievement, or the financial impact of charter schools on their surrounding public school district. But academic studies of the finances of just a single charter school chain seem to be missing.11 Further, studies focusing on real estate of a single chain do not seem to have been performed. It is hoped that the lessons learned from this case study will be used by policy makers to strengthen charter school law in California and elsewhere in order to increase desired outcomes, minimize cost, and reduce unintended consequences.

As tempting and as important as it might be, this dissertation will not examine the academic outcomes of Rocketship or of other charter schools. This dissertation will restrict itself to the finances of those schools. Much excellent work has already been done evaluating charter school outcomes. Section 2.6, *Surveys of Charter School Research* discusses four surveys of charter school research and one overview book.

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

11I 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.

8

**1.3 Theoretical and Conceptual Frameworks**

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

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

***Public Policy as aTheoretical Framework***

A public policy framework provides a rich set of tools and techniques with which to analyze Rocketship’s finances. Three factors support using a public policy framework to guide understanding and evaluating Rocketship’s finances. First, charter school finance is constrained primarily by public policies set by state legislatures, the creators of charter schools. These laws regulate taxes, grants, borrowing capacity, and reporting requirements of charter schools and charter school chains (Aguinaldo et al., 2020), and by definition, whatever falls within the purview of legislators is public policy. Second, Brighouse et al. (2018), in *Educational Goods*, provide a succinct definition of what public policy analysis is which matches the purpose of undertaking this case study. They use a values, evidence, and decision-making framework “to make judgments about how well specific policies are likely to realize valued outcomes” (Brighouse et al., 2018, p.1). Last,

these three concerns — values, evidence, decision-making — are considered the key 9

concerns by academics and researchers in the public policy field (Bueno de Mesquita, 2016; Clemons & McBeth, 2021; Fowler, 2013; Gupta, 2011). Using a public policy framework is appropriate when examining charter school finances.

The discipline of public policy sanctions a wide variety of tools and techniques when analyzing issues. (These tools and techniques will be discussed more fully in Chapter 3, *Research Design and Methodology* or in Chapter 4, *Findings* if and when they are used.) Public policy has been studied for years (there are public policy departments in many universities) and it is a mature area of academic research. As in most academic fields, there are fierce debates about the merits and robustness of a particular approach compared to alternatives, but at a high level, what to do is generally agreed upon. Most identify the following five steps (or variants thereof) that are used when creating public policy:

1. Define the issues and set the agenda.

2. Formulate one or more policies that address the issues identified. 3. Evaluate those policies using tools and techniques like cost-benefit analysis, value analysis, political feasibility, game theory, and economic analysis.

4. Implement those policies by passing legislation, changing practices, or by using the courts.

5. Evaluate the effectiveness of the policy changes.

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

The methodology of this dissertation draws on two excellent guides to public policy,

Clemons and McBeth (2021) and Gupta (2011). The first presents concepts, tools, and 10

techniques used in analyzing public policy; the second a case study approach to public policy analysis. Fowler (2013) treats public policy in the field of education, but with an emphasis on power, politics, policy actors and the messy process of creating and implementing public policy.  Clemons and McBeth concentrate on explicating different theoretical approaches to public policy, whereas Gupta is the most practically oriented.

Since much of the evidence that will be presented will include financial data, the tools and techniques which manipulate and display data play an important role. First and foremost is finacial analysis. But, as Epple et al. (2016) show in Chapter 2, being clear on what exactly is being analyzed and what are the inherent limitations of that data is fundamental. It makes no sense to analyze brilliantly the wrong data or to stretch the right data beyond reasonable bounds.12

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

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

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

McCombes (2019) says that case studies are a “detailed study of a specific subject, such as a person, group, place, event, organization, or phenomenon”. They are “‘good for describing, comparing, evaluating and understanding different aspects of a research

12Examples of the former are data which are not representative of the underlying population. Examples of later are studies which fail to recognize confounding variables.

11

problem” and are “an appropriate research design when it allows you to explore the key characteristics, meanings, and implications of the case.” Two papers go into detail about using the case study approach: Crowe et al. (2011) and Rashid et al. (2019). Yin (2018) provides a detailed methodology for doing case study research well.

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

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

12

**A Review of the Literature**

Rocketship exists in a social and educational context that has a long history. This chapter reviews that context; what other researchers and scholars have said about the origins of charter schools, their history, and their ostensible goals before characterizing the finances of public schools in California and then the unique aspects of charter school finance.

American public education has—allegedly—been a failure, at least “[a]ccording to highly publicized NAEP results in the mid 1980s”, in desperate need of reform. It turns out, this urge for reform has a long history: America’s schools have been judged as needing reform ever since the idea of free public education took hold in the early 1800s.13 Since then, a succession of educators and reports have documented the abysmal [sic] state of American education (Gove & Meier, 2000). Yet, not everyone agrees  with this negative evaluation of American public schools. Berliner and Glass (2014) in *50 Myths and Lies That Threaten America’s Public Schools: The Real Crisis in Education* refute those myths which have been advanced to show that American’s schools are in a crisis. This chapter examines these and other points of view.

**2.1 The Birth of American Public Education**

Prior to the Civil War, Horace Mann introduced widely copied reforms (Pulliam & Van Patten, 2007) into the existing system of education which was then not free, not open to all, and not compulsory. Those schools had hardly changed since the founding of the Boston Latin School on April 23, 1635. In the early 1900s, John Dewey, an educational leader of the Progressive Era (1896–1916) preached reform, but it was not until the publication of *Nation at Risk* in 1983 that the modern zeal for education reform took form. *Nation at Risk* was the most influential of roughly 30 major education reform reports

13Wikipedia has an excellent summary article on *Education in the United States* available at https://en.wikipedia.org/wiki/Education\_in\_the\_United\_States.

13

starting in 1982 and continuing up until 2005 Pulliam and Van Patten (2007, p. 252). That American public education needed reform was repeated constantly, mainly by conservatives, despite underwhelming evidence of its veracity and substantial evidence to the contrary. Through constant repetition, the need for reform has become accepted wisdom. The answer to this need was to take the government’s “monopoly in education” (Milton Friedman’s characterization) out of the hands of faceless bureaucrats and subject it to the rigors of free markets which would, it was asserted with scant evidence and with the complete absence of a theory of action, increase efficiency, choice, and quality. Thus vouchers and charter schools were legitimized.

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

Garcia writes in *School Choice*

The four primary arguments put forth in support of school choice are the elimination of government bureaucracies, the interjection of competition into education through market forces, the promotion of parental choice as the most granular form of local control, and school choice as the “new” civil rights issue of our time.14 (Garcia, 2018, p. 55).

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

14Lest Garcia be tarred as anti-school choice, he is merely following Anatol Rapoport’s Rules for Constructive Criticism, the first of which is to restate the argument of the person you are criticizing better than they themselves have done.

14

school. Whatever school choice is about, it is not about students and how well they are doing.

To be clear, it is not the case that every American school is a model for the rest of the world: systematic, persistent, pervasive inequities and injustices abound and have been powerfully written about in Kozol (1992), Valenzuela (1999), Kozol (2005), Heitzeg (2009), and Roithmayr (2021). The Coleman Report (Coleman, 1966) concluded that ten years

after *Brown v. Board of Education*, American schools were still segregated and were still unequal. Surprisingly and contrary to the expectations of many, the report laid most of the blame for unequal educational outcomes on systematic, persistent, pervasive inequalities and injustices outside of schools. The report said,

Taking all these results together, one implication stands out above all: That *schools bring little influence to bear on a child’s achievement that is independent of his background and general social context*; and that this very lack of an independent effect means that the inequalities imposed on children by their home, neighborhood, and peer environment are carried along to become the inequalities with which they confront adult life at the end of school. [Emphasis added] (Coleman, 1966, p. 325).

The report concluded that family background, the socioeconomic background of a school, and a student’s sense that they were in control of their lives were more important than race-based disparities in explaining the black-white achievement gap (Pearce, 2016).

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

None of this should be a surprise because it is also clear that public schools in the U.S. have been systematically underfunded for decades; their dismal performance is more

likely the result of the poverty of their neighborhoods and their lack of funding than it is 15

the other way around. For example, the California School Boards Association’s (CSBA) Education Legal Alliance Adequacy Committee found that there exists a “substantial gap in funding between what K-12 education [in California] receives and what K-12 education needs even to meet the standards prescribed by the state (Bray, 2015, *iii*). Baker et al. (2018) in their aptly titled report *The Real Shame of the Nation*, develop a *National Education Cost Model* (Baker et al., 2018) which accounts for regional cost differences as well different funding levels to show that inadequate funding is present throughout the United States. Garcia (2018) says in *School Choice* that the “existence and importance of the issues that reformers believe plague public education are based as much on tradition and reputation as they are on tangible research evidence” (Garcia, 2018, p. 54). Finally, and tellingly, grossly inadequate funding is a characteristic of communities that are racially segregated and which are not white (Darling-Hammond, 2012; Rothstein, 2017).

J. R. Henig (1994)’s book, *Rethinking School Choice*, which came out a mere three years after the passage of the nation’s first state charter school law in Minnesota15 and two years after the second in California16 lays out a key argument against charter schools. Henig says, “[T]he real danger in the market-based choice proposals is not that they might allow some students to attend privately run schools at public expense, but that *they will erode the public forums in which decisions with societal consequences can democratically be resolved*” [emphasis added] (J. R. Henig, 1994, *xiii*). Translated, this means that the decisions about public education’s form and content are not going to be made by parents and teachers, but by people who do not have a stake in the outcome. It is now a matter of badly misaligned incentives.

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

15Laws of Minnesota 1991, chapter 265, article 9, section 3

16Education Code, Title 2, Division 4 Part 26.8, §47600 *et. seq*

16

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

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

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

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

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**2.2 A History of Charter Schools**

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

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

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

with “We believe that it does.”

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

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

Carolina, Alabama, or Mississippi as of the 1962–1963 school year. Across the 18

South as a whole, a mere 1 percent of black school children were attending school with whites in 1964—a full decade after *Brown* was decided.

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

The irony is that while charter schools started life as 100% white, they now serve intensely segregated students of color. Frankenberg et al. (2019, p. 47) noted that,

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

Unfortunately, these segregation academies still exist, but instead of excluding children of color the way segregation academies did, they disproportionately target and enroll children of color. While these schools are no longer referred to as segregation academies, they make up a sizable subset of charter schools and often include the word “Academy” in their name. In Santa Clara County, for example, 11 out of 21 charter schools authorized by the county currently include “Academy” in their name (Santa Clara County Office of Education, 2023).

Nikole Hannah-Jones, in her keynote speech at the Network for Public Education’s Fourth Annual Conference, said that it has never been the case that a majority of African-Americans have attended majority white schools (*Nikole Hannah-Jones’s Keynote at the Network for Public Education’s 4th Annual Conference*, 2017). She then added ruefully, that 19

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

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

**2.3 Charter Schools, Free Markets and Privatization**

Just a year after *Brown*, Friedman (1955) published his article “The Role of Government in Education” in *Economics and the Public Interest* (Friedman, 1955) that reframed charter schools as an economic problem in education instead as a way of evading court-ordered integration. That paper ensured that charter schools would no longer be morally tainted by their association with virulent racism, but rather would take on the honorable task of breaking up what was called a monopoly. Charters, operating in a free market,17 would

17No 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.

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

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

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

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

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

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

public education:

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1. A substantial share of public expenditure intended for the delivery of direct educational services to children is being extracted inadvertently or intentionally for personal or business financial gain, creating

substantial inefficiencies;

2. Public assets are being unnecessarily transferred to private hands, at public expense, risking the future provision of “public” education;

3. Charter school operators are growing highly endogenous, self-serving private entities built on funds derived from lucrative management fees and rent extraction which further compromise the future provision of “public” education; and

4. Current disclosure requirements make it unlikely that any related legal violations, ethical concerns, or merely bad policies and practices are not realized until clever investigative reporting, whistleblowers or

litigation brings them to light.

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

In California at least, these policy concerns have not been addressed since Baker and Miron wrote about them.18

Charter schools are now just one of the many forms of *privatization*, when public functions are performed by private parties for profit. Privatization is a manifestation of the corporate takeover of the world, first documented more than fifty years ago by Domhoff in and elaborated on in seven subsequent editions of his book *Who Rules America?* Domhoff argues that corporations and the corporate elite really run the United States, and by extension, the world. Kahn and Minnich (2005) make much the same point in their book *The Fox in the Henhouse: How Privatization Threatens Democracy* (Kahn &

18Changes 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.

22

Minnich, 2005). They list “[s]chools, prisons, welfare, Social Security, water and sewer systems, buses, trains, subways, highways, waterways, sanitation systems” (p. 30) as examples of formerly government run functions that are in whole or in part privatized. They could have also listed postal mail, space travel, and now every facet of education. Cohen and Mikaelian in *The Privatization of Everything: How the Plunder of Public Goods Transformed America and How We Can Fight Back* lay out in detail how privatization has infiltrated American life and the consequences of this takeover of public goods by private firms run for profit (Cohen & Mikaelian, 2021). Black in *Schoolhouse Burning* (Black, 2020) focuses on the less tangible but arguably more important consequences of privatization of public schools, the loss of democratic control.

Privatizers make money by turning goods or services that used to be publicly available into private goods and services that must be paid for before they can be used. The canonical example of privatization is the enclosure of the commons in Britain in the 16th and 17th centuries whereby land that previously had been owned collectively by a village was now owned by an individual who charged villagers for the privilege of using that land (Simon Fairlie, 2009). But modern privatizers have many more ways of turning a profit. They can obtain tax benefits, invest in other firms with public monies, invest in financial instruments with public monies, obtain a monopoly, engage in fraud, corruption, or outright theft, engage in self-dealing, obtain grants or loans on favorable terms, sell what does not belong to them, avoid paying for externalities, pay below market rates for goods or services, skew public-private partnerships to create unearned profits, engage in pay-for-success contracts, or offer social impact bonds.

Charter school operators have even more options. They can inflate enrollment, charge excessive management fees, mis-characterize expenses, omit or inaccurately report financial data, fail to open a school or close one soon after receiving a grant, or sell their facilities to investors and lease them back, all at potentially inflated prices. Many charter

schools have a long history of duplicitous or fraudulent actions (Baker & Miron, 2015; In 23

the Public Interest, 2018; Burris & Bryant, 2020; Lafer et al., 2021).

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

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

**2.4 Types of Charter Schools**

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

19Ravitch 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* (Ravitch, 2016).

24

***Charter School Authorizers and Oversight***

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

If a petition contains all the required elements, then the public school district may approve the petition, possibly with additional stipulations. If the public school district denies the charter school’s petition, it must state why. The charter school may appeal that denial to that County’s Board of Education (CBOE), and if the CBOE denies the charter school’s appeal, under certain circumstances, the charter school may appeal to the State Board of Education (SBE). A denial by the SBE terminates the process, and the charter school is not permitted to open. Currently, appeals to the SBE are only successful if there has been an abuse of discretion by the public school board or the CBOE.

Public school districts (called LEAs, local education agencies, in the parlance of the California Department of Education (CDE)) may authorize one several kinds of charter schools. Table 1, *Attributes of Private, Charter, and Public Schools in California* is a summary of the attributes of the types of schools in California. A public school district may sponsor a charter school directly, in which case the district exercises oversight. These dependent

charter schools are authorized by the local public school board and are subject to the 25

board’s jurisdiction. It also is possible for all the schools in a district to convert to charter schools, and then the public school board becomes the charter school board. Lastly, charter schools may be authorized by a public school district or a county office of education with a governing board that is distinct and independent from the authorizer’s governing board.

**Table 1**

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

**Attribute Private Charter Public** Funding parent tuition tax dollars tax dollars Governing Board self-appointed self-appointed elected Accountable no authorizer elected Duration unlimited time-limited unlimited Follows Ed. Code no no yes

Taxation Powers none none yes

Voter Facilities Bonds no no yes

Facilities Grants no yes yes

Enrollment unlimited capped unlimired Unionized rarely rarely yes

Curriculum completely flexible very flexible flexible Standardized Testing no yes yes

Teacher Certification no requirement required required Teacher Pension perhaps perhaps yes

***Profit-Making Status***

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

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

around this restriction. Charter operators can contract with outside firms to provide 26

some or all services, and those firms may be profit-making firms. Charter operators are able to lease, buy, or sell their facilities, and those transactions might generate a profit. Charter operators can sell their facilities and lease them back from the buyer. This kind of financial transaction converts an illiquid asset (buildings) into a liquid asset (cash) and also generates a revenue stream from the rental income, all of which is ultimately paid for by taxpayers. Charter operators may also charge schools a management fee or an expansion fee. For-profit charter operators are not restricted in the salaries they can pay administrators.

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

***Types of Instruction***

Charter schools, unlike almost all public schools, vary in their instructional format. In-person instruction is similar to that in traditional public schools, with one exception: the so-called “no excuses” charter schools (J. Horn, 2016; Torres & Golann, 2018; Golann, 2021). These schools emphasize a highly scripted, rigid code of conduct that relies on fear, intimidation, and Skinnerian behavior modification as foundational elements of their pedagogy. Unlike schools which offer in-person instruction, virtual charter schools have no face-to-face instruction; everything is mediated by some sort of technology, typically, computers running specialized software, paid for by taxpayers. In between in-person instruction and virtual instruction is blended learning. It is simply a mixture of

20The law is necessarily complex. Two useful guides (total: 300 pages) are Chaney et al. (2010) and Ennis et al. (2016). A more general guide to local government ethics is “Understanding the Basics of Public Service Ethics” from California’s Institute for Local Government (Institute for Local Government, 2016).

27

in-person and virtual instruction (M. B. Horn & Staker, 2015).

Since 2013, virtual charter schools have been studied extensively by Alex Molnar, Gary Miron and others and at the National Education Policy Center, University of Colorado, Boulder (*Virtual Schools in the U.S. 2013*, 2013; *Virtual Schools in the U.S. 2014*, 2014; *Virtual Schools in the U.S. 2015*, 2015; Miron & Gulosino, 2016; *Virtual Schools in the U.S. 2017*, 2017; Miron et al., 2018; *Virtual Schools in the U.S. 2019*, 2019; *Virtual Schools in the U.S. 2021*, 2021; *Virtual Schools in the U.S. 2023*, 2023). Their annual reports are depressingly consistent: virtual schools not run by a public school district significantly underperform public schools. Their conclusions are echoed by Woodworth et al. (2015) and Garcia (2018). Yet, despite being clearly academically inferior to public schools, the number of students attending virtual schools has risen year after year. Their pre-pandemic growth seems to be slowing, but their performance, compared to public schools, has not measurably improved.21 (*Virtual Schools in the U.S. 2019*, 2019, p. 11).

Pre-pandemic, charter schools in California were legally deemed classroom-based (e.g. not virtual) if students spent no more than 20% of their time in front of a computer.22 Blended charter schools, on the other hand, offer some sort of face-to-face interaction with a teacher along with online activity without face-to-face interaction. But they too offer only marginally better educational outcomes than fully virtual charter schools (*Virtual Schools in the U.S. 2019*, 2019). Rocketship schools use a blended instructional model.

**2.5 Charter Schools in the United States**

21Although *Charter Schools in Perspective: A Guide to Research* is otherwise an excellent summary of the research on charter schools, they incorrectly state (p. 117) that there is little research of online or virtual charter schools. The authors must not be aware of the NEPC series on virtual charter schools. However, according to *Virtual Schools in the U.S. 2019* (2019, p. 117),there is only one study on blended charter schools.

22The California Education Code §47612.5(e)(1) does not 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.

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

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

The first charter schools, other than segregation academies, were founded in Milwaukee, Wisconsin in 1991, followed by California starting in 1992. Conceptually, charter schools were based on an amalgam of ideas from Milton Friedman, Albert Shanker, and Ray Budde. Milton Friedman came at it from an ideological point of view, but couched in economic terms. Albert Shanker, in 1988, in a speech at the National Press Club, proposed that *teachers* in conjunction with *parents* be allowed to form a school *within* a school district. Shanker made no mention of competition, or free markets, or even of charter schools. Shanker’s speech emphasized curriculum and learning, not governance or finance. Ray Budde first thought of charter schools in the early 1970s, but his proposal generated no interest and it was not until 1988 that he published his ideas (Budde, 1988). ***Charter Schools in California***

Charter schools, in California as elsewhere in the United States, enter into a contract (the charter) with a chartering authority that specifes what they are to do and how, and in return, are exempt from the entirety of California’s Education Code (with the exception of

five technical provisions). The California Legislature, when it enacted the *The Charter* 29

*School Act of 1992*23 (Ed. Code §47600), spelled out its intent in passing that legislation. The Act has been amended a number of times in its nearly 30 years of existence, but its intent has remained the same. It specifies that charter schools should

a) Improve pupil learning.

b) Increase learning opportunities for all pupils, with special emphasis on expanded learning experiences for pupils who are identified as academically low achieving. c) Create new professional opportunities for teachers, including the opportunity to be responsible for the learning program at the school site.

d) Provide parents and pupils with expanded choices in the types of educational opportunities that are available within the public school system.

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

f) Provide vigorous competition within the public school system to stimulate continual improvements in all public schools.24

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

**2.6 Surveys of Charter School Research**

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

23Current California law can be accessed at

https://leginfo.legislature.ca.gov/faces/home.xhtml. California Regulations are at https://ccr.oal.ca.gov. California’s Education Code (Ed.Code) is at https://leginfo.legislature. ca.gov/faces/codesTOCSelected.xhtml?tocCode=EDC&tocTitle=+Education+Code+-+EDC

24This goal was added in 1998.

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

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

understand what we can expect from school reform. He identifies longer school days, a 31

focus on achievement, behavioral policies, teacher coaching and feedback, and data-based decision-making as characteristics most often associated with effective charter schools. Lastly he looks at innovation and distinguishes between curriculum and class-room based changes, and organizational changes, and he found hat charter schools mostly innovate on the structural side rather than the academic side.

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

In 2015 and then updated in 2018, Public Agenda released a guide to charter school research for non-academics, a review of current charter school research that was written in a way that is accessible to the public. The chapter on finance focused on four questions: how charter schools are funded, how charter schools and traditional schools compare in per pupil funding, what financial effects do charter schools impose on traditional public schools, and what are, if any, differential spending patterns between traditional public and charter schools (Public Agenda, 2018, pp. 78–89).

The finance chapter revealed that the 48 states with school choice programs had 48 32

different methods of funding public schools and charter schools. This variation in funding models made comparisons difficult. In addition, each state has likely gone through several iterations of models of charter school funding, and this lack of commonality prevents researchers from conducting valid longitudinal studies. The authors answered their first question on funding by referring to a compilation of state funding amounts.

Their answer to the second question was yes, different levels of funding do exist, and in a few cases, by as much as 40% to nearly 60% less. Their take on whether it matters was hedged because studies differ in their conclusions for a variety of reasons. Likely not published in time to be reviewed by Public Agenda, was Baker (2018) which emphatically says that money does matter. They answered their third question with an unambiguous yes, charter schools affect the finances of public schools. More recent research, Lafer (2018), Baker (2019), and Miron et al. (2021) validates that conclusion. Lastly, they conclude that charter schools do spend their revenues differently, in part because charters spend more on administration than public schools do and sometimes more on facilities.

The last of the four academic surveys, Zimmer et al. (2019), considers who was served, racial segregation effects, both academic and non-academic outcomes, management structure, and the financial effects of charter schools. Since Zimmer is a co-author of both this survey and of the previously cited Epple et al. (2016), the kinds of study designs analyzed are similar. Zimmer et al. intend to synthesize “the best research to inform the debate [about the value of charter schools]” (p. 2). They go beyond the 2016 study and survey studies on racial segregation, selective enrollment, and student pushout. Zimmer et al. conclude that charter schools lead to greater segregation for African Americans, but not necessarily for whites or Latino students. They find that charter schools do engage in sometimes subtle forms of selective enrollment and student pushout. Independently,

and two years later, Mommandi and Welner document thirteen major ways that charter 33

schools effectively choose who they enroll (Mommandi & Welner, 2021). After summarizing three different kinds of research (fixed effects, lottery-based, and match and other regression), they turn their attention to research on non-cognitive outcomes. Their penultimate chapter looks at research on indirect effects.

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

Garcia makes a point that had not been made before: Since both public schools and charter schools are measured the same way (standardized tests), “the incentives to implement innovative pedagogical strategies are curtailed because the methods by which students are able to demonstrate their learning are uniform across all schools and restricted to the format of the tests” (p. 163) He predicts that school choice in its many forms will continue to expand.

***Research on Charter School Finances***

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

of reports examining charter school finances based on carefully collected evidence. For 34

example, Lafer (2014), published an analysis of a proposed law in Milwaukee, WI (Lafer, 2014) that was specifically tailored to benefit a to-be-opened Rocketship school. Lafer went on to author two other studies on charter schools, public policy, and finance: *Spending Blind: The Failure of Policy Planning in California Charter School Funding* (Lafer, 2017b) and *Breaking Point: The Cost of Charter Schools for Public School Districts* (Lafer, 2018). Carol Burris, Executive Director of the Network for Public Education, and several co-authors have produced three reports on money and charter schools: Burris and Pfleger (2020), Burris and Bryant (2020), and Burris and Cimarusti (2021). The National Education Policy Center, a research center based at the University of Colorado, Boulder, with over 150 scholars and academics from institutions across the U.S. whose goal is “to produce and disseminate high-quality, peer-reviewed research to inform education policy discussions” (“National Education Policy Center,” 2021), has produced hundreds of reviews of research, policy and legislative briefs, some of which are annual surveys of charter schools. The series on profiles of EMOs have been produced annually for fifteen years; the series on virtual charter schools, for ten years.

Baker’s contributions to the NEPC are especially noteworthy. He is an author or co-author of 28 reviews of reports, studies, or articles on school finance, in addition to six policy, legislative, or research briefs. Baker co-wrote with Gary Miron *The Business of Charter Schooling: Understanding the Policies That Charter Operators Use for Financial Benefit* (Baker & Miron, 2015) which introduces many of the tools and techniques for evaluating how charter schools operate for profit.

Lafer’s report, *Spending Blind: The Failure of Policy Planning in California Charter School Funding*, is particularly revealing. He writes, “Any time there is a low bar of entry for firms seeking to access government funds, one can expect to find corruption, and the charter industry is no exception” (p. 18) But even absent corruption, there is ample opportunity to make lots of money. Lafer documents $2.5B of Californian taxpayer money spent over

fifteen years on charter school facilities, in many cases where there is no documented 35

educational need and where the charter school is of lower quality that nearby public schools. Lafer says, “It’s as if legislators turned on a faucet of money and then just walked away” (p. 12) Since Lafer’s report came out four years ago, only half-hearted changes have been made to turn the faucet off.25

**2.7 Rocketship**

Rocketship is well-known in the charter school world. It even has been the subject of a “biography”, *On the Rocketship* (Whitmire, 2014).26 Rocketship’s leaders and supporters routinely describe it as “high performing”, “deserving of huge credit”, “dynamic”, and “nationally lauded”. Rocketship schools, it is claimed, outperform some of the best public schools in the country. Rocketship “believe[s] that every student deserves the right to dream, to discover, and to develop their own unique talent”.27

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

***Rocketship History***

On February 16, 2006 John Danner, a tech entrepreneur turned educator, filed with

25In California, new for-profit charter schools have been outlawed, and it has been established that charter schools must abide by conflict of interest laws. Existing, for-profit charter schools may renew their charters, and using a for-profit charter management organization to “sweep” all of a charter’s revenue allows charters to bypass any conflict of interest law. Consideration of the financial impact of a charter school on its host district is now allowed, but only for initial petitions. Finally, the ability of the State Board of Education to ignore a district’s or a county’s denial of a petition has, in most cases, been eliminated.

26Just three other charter schools share this distinction: Geoffrey Canada’s Harlem Children’s Zone (Tough, 2009), Jacobs’s *Our School*, and the KIPP schools (Mathews, 2009; J. Horn, 2016)

27Rocketship, like many charter school advocates and privatizers, excel at choosing memorable, compelling names and tag lines that are impossible to argue against but which nonetheless misrepresent — deliberately so — their goals.

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

Matt Hammer, Executive Director of PACT (People Acting in Community Together), brought Danner and Smith together, and has promoted charter schools through his advocacy non-profit, Innovate Public Schools.28 Reed Hastings was an early supporter of Rocketship and he proselytized Rocketship to the larger charter school community. When he promised Rocketship $250K for each of the first eight Rocketship schools opened, his donation caught the attention of philanthropic venture funds (Whitmire, 2014, p. 50).

Danner chose to open his first school in the San José Unified School District. Danner prepared a 300 page petition that he submitted to the San José Unified School District on 04 May 2006, which held a public hearing on the matter on 20 June 2006. On 13 July 2006, the SJUSD Board of Education denied his petition at another public meeting. He then

28https://innovateschools.org/

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appealed this denial to the Santa Clara County Board of Education and presented a modified petition that—as far as the SCCBOE was concerned—overcame the objections raised by the SJUSD. They conditionally approved Danner’s first charter school at their 18 October 2006 meeting. The school opened in August 2007 for the 2007-08 school year.

As of 2023, Rocketship had expanded to 21 schools in California, Tennessee, Wisconsin, Washington, D.C. and Texas, ten of which are in Santa Clara County. Table 2, *Rocketship Schools in Santa Clara County, California* on page 39 lists those ten, when they opened, and when they submitted initial petitions and renewal petitions.

Opening schools did not go smoothly for Danner and Rocketship. Various community organizations opposed opening one or more Rocketship charter schools. The most consequential opposition was a 2014 lawsuit brought by the Alum Rock, Evergreen, Franklin-McKinley and Mount Pleasant school districts which contended that the SCCOE had exceeded its authority in approving in advance 20 county-wide Rocketship charters, bypassing local school districts as authorizers. At the time of the lawsuit, three Rocketship charters had opened under this county-wide authorization, and in a settlement, Rocketship agreed not to seek to open 13 of the 20 charters. In the end, only five county-wide charters opened.29

Over a period of nine years, Rocketship opened ten schools in Santa Clara County. Eight schools were either countywide charters or charter schools whose petitions were denied by the local public school district, but subsequently approved by the Santa Clara County Board of Education. Table 2, *Rocketship Schools in Santa Clara County, California* lists the eleven Rocketship schools that were approved and the ten that opened. Note that only two schools were approved by the school district in which there were expected to locate. This lopsided result suggests that current charter school laws are tilted in favor of charter schools.

29Sharon Noguchi reported that nearly $500K was spent on this lawsuit and not on educating children (Noguchi, 2015).

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**Table 2**

*Rocketship Schools in Santa Clara County, California*

**School Type Opened Renewed Notes**

Mateo Sheedy District appeal 2007 2009, 2015, 2019 Denied by SJUSD, approved by SCCBOE

Sí Se Puede District appeal 2009 2011, 2017 Denied by ARUSD, approved by SCCBOE

Los Sueños Countywide 2010 2015, 2020 SCCBOE charter Discovery Prep Countywide 2011 2016 SCCBOE charter Mosaic District 2011 2016, 2020 Approved by ARUSD Brilliant Minds Countywide 2012 2017 SCCBOE charter Alma Academy Countywide 2012 2017 SCCBOE charter Spark Academy District 2013 2018 Approved by FMSD

Alum Rock District appeal — Denied by ARUSD, approved by SCCBOE,

but withdrawn 2015

Fuerza Countywide 2014 2018 SCCBOE charter

Rising Stars District appeal 2016 2021 Denied by FMSD, approved by SCCBOE

Note: Charter schools whose term expired after 01 Jan 2022 but before 30 Jun 2025 had their terms extended by two years.

**2.8 Rocketship Finances**

Charter schools have a number of unique financial needs. They need startup funds, operating funds, and often funds to expand, funds that public schools do without. Rocketship is no exception. The *operation* of charter schools are funded by federal, state, and local governments, but funding *expansion* may or may not be funded with tax dollars, depending on the laws of a particular state. The difference between what is funded at taxpayer expense and what’s not must somehow be funded with outside money. Startup money is needed for facilities, desks and chairs, teacher and administrator salaries, legal fees, curriculum materials, etc., all of this before even one student registers. Startup

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facilities cost vary widely. In California, if the charter school chooses to use public school district facilities under Proposition 3930, their need for funds will be lower than if they choose to lease or build their own facilities. In the latter case, startup facilities costs might involve the purchase of land and the construction of school buildings, or might just involve lease payments. But since state funding is tied to attendance, some startup funding is necessary. Thus the federal government provides grants, administered by the states, for this purpose.

Early on, Rocketship indicated its intent to expand. In 2009, Rocketship announced plans to open six new schools (Cook, 2009). It submitted a petition to Santa Clara County to open countywide charters and within three years had actually opened four schools. Like many other CMOs and EMOs, Rocketship needs to expand to increase revenue enough to be worth the while of investors. A single school’s profit is not enough, but by using economies of scale, a “portfolio” of charter schools might suffice. A portfolio of charter schools is a collection of schools—almost always charter schools—managed as a whole.

The idea of a portfolio of schools comes from finance where a carefully chosen portfolio of investments can have lower risk collectively for a given level of return than a mere assembly of individual investments (See Markowitz contributors, 2024, for an overview of the mathematics of modern portfolio theory). Hill et al. claim to have invented the term *portfolio school district* (Hill et al., 2009, p. 1) and with it a strategy to implement a portfolio district. Just a year later, J. R. Henig et al. defined portfolio strategy for schools as

[A] loosely coupled conglomeration of ideas held together by the metaphor of

30Proposition 39, passed by California voters in November 2000, contains a provision that requires public school districts to provide charter schools facilities “sufficient to accommodate the charter school’s students” (Secretary of State, California, 2000, pp. 38—41) (Smaller Classes, Safer Schools and Financial Accountability Act, 2000). Regulations governing Prop. 39 facilities are in California Code of Regulations, Title 5, §11969.

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a well-managed stock portfolio and its proponents’ *unshakable belief* that the first step for successful reform must be to dismantle the bureaucratic and political institutions that have built up around the status quo [emphasis added] (J. R. Henig et al., 2010)

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

***Rocketship Expansion Funding***

California, startup charter school funding has waxed and waned, in part because federal funding has varied. Currently, the U.S. Department of Education provides startup funds to states under the Charter Schools Program State Educational Agency (SEA) grant program31. The federal charter school funding programs are listed in National Charter School Resource Center (2020). *The Federal Charter Schools Program: 2020 Annual Report* notes that

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

Funds like the NewSchools Venture Fund32 and the Charter School Growth Fund I & II33 exist to fund the development and expansion of charter schools and charter

31https://www2.ed.gov/about/offices/list/oii/csp/funding.html

32https://www.newschools.org/

33https://chartergrowthfund.org/

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management organizations. In 2007, when Rocketship Mateo Sheedy was started, Rocketship used lines of credit and loans to fund its beginning (Danner, 2006, p. 260). Now, charter schools have many more options for funding startup or operations.

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

***Rocketship Expansion Difficulties***

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

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instead attempted to expand in locations beyond Santa Clara County: San Pablo34 and Concord in California, Nashville in Tennessee, Milwaukee in Wisconsin, Washington, D.C. and Fort Worth in Texas.

***Charter School Accountability***

In California, all K–12 schools, including privately managed charter schools like Rocketship, must submit annual budgets, Comprehensive Annual Financial Reports (CAFRs), and since 2014, Local Control and Accountability Plans (LCAPs). LCAPs are three year plans, possibly updated in years two and three, which detail how a school will use its funds to address state priorities, and to improve educational outcomes for foster youth, English learners, and low-income students, along with the metrics which will be used to show progress (Aguinaldo et al., 2021, pp. 66–84). Given that the content of LCAPs are discretionary, and given that Rocketship specifically targets areas where the state is especially interested in improving educational outcomes, further analysis of LCAPs and budgeting may be warranted.

**2.9 Rocketship and Privatization**

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

Particularly with the added case of Rocketship, a blended learning chain of charter schools, is that the [NewSchools Venture Fund] is using its clout to further blur the lines between for-profit and non-profit educational projects

34unsuccessfully

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

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

***Privatization***

Charter CMOs and EMOs appear to be following the lead of prison and health care privatizers. They lobby legislators intensively. They position themselves as being more efficient than the “wasteful” public sector, and they claim to to be able to do better that public schools, prisons or hospitals at a lower cost. Since charter schools have positioned

themselves as being in competition with traditional public schools, they need to do at least as well as traditional public schools, or failing that, appear to do so. This calls for creative marketing, and so, to that end, pro-charter advocacy organizations, some university-affiliated institutions, and some think tanks have been harnessed to churn out pro-charter puff pieces that are regularly debunked.35 Evidently even creative marketing is not enough to prod the free market to supply the educational choice that charter school

35The National Educational Policy Center (https://nepc.colorado.edu) in the School of Education at the University of Colorado (Boulder) currently has over 150 NEPC Fellows who aim “to produce and disseminate high-quality, peer-reviewed research to inform education policy discussion” on a wide variety of topics. They often review pro-charter school publications which have been presented as academic research even though those publications have not been peer-reviewed and often have serious methodological problems which weaken or negate their conclusions.

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advocates feel is necessary, so pro-choice advocacy organizations also lobby state representatives and fund pro-charter public school board candidates. Charter school marketing is extensive and wide-reaching (Finalsite, 2024; Charter School Capital, Inc., 2019; Cohen & Lizotte, 2015). Organizations like The 74 Million, a reference to the 74 million children in America (The 74 Million, 2024) or Innovate Public Schools (Innovate Public Schools, 2014) an advocacy organization, produce reports, news items, briefs and what claims to be research that is slanted toward charter schools and away from public schools.

One example of this so-called research is an article that was not peer-reviewd, “Emergency-Licensed Mass. Teachers’ Performance on Par with Other New Educators, Report Finds” by Piper-Vallillo that references unpublished paper Bacher-Hicks et al. (2023b) (11 citations), also not peer-reviewed, that references on a unpublished paper Bacher-Hicks et al. (2023a) (8 citations) again not peer reviewed study whose conclusions were based on self-reported data from “168 responses to the survey (9% of the potential pool), 84% indicated hiring at least one ELH. This group of administrators was split on why they hired ELHs; half indicated that [ELHs] emergency license holders were the strongest applicants in the hiring pool, while the other half indicated that ELHs were the only applicants for the position” (Bacher-Hicks et al., 2023b, p. 3). So we have an article based on an unpublished paper that was a follow up to a study that reported that less than 10% of the pool of self-reporting respondents. No attempt was made to adjust for potential bias (which the study actually refers to), and then based on that 10%, a conclusion is drawn about the entire pool and presented as research: “On the survey, school administrators (n=120) who had hired [emergency license holders] were most likely to say that they were just as effective or more effective relative to other newly hired teachers across all four Massachusetts Educator Evaluation performance standards” (Bacher-Hicks et al., 2023b, p. 3).

These influence techniques are reminiscent of how OxyContin was marketed by the 45

Sackler family, which is not surprising since Jonathan Sackler, now deceased, founded or funded charter advocacy groups like 50CAN, ConnCAN, Families for Excellent Schools, the Northeast Charter School Network, Education Reform Now, Partnership for Educational Justice, and The 74 Million. Dubb (2017) describes the similarities in marketing strategies used to sell oxycontin and those used to promote charter schools, where the focus of all communications was to highlight benefits while ignoring or erasing harms. While this is the standard playbook of corporate marketing, we now have public education dollars being spent on such tactics. When a national exposé published by National Public Radio (NPR) documented serious concerns about Rocketship’s practices (Kamenetz, 2016), The 74 Million immediately published an *ad hominem* attack on NPR, accusing the report to have been a “hit piece” on the charter network (P. Smith, 2016). The response of The 74 Million addressed a few of the issues raised by NPR while leaving unanswered dsome of the most serious concerns.

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

Given that charter schools in California get the same per pupil funding as do public schools, there are a limited number of ways that charter schools can generate “excess” funds. They can lower operating costs by putting students in front of computers for 25%

of the day which allows them to hire fewer teachers. According to the Christensen 46

Institute, this is worth $500K per year per school in 201136 (Christensen Institute, 2011). They can tap into state or federal facilities grants unavailable to public schools like the Paycheck Protection Program (Rocketship Education, 2020, p. 18). Baker and Miron (2015) catalog the creative ways that charter schools across the United States operate to make money.

Charter schools employ fewer and less experienced teachers than public schools do. A teacher with 10 or 20 years of experience can easily command a salary that is twice that of a newly minted teacher. Rocketship schools have a student-to-teacher ratio that is officially as high as 35:1 (Santa Clara County Office of Education, 2023, p. 44), and if aides are counted as teachers, it is an estimate which understates the number of students per teacher. The combination of fewer and less expensive teachers can reduce the cost of teacher salaries to one-third of what public schools pay for teachers. This reduction is significant because teacher salaries typically account for from one-third to three-quarters of the total expense of running a school. Charter schools that employ a blended pedagogy can further reduce the cost of salaries, with virtual schools dispensing entirely with teachers, effectively reducing the single largest component of running a school to zero. **Philanthrocapitalism**

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

money while “doing good”:

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

36Assuming 3.5% inflation per year for 13 years means $500K in 2011 is the equivalent of $782K in 2024. 47

For philanthrocapitalists, the techniques and vehicles used to extract a profit from public education are extensive and often hidden from view. Saltman (2018) lists the following in *The Swindle of Innovative Educational Finance* (pp. *xii*–*xiii*): social impact bonds, higher education lending and student income loans, charter school real estate, tax credit, and municipal schemes, and philanthrocapitalist educational technology schemes. Marachi and Carpenter (2020), Burris and Cimarusti (2021), Scott (2009), Baker and Miron (2015) make similar claims along the lines that education has been captured by big business, and where substantial, possibly hidden profits are to be made.

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**Research Design and Methodology**

This dissertation is an exploratory, case study using a public policy lens that examines the finances of Rocketship Education. Exploratory means that the precise data that will be collected and the precise methods used to analyze those data are not fully known in advance and will depend on this study’s findings as the inquiry evolves. Case studies are in-depth examinations of a single topic that are limited in space or time. Public policy is the set of laws, regulations, rules, and guidelines that affect the actions of an element of society. It is “the decisions, measures, programs, strategies and courses of action adopted by the government or the legislative body” (Knill & Tosun, 2020, p. 3). Public policy mandates, constrains, and abets Rocketship Education’s actions and how it structures its finances to meet its goals.

Finance, as it pertains to Rocketship Education, encompasses all transactions of monetary value which involve the legal entities called Rocketship Education (DBA Rocketship Public Schools) and Lauchpad Development, plus other entities with which it has significant financial relationships. An expansive view of Rocketship’s finances might also include those of its founders who, perhaps went on to found companies that sold software to Rocketship, and entities focused on real property from whom Rocketship might have bought, leased, or sold real property, or entities that bought student data for resale. The expansive view is beyond the scope of this dissertation.

This chapter contains six sections. The first, Section 3.1, *Process Overview*, describes at a very high level the three steps of inquiry this dissertation will follow. Since understanding how schools are financed is essential to understanding Rocketship’s finances, a pair of sections, Section 3.2, *Financing Schools in California* and Section 3.3, *Charter School Financing*, will give an overview of school financing in California by describing the normal, common financial disclosures and reports made by all districts

and schools, followed by the essentials of charter school finance.

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The fourth section, Section 3.4, *Charter Schools and Real Estate*, covers the varieties of real estate transactions that charter schools might be involved in. The fifth section, Section 3.6, *Gaps and Anomalies*, discusses how potential gaps or anomalies in the financial data might be discovered.

In order to make what’s being analyzed more concrete, Appendix B, *School Financing in California* on p. 146, contains some example tables drawn from the budget document of the Los Altos School District (LASD) for the 2019–20 school year. LASD’s budget documents use the Standardized Account Code Structure (SACS) data that are submitted to the state, but the data are presented in a way that is both visually appealing and informative.37 The high level view is given in Figure 5, *LASD 2019–20 All Funds Summary* on p. 148. That view is further broken down in five more tables. The sixth and final table is a projection of LASD’s finances for the current year (2018–19), the year whose budget is being presented (2019–20), and five years into the future. The first half of the table contains the assumptions used when generating the second half. The budget document becomes LASD’s official budget for the following year when it is approved by the Board of Trustees at an open board meeting.

**3.1 Process Overview**

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

To respond to these questions, the basic process steps for this dissertation will be to gather financial data for the Rocketship schools being studied, identify any gaps or

37LASD’s annual budgets have won the Meritorious Budget Award for Excellence from the Association of School Business Officials International for the quality and comprehensiveness of its financial statements sixteen times. They are a good model for what information an annal budget should contain. That information and data, although available elsewhere, is truly informative and serves as a record, a history if you will, of LASD’s past, its actions, and the data which guided those actions.

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anomalies in the data, and then draw some conclusions based on that data. The initial data being analyzed are discussed in Section 3.2, *Financing Schools in California* and Section 3.3, *Charter School Financing* in pp. 51–58 later in this chapter. Triangulation of data will be used to identify gaps and anomalies (See Section 3.6, *Triangulation*.)

Analyzing the finances of Rocketship Education means, for example, determining the attributes of a particular bond. Are these bonds general obligation or revenue bonds? Are they obligations of Rocketship Education or Launchpad Development and funded by their revenues, or are they conduit bonds issued by a government agency and are obligations of Rocketship and not guaranteed by the issuer, to be funded by Rocketship’s revenues?

**3.2 Financing Schools in California**

***Budgets***

In California, primary and secondary schools (grades TK–12), community colleges (grades 13-14), and charter schools (TK-12) are financed with a combination of federal, state, and local funds as seen in Figure 1, *California 2019–20 K–12 Funding by Source* (p. 71).38 From the point of view of the current fiscal year, there are three budgets: The prior year’s budget, the current year’s budget (the enacted and approved budget), and next year’s budget (the budget yet to be enacted). The prior year’s budget is often amended for technical reasons, e.g. to account for errors, changes in allocations, or changes due to data that was missing at the end of the fiscal year. For example, the State of California often shifts funding from one year to another in order to make the state budget balance.

In June of every year, the California Legislature passes a budget for the next fiscal year which runs from July 1st of the current year to June 30th of next year. The Governor signs this budget into law and it is then called the enacted budget. This version of the budget describes the *intent* of the Governor and the Legislature, but might not provide any actual

38Since federal funds account for only 8% of total funding for California’s elementary school children (Legislative Analyst’s Office, 2021), the federal contribution will not be considered further. Note that federal facilities grants to charter schools are not part of this 8%.

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money for a particular program. Often funds for programs authorized by the enacted budget are appropriated in *trailer bills* that are passed piecemeal in the months following the adoption of the budget. Starting July 1st, the enacted state budget becomes the current budget. During the course of the fiscal year, revisions are made to the current budget, either because circumstances or priorities have changed. At the end of the fiscal year, this current and possibly modified budget becomes the prior year’s budget, and during the following year, technical adjustments can be made. Exactly how much money was spent, or what was misclassified and improperly allocated will change the prior year’s budget. This modified and corrected budget becomes the final independently audited budget. The upshot of this is that there are actually multiple versions of California’s budget and one should know which budget is being referred to when one uses the phrase “the budget”. Most often, one means the current budget, except during “budget season” which starts when the Governor releases a budget proposal in January, continues through May when the Governor revises that proposal, and ends in June when it is enacted into law. Once the Governor and the Legislature have negotiated their differences, and a budget has been passed by the Legislature and signed by the Governor, it becomes the enacted budget. Starting July 1st the enacted budget becomes the current budget.

**Table 3**

Budgets as of July 1st

**Budget Name Fiscal Year Notes**

revised/prior previous may be modifed for technical reasons after the end of the fiscal year

enacted current can be modified if circumstances or priorities change proposed next is under discussion by governor & legislature

Figure 1, *California 2019–20 K–12 Funding by Source* shows what money California uses 52

to fund its primary and secondary educational system, i.e. grades K–12.39 The amount of the state budget that is allocated to K-12 is governed by Proposition 98. How Proposition 98 money is allocated to local educational agencies (LEAs) is calculated using a formula known as the Local Control Funding Formula (LCFF).40 LEAs include individual charter schools, county offices of education, and local public school districts. The total amount of funding for TK–14 is calculated using a formula enacted by voters in 1988, since modified, called Proposition 98. That proposition passed as a response to the notorious Proposition 13, which was enacted a decade earlier, and which decimated school funding. Prop. 98 was originally meant to be a minimum guaranteed funding level, but has evolved into a target to be met, i.e. both a floor and a ceiling. The Legislative Analyst’s Office (LAO), which serves as an independent, non-partisan research arm of the California Legislature in much the same way that the Congressional Research Service serves the U.S. Congress, calls Prop. 98 “A Tale of Complexity” and says that “A Plethora Tests and Rules Govern the Minimum Guarantee”, and that “‘[The] State Has Made Myriad Adjustments to the Proposition 98 Calculations” (Kapphahn & Kuhn, 2017, p. 5). Undoubtedly LCFF is complex, but LCFF is more transparent, has fewer rules, is more equitable, and is more responsive to the needs of public school districts that have a high proportion of under-served students than its predecessor, the Revenue Limit System. The Revenue Limit System was also complex, but in a completely difference way because it had many separately funded programs, called categorical programs, each with their own set of requirements, rules, durations, and funding levels. Each passing year saw more programs being added to the set of categorical programs until the entire collection became so unwieldy and so inequitable that the need to replace it was felt by everyone.

39Transitional Kindergarten (TK) did not exist in 2019, so Figure 1, *California 2019–20 K–12 Funding by Source* only shows funding for Kindergarten through high school, i.e. K-12.

40Currently, the LCFF funds transitional kindergarten and community colleges as well as public primary and secondary schools, so it ought to be known as funding grades TK-14. Appoximately 89% of LCFF funding goes to grades TK-12.

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The most succinct summary of how LCFF amounts are calculated is provided by the California Department of Education (CDE) (2023a):

Funding entitlements under the LCFF consist of:

1. Grade span-specific base grants based on ADA, that reflect

adjustments for grades K–3 class sizes and grades 9–12 (school

districts with qualifying schools may receive a necessary small school (NSS) allowance in lieu of the base grants);

2. Supplemental grants equal to 20 percent of the adjusted base grants multiplied by the LEA’s unduplicated percentage of English learners, income eligible for free or reduced-price meals, and foster youth pupils;

3. Concentration grants equal to 65 percent of the adjusted base grants multiplied by an LEA’s percentage of unduplicated pupils above 55 percent;

4. Two add-ons equal to the amounts school districts received in 2012–13 for the Targeted Instructional Improvement Block Grant and

Home-to-School Transportation programs;

5. An Economic Recovery Target add-on; and

6. Beginning in 2022–23, an add-on for current year Transitional Kindergarten ADA.

7. Base, supplemental, and concentration grants, as well as necessary small school allowances, receive cost-of-living adjustments as provided through the annual budget. Beginning in 2023–24, transportation related add-ons and the Transitional Kindergarten add-on will also receive cost-of-living adjustments.”

For the 2022-23 school year, a school41 with 543 pupils total (181 TK–5 pupils per

41Loosely based on Discovery Prep which has only 428 students.

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strand and 3 strands), of which 70% are unduplicate pupils, and assuming the maximum size for a classroom with one teacher, the core (adjusted grade-span base + supplemental + concentration) LCFF calculation is as follows:

**Adjusted base grant** (one-time adjustment + COLA + grade-span) x unduplicated count

TK–3: $10,119 × (127 pupils × 3 strands) = $3,855,339 4–5: $ 9,304 × (54 pupils × 3 strands) = $1,507,248

**Supplemental grant** (20% of adjusted base grant) x unduplicated count

TK–3: 20% × $10,119 × (70% × 127 × 3) = $ 538,330 4–5: 20% × $ 9,304 × (70% × 54 × 3) = $ 210,270

**Concentration grant** ((% over 55%) x 65% of adjusted base grant) x unduplicated count

TK–3: (70% - 55%) × (65% × $10,119) × 127 × 3 = $ 375,895 4–5: (70% - 55%) × (65% × $ 9,304) × 54 × 3 = $ 159,829 ==========

total $6,271,016

Figure 2, *LCFF Components* on p.72 diagrams just the major components of the LCFF. It takes the Fiscal Crisis and Management Team’s (FCMAT’s) spreadsheet of 45 individual sheets to specify completely how the LCFF for a particular school or district is calculated (FCMAT, 2024). The intricacies of LCFF funding are also covered in Chapter 3 of Aguinaldo et al. (2022, pp. 35–58).

As seen in Figure 1, *California 2019–20 K–12 Funding by Source* on 71, Proposition 98 funding accounts for nearly 70% of California’s K–12 funding, with the remainder coming from local property taxes and fees, and from various federal and state sources. This money is distributed to local educationa agencies (LEAs) which then distribute it to public school districts. Public school districts then distribute LCFF funds to charter schools located within their district. For community-funded districts (see below), charter schools represent a significan drain on their revenues.42

42For example, LASD sends $10M to the Bullis Charter School (BCS) annually, equivalent to roughly 11% of revenue.

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Some districts are funded outside the LCFF system. These used to be called “basic aid” districts, but since the term is confusing, they are now called “community funded” districts. These are districts where their share of their county’s annual property tax revenue is greater than their annual LCFF entitlement. They get only “basic aid”, i.e. the constitutionally required minimum funding (the greater of $120 per pupil or $2,400 per district) from the state. For districts which are not community funded, the state contribution is the difference between a district’s LCFF entitlement and its share of district property taxes. In other words, the state ensures that each district gets at least its LCFF entitlement, the total amount which is determined by Prop. 98.43. ***Budgets & Interim Reports***

For a given fiscal year, the annual budget is the first of four important financial documents produced. Since budgets must be approved before the start of a fiscal year, budgets are actually produced and approved in the prior fiscal year.44 The next two financial documents are two (unaudited) interim reports, one in December, and another in March, which track how well the school or district is adhering to its approved annual budget, adjustments being allowed, and finally, after a certified public accountant has audited the school or district, a comprehensive annual financial report (CAFR) is produced in the fiscal year following the period it covers. State law requires that an independent auditor certify this retrospective account of the school or district’s financial activity as being an accurate representation of the school’s finances for the previous fiscal year.

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

An important, recurring, non-financial report of a school district or a charter school

43An invaluable and comprehensive description of K-12 funding in California, for both public school districts and charter schools, can be found in an annual publication from School Services of California, Inc., e.g. *School Funding and Accountability in California: A Guide to K-12 Public School Finance in California*

44Since a school’s budget must be approved before the state’s budget is finalized, it is a certainty that a school district’s budget will need to be modified after it has been approved.

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is the Local Control Accountability Plan (LCAP). Although the LCAP is a three-year plan, it is updated annually. The focus of an LCAP is on the programs that a school district or charter school is going to implement, finance, and monitor that will allow the district or school to meet state goals. These goals are set periodically by the California Department of Education to ensure that students with the greatest needs are in fact served, and are in addition to the seven goals that the Legislature has set for charter schools in general.

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

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

Unlike budgets and CAFRs, LCAPs do not have to “add up”, nor do they have to offer a complete financial picture, but they do have to be consistent with other financial data. Expenditures have to be budgeted, and the amounts in a school’s budget must agree with what’s in the LCAP. The charter or public school’s board must approve an LCAP at the same time as it approves its annual budget. According to Aguinaldo et al. (2022, p. 81), while no explicit approval of a charter school’s LCAP is required, chartering authorities may revoke the charter for a school which repeatedly fails to improve student outcomes. ***Comprehensive Annual Financial Reports***

The final major source of financial data from charter schools is an annual,

independently audited, financial statement called the Comprehensive Annual Financial 57

Report (CAFR). These are sent to the California Department of Education (CDE) and to a charter’s County Office of Education (COE) annually. They cover the previous fiscal year and are similar to annual budgets because they report the same information, but in a format suitable for computer processing. CAFRs are retrospective whereas budgets are prospective. The major difference between budgets and CAFRs is that CAFRs are independently audited and budgets are not.

Similarly to bond underwriters, financial auditors are liable for “omitting, misstating, or obscuring [items which] could reasonably be expected to influence decisions that the primary users make on the basis of those financial statements”

(Cayamanda, 2020), and this requirement tends to increase the diligence of the auditors. However, potential liability does not always result in truly comprehensive financial statements; sometimes the lure of accounting fees overwhelms any misgivings, as was the case with Enron and Arthur Andersen in 2001. Errors and sloppiness may exist, but in general, fraud is thankfully rare, in part because fraud on the part of auditors would likely result in the loss of the auditor’s license, effectively ending their business.

**3.3 Charter School Financing**

In California, charter schools are financed the same way as public schools are, from the same pot of money, using the same set of rules, except for one significant difference: how they finance facilities. Unlike public schools, charter schools have no taxing authority, so they cannot pass bond measures or parcel taxes. This lack of a taxing authority means that charter schools must either occupy existing public school facilities (possibly even displacing existing public school students) or seek grants and donations to fund non-district facilities, either leased or purchased. The federal government provides significant amounts of money for facilities through the Charter School Program (National Charter School Resource Center, 2020, pp. 0–10). Likewise, the state of California provides support for charter school facilities (Aguinaldo et al., 2023, p. 114). 58

An in-depth analysis of charter school finances requires a broader lens than one used for public schools because, in addition to all of the financial dealings of traditional public schools, almost all of which also apply to charter schools, every charter school also has a large and immediate need for facilities that traditional public schools do not have. These needs potentially involve bonds, loans, grants, construction, and the purchase, lease, or sale of real estate. Traditional public schools do issue several kinds of bonds, levy parcel taxes, and buy real estate on which they build schools, but they do so infrequently. Usually public schools have done this years ago, but new charter schools have an immediately and reoccurring need for facilities. They face these needs once when they start up, and whenever they outgrow their facilities because of increased enrollment. The needs of charter schools for facilities and the financing associated with obtaining those facilities is more pressing, more immediate, and more common than the corresponding needs of traditional public schools whose enrollment does not fluctuate as much.45 ***Charter School Financial Documents***

The challenge for this inquiry will be to organize the financial documents and data collected so that gaps and anomalies can be identified, interesting and valid comparisons can be made with public schools and other charter schools, and the flows of money in and

out of Rocketship can be identified. One way of organizing charter school data is chronologically from when they appear.

Table 4, *Charter School Financial Documents*, summarizes the official, publicly available, and required financial reports about charter school finances, in chronological order. Note that budgets, interim reports, LCAPs, and CAFRs are also required of public schools.

The first financial statement from a charter school is contained in their initial

45Usually a public school district sees a change in enrollment because of significant demographic changes like immigration or emigration, birth rate increases or declines. Charter schools can see large enrollment changes absent any demographic change, even if the total number of students residing in a district stays the same. In some instances, increased enrollment in charter schools comes from public school students switching from the public school system to charter schools. This is what is happening to Oakland, CA and it produces simultaneous but opposite changes in enrollment.

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**Table 4**

*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 Every 3 years With budget Interim Reports Current spending Twice yearly December, March CAFR Audited financials Annually In the following year

petition. The purpose of the initial petition is to provide an authorizer with data on the charter school’s educational program, pupil outcomes, methods to measure these outcomes, the charter school’s governance structure, methods of racial and ethnic balancing, teacher and student health and safety, and among other measures.46 Subsequent charter school data makes their apprearance during the school year, and then finally when a certified audit is completed.

All of Rocketship’s schools have both initial and renewal petitions. These are voluminous, but fortunately the financial part is only a small portion of the total number of pages. In addition, each petition (usually) has a corresponding staff report prepared by authorizers which evaluates the petition. These six kinds of documents are reviewed in the sections which follow.

**Petitions & Renewals**

Before a charter school may legally begin operations, they must present to a chartering authority a petition which must contain certain required elements, and that petition must be accepted (with or without stipulations.) The absence of one of these elements is grounds for denying the charter’s petition to operate. For example, what is the intent of the charter school? How is the charter school going to measure its success or failure? What population is it targeting? And, what are its financial projections? One of the required elements of any petition is a financial projection. Although no

46Ed. Code §47605 (c)(5)(A–O)

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one expects a charter school (or any public school district for that matter) to prepare and adhere to a budget that exactly matches what’s been projected, budgets are expected to be a reasonable approximation of future revenues and expenses.

Petitions run anywhere from a hundred or so pages to over a thousand and they contain a wealth of financial data. Fortunately, these documents are all publicly available and could, if needed, be the subject of a California Public Records Act (CPRA) request. The CPRA is the California equivalent of the federal Freedom of Information Act (FOIA). Many of the documents mentioned in this dissertation are available from the California Departments of Education and Finance, or from the Santa Clara County Office of Education.47

Since Rocketship schools are all operated by a single entity, (currently) Rocketship Education, DBA Rocketship Public Schools, a 501(c)(3) non-profit, their financial statements and those of their affiliates are rolled up into a single document, for example, “Rocketship Education, Inc. and Its Affiliates, Consolidated Financial Statements and Supplementary Information, Year Ended June 30, 2022 (with Summarized Financial Information for the Year Ended June 30, 2021)”. Every school is included in this single document, as are separate Launchpad Development LLC’s that actually own the facilities leased to individual schools, plus two divisions provide specialized services. **Authorizer Staff Reports**

Another set of documents that are related to initial and renewal petitions are the staff reports which usually accompany the agenda item which evaluates the charter school’s petition in view of approval. In these reports, the authorizer’s staff presents the findings and rationale for their recommendation to approve or not the petition of the charter school.

47Since these documents are required to be publicly available and may be freely copied, no copyright is applicable.

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