

1 Rocketship Education: An Exploratory Case Study

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6 Doctor of Education in Educational Leadership

7 by  
8 Vladimir Gresham Ivanović 

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**Preface**



1

## Acknowledgments

2 My debts are many.

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



**Abstract**

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

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



## Introduction

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

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

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

---

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

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

4 **Schools & Charter Schools**

5 Schools in the United States take three basic forms: the traditional public school (TPS),  
6 charter schools, and private schools. All but six states<sup>2</sup> allow some form of charter school;  
7 all have private schools and an extensive public school system. Properly speaking, school  
8 choice encompasses public, charter, private, and homeschooling. But, because charter  
9 schools have been the most controversial, the phrase “school choice” usually refers to  
10 charter schools.

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

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

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

---

<sup>2</sup>Kentucky, Montana, Nebraska, North and South Dakota, and Vermont

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

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

16 These are notable patterns, and the COVID-19 pandemic has accelerated the growth of  
17 charter schools, in contrast to recent years of slowing growth. This recent growth appears  
18 to be almost completely due to the expansion of virtual charter schools (Strauss, 2021).  
19 Despite continued growth, charter schools remain controversial and have generated  
20 heated debate. Reports and studies from charter school opponents have been answered by  
21 reports and studies from charter school advocates. Both sides claim their methodology to  
22 be superior and consider the other side's fatally flawed.<sup>4</sup>

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

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

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

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

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

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

<sup>1</sup> should be changed to achieve some of the seven goals that the California Legislature set out  
<sup>2</sup> in *The Charter School Act of 1992*.

<sup>3</sup> **What is the Purpose of this Study?**

<sup>4</sup> The goal of this case study is to analyze carefully and fully as possible the finances of  
<sup>5</sup> Rocketship Education and associated entities. I chose Rocketship Education<sup>5</sup> to study  
<sup>6</sup> because its popularity has led to core aspects of its model being adopted by other charter  
<sup>7</sup> school chains such as the Caliber Public Schools or the Navigator Schools in California.

<sup>8</sup> Charter schools, Rocketship included, offer themselves as better alternatives to  
<sup>9</sup> traditional public schools. Rocketship claims that its pedagogical model of blended  
<sup>10</sup> learning

- <sup>11</sup> • is more efficient than that of traditional public schools,
- <sup>12</sup> • offers personalized learning<sup>6</sup> through computer-mediated instruction, and
- <sup>13</sup> • offers a human connection (at least part of the time) that is similar to traditional  
<sup>14</sup> public schools.

<sup>15</sup> These are claims that can be tested in other studies by comparing individual Rocketship  
<sup>16</sup> schools to independent charter schools and to TPSs in the same district. The Rocketship  
<sup>17</sup> chain can be compared to other charter school management organizations, to portfolios of  
<sup>18</sup> charter schools, as well to traditional public school districts, but such studies need to be  
<sup>19</sup> done with care to avoid methodological errors that would reduce the validity of their  
<sup>20</sup> conclusions.

<sup>21</sup> Many studies have looked at the outcomes of charter schools and charter chains,  
<sup>22</sup> including one specifically on Rocketship's effect on Milwaukee's public schools if proposed

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<sup>5</sup>Rocketship Public Schools is the new name of Rocketship Education, but since it has been known as Rocketship Education for much longer than it has been as Rocketship Public Schools, I've chosen to retain the former name. Also, I'll use just Rocketship to mean either the charter management organization (CMO) or a generic Rocketship school, depending on context.

<sup>6</sup>Note that personalized learning is not the same differentiated instruction. All students follow the same path with personalized learning, albeit at different rates, instead of following different paths at different rates, as with properly implemented differentiated instruction.

<sup>1</sup> legislation were to have been passed. But Rocketship's finances have not been studied in  
<sup>2</sup> detail until now.

<sup>3</sup> Several themes run through this study. The first is Rocketship's relationship to the  
<sup>4</sup> privatization movement in education. The second is how Rocketship's finances drive its  
<sup>5</sup> need to expand. The third is how Rocketship needs continued marketing and public  
<sup>6</sup> relations to survive.

<sup>7</sup> ***Research Questions***

<sup>8</sup> These themes lead to the following research questions:

<sup>9</sup> **Research question #1** How are Rocketship finances similar to or different from other  
<sup>10</sup> charter schools, charter school chains, or traditional schools?

<sup>11</sup> **Research question #2** How are Rocketship's attributes and actions similar to other  
<sup>12</sup> privatization efforts in the United States?

<sup>13</sup> **Research question #3** Has Rocketship structured its finances to earn a return to investors,  
<sup>14</sup> and if so, how?

<sup>15</sup> More broadly, there are additional reasons for studying charter school finances. Are we  
<sup>16</sup> (the states, the federal government) misallocating the money we spend on charter schools?  
<sup>17</sup> Could we be spending our tax dollars more wisely? What did taxpayers get for these  
<sup>18</sup> expenditures?

<sup>19</sup> ***The Importance of This Study***

<sup>20</sup> This case study is the first to examine in depth the finances of a single charter school chain.  
<sup>21</sup> Up to now, there have been studies of the finances of independent charter schools or  
<sup>22</sup> charter school chains, but only in aggregate (i.e. all known charter school chains in the  
<sup>23</sup> United States,<sup>7</sup> or a selected group of charter school chains). Other studies have looked at

---

<sup>7</sup>See Miron et al. (2021) for a list of currently known charter school chains.

1 the effects of charter schools on segregation or on academic achievement, but again, only  
2 in aggregate. None have studied the finances of just a single charter school chain.

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

6 **Theoretical and Conceptual Frameworks**

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

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

16 (Grant & Osanloo, 2014, pp. 16–17)

17 Further,

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

21 (Grant & Osanloo, 2014, pp. 16–17)

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

<sup>1</sup> **A Case Study Approach as a Practical Framework**

<sup>2</sup> Broadly, social science research falls into one of two categories. The research may make  
<sup>3</sup> many observations with a narrow focus, or may instead adopt a broader focus, but with a  
<sup>4</sup> correspondingly smaller number of observations. Gerring calls these “large C” or “small C”  
<sup>5</sup> studies, respectively (Gerring, 2017, p. xvii). Of course, the boundary between large C and  
<sup>6</sup> small C studies is not sharply defined.

<sup>7</sup> Gerring calls small C studies *case studies*. In this dissertation I look at one entity,  
<sup>8</sup> Rocketship Education, and at only one aspect of Rocketship, its finances. But I look at its  
<sup>9</sup> finances broadly, examining as many different kinds of financial transactions as are  
<sup>10</sup> publicly available for the subset of Rocketship schools that are in Santa Clara County. I  
<sup>11</sup> discuss the elements of what makes a case study a good case study in the section “Judging  
<sup>12</sup> Case Studies” of the chapter “Discussion”.

<sup>13</sup> McCombes (2019) says that case studies are a “detailed study of a specific subject, such  
<sup>14</sup> as a person, group, place, event, organization, or phenomenon”. They are ‘good for  
<sup>15</sup> describing, comparing, evaluating and understanding kdifferent aspects of a research  
<sup>16</sup> problem” and are “an appropriate research design when it allows you to explore the key  
<sup>17</sup> characteristics, meanings, and implications of the case.” Two papers go into detail about  
<sup>18</sup> using the case study approach: Crowe et al. (2011) and Rashid et al. (2019). Yin (2018)  
<sup>19</sup> provides a detailed methodology for doing case study research well.

<sup>20</sup> A case study framework for public policy research is ideal because the theory and  
<sup>21</sup> practice of case studies is well-known and has been used both for public policy research  
<sup>22</sup> and in public policy analysis for years. A case study framework formalizes an in-depth  
<sup>23</sup> examination of a single topic, in this case, Rocketship’s finances.

<sup>1</sup> **Public Policy as a Theoretical Framework**

<sup>2</sup> A public policy framework provides a rich set of tools and techniques with which to analyze  
<sup>3</sup> Rocketship's finances. Three factors support using a public policy framework to guide  
<sup>4</sup> understanding and evaluating Rocketship's finances. Firstly, charter school finance is  
<sup>5</sup> constrained primarily by public policies set by state legislatures, the creators of charter  
<sup>6</sup> schools. These laws regulate taxes, grants, borrowing capacity, and reporting requirements  
<sup>7</sup> of charter schools and charter school chains (Aguinaldo et al., 2020), and by definition,  
<sup>8</sup> whatever falls within the purview of legislators is public policy. Secondly, Harry Brighouse  
<sup>9</sup> et al., in *Educational goods*, provide a succinct definition of what public policy analysis is  
<sup>10</sup> which matches the purpose of undertaking this case study. They use a values, evidence, and  
<sup>11</sup> decision-making framework "to make judgments about how well specific policies are likely  
<sup>12</sup> to realize valued outcomes" (Brighouse et al., 2018, p.1). Lastly, these three concerns —  
<sup>13</sup> values, evidence, decision-making — are considered the key concerns by academics and  
<sup>14</sup> researchers in the public policy field (Bueno de Mesquita, 2016; Clemons & McBeth, 2021;  
<sup>15</sup> Fowler, 2013; Gupta, 2011). Using a public policy framework is appropriate when examining  
<sup>16</sup> charter school finances.

<sup>17</sup> The discipline of public policy sanctions a wide variety of tools and techniques when  
<sup>18</sup> analyzing issues. Public policy has been studied for years (there are public policy  
<sup>19</sup> departments in many universities) and it is a mature area of academic research. As in most  
<sup>20</sup> academic fields, there are fierce debates about the merits and robustness of a particular  
<sup>21</sup> approach compared to alternatives, but at a high level, what to do is generally agreed upon.  
<sup>22</sup> Most identify the following five steps (or variants thereof) that are used when creating  
<sup>23</sup> public policy:

- <sup>24</sup> 1. Define the issues and set the agenda.  
<sup>25</sup> 2. Formulate one or more policies that address the issues identified.

- 1       3. Evaluate those policies using tools and techniques like cost-benefit analysis, value
  - 2           analysis, political feasibility, game theory, and economic analysis.
  - 3       4. Implement those policies by passing legislation, changing practices, or by using the
  - 4           courts.
  - 5       5. Evaluate the effectiveness of the policy changes.
- 6 Two keys to identifying alternatives during policy formation and later when evaluating  
7 consequences are choosing or creating a model, and forecasting. Models identify what is  
8 going to be studied and their relationships, and forecasting is a prediction of the future  
9 whose consequences are (hopefully) identified in a model. Scott Page lists 26 major models  
10 in *The model thinker* that have been used in science, business, and medicine.

11       This dissertation relies on two excellent guides to public policy: *Policy studies for*  
12 *educational leaders* by Francis C. Fowler which offers a broad and complete treatment of  
13 public policy specifically in the field of education, and *Public Policy Praxis* by  
14 Randy S. Clemons and Mark K. McBeth which offers a number of well-tried tools and  
15 techniques useful in analyzing public policy. An additional comprehensive treatment of  
16 public policy can be found in Gupta (2011).

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

23       The next chapter reviews what other researchers and scholars have said about the  
24 origins of charter schools, their history, and their ostensible goals before characterizing  
25 first the finances of all public schools in California and then the unique aspects of charter  
26 school finance. Lastly, it reviews the history of Rocketship Education because it is an

- <sup>1</sup> exemplar of a popular charter school and has had an outsized influence on public
- <sup>2</sup> education in Santa Clara County.



## A Review of the Literature

1  
 2 American public education has – allegedly – been a failure, and hence, in desperate need of  
 3 reform ever since the idea of free public education took hold in the early 1800's<sup>8</sup>. Since  
 4 then, a succession of educators and reports have documented the abysmal[sic] state of  
 5 American education. Prior to the Civil War, Horace Mann introduced widely copied  
 6 reforms (Pulliam & Van Patten, 2007, p. 147) into a system which was not free, not open to  
 7 all, and not compulsory. Those schools had hardly changed since the founding of the  
 8 Boston Latin School on April 23, 1635. In the early 1900s, John Dewey, an educational leader  
 9 of the Progressive Era (1896–1916) preached reform, but it really wasn't until the publication  
 10 of *Nation at Risk* in 1983 that the modern zeal for education reform took form. J.D. Pulliam  
 11 and J.J. Van Patten list 29 major education reform reports from 1982 to 2005 (p.252). That  
 12 American public education needed reform was repeated constantly, mainly by  
 13 conservatives, despite underwhelming evidence of its veracity and substantial evidence to  
 14 the contrary. Through repetition, the need for reform has become accepted wisdom. The  
 15 answer to this need was to take the government's "monopoly in education" (Milton  
 16 Friedman's characterization) out of the hands of faceless bureaucrats and subject it to the  
 17 rigors of free markets which would, it was asserted with scant evidence, increase efficiency,  
 18 choice, and quality. Thus vouchers and charter schools were legitimized.

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

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

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<sup>8</sup>Wikipedia has an excellent summary article on *Education in the United States* [https://en.wikipedia.org/wiki/Education\\_in\\_the\\_United\\_States](https://en.wikipedia.org/wiki/Education_in_the_United_States)

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

17 What is astonishing is that Jeffrey R Henig's book, *Rethinking school choice*, which came  
18 out a mere three years after the passage of the nation's first state charter school law in  
19 Minnesota<sup>9</sup> and two years after the second in California<sup>10</sup> lays out a key argument against  
20 charter schools. Henig says, "[T]he real danger in the market-based choice proposals is not  
21 that they might allow some students to attend privately run schools at public expense, but  
22 that *they will erode the public forums in which decisions with societal consequences can*  
23 *democratically be resolved.*" (emphasis added) (J. R. Henig, 1994, *xiii*). Translated this means  
24 that the decisions about public education's form and content are not going to be made by

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

<sup>10</sup>Education Code, Title 2, Division 4 Part 26.8, §47600 *et. seq*

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

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

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

<sup>15</sup> (Citizens League, Education Alternatives Committee, 1982, p. 48)

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

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

<sup>1</sup> **A History of Charter Schools**

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

<sup>7</sup> ***The Origins of Charter Schools in Segregation***

<sup>8</sup> The first charter schools were not founded for educational or economic reasons. Charter  
<sup>9</sup> schools had their origin in the aftermath of *Brown v. Board of Education*, 347 U.S. 483 (1954).  
<sup>10</sup> “[Brown] was the genesis of school choice as a public policy mechanism.” (Garcia, 2018, p. 8)  
<sup>11</sup> In the Deep South, academies sprung up as part of the massive resistance to the U.S.  
<sup>12</sup> Supreme Court's unanimous 1954 ruling that:

<sup>13</sup> Segregation of children in public schools solely on the basis of race deprives  
<sup>14</sup> children of the minority group of equal educational opportunities, even  
<sup>15</sup> though the physical facilities and other “tangible” factors may be  
<sup>16</sup> equal.                    *Brown v. Board of Education*, 347 U.S. 483 (1954) (USSC+)

<sup>17</sup> In order to circumvent *Brown*, white parents in eleven states formed thousands of private  
<sup>18</sup> schools, and until the early 1970's, these segregation academies received public funds  
<sup>19</sup> (Rooks, 2017, p. 81). These origins of charter schools have been amply documented, in  
<sup>20</sup> Frankenberg et al. (2010), Frankenberg et al. (2011), and especially in Suitts (2019) and Suitts  
<sup>21</sup> (2020). Michelle Alexander in *The new Jim Crow* (Alexander, 2011, p. 223) quotes Rosenberg  
<sup>22</sup> (1991, p. 52) “The statistics from the Southern states are truly amazing. For ten years,  
<sup>23</sup> 1954–1964, virtually *nothing happened.*” [emphasis in Alexander (2011)] She goes on to say,

<sup>24</sup> Not a single black child attended an integrated public grade school in South  
<sup>25</sup> Carolina, Alabama, or Mississippi as of the 1962–1963 school year. Across the

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

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

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

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

(p. 47)

*While the early privatizing movement included "white flight" .. that led to segregation academies, the current iteration of the same trend, is with the disproportionate targeting and enrollment of students of color in charter schools*

16 Unfortunately, these segregation academies still exist, but instead of excluding  
 now they disproportionately target and enroll  
 17 children of color the way segregation academies did, they ~~only include~~ children of color.  
 18 and they are no longer called segregation academies but are instead called charter schools



While these schools are no longer referred to as segregation academies, they make up a sizable subset of the charter sector and often include the word "Academy" in their name.

19 and often use the word "Academy" in their name.

20 Nikole Hannah-Jones, in her keynote speech at the Network for Public Education's  
 21 Fourth Annual Conference, said that it has never been the case that a majority of  
 22 African-Americans have attended majority white schools ("Keynote at the Network for  
 23 Public Education's 4th Annual Conference," 2017). She then added ruefully, that this was  
 24 quite a feat considering that African-Americans make up roughly one seventh of the  
 25 population of the United States. Orfield and Frankenberg (2014) note that the percent of  
 26 African-Americans in majority white schools rose from 0% in 1954 to a peak of 43.5% in 1988

<sup>1</sup> before steadily declining to 23.2% in 2011. (Table 3: Percent of Black Students in Majority White Schools, 1954–2011 Orfield & Frankenberg, 2014, p. 10). Hannah-Jones also commented that American public education doesn't even live up to the Separate but Equal doctrine espoused in *Plessy v Ferguson* and overturned by *Brown v Board of Education*: Schools are still segregated and are still unequal.

## <sup>6</sup> Charter Schools, Free Markets and Privatization

<sup>7</sup> Just a year after *Brown*, Milton Friedman published his article “The Role of Government in Education” in *Economics and the Public Interest* (Friedman, 1955) that reframed charter schools as an economic problem in education instead as a way of evading court-ordered integration. That paper ensured that charter schools would no longer be morally tainted by their association with virulent racism, but rather would take on the honorable task of breaking up what was called a monopoly. Charters, operating in a free market<sup>11</sup>, would 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 merely alternatives in different locations.

<sup>17</sup> 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 platform of 1980,” 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. Ian Haney-López

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<sup>11</sup>No one really wants a free market because a market completely free of regulation would have unenforceable contracts, rampant monopolies, and constant and ruinous market failures. What people really want when they use the phrase “free market” is a heavily regulated market which allows them to profit, unfettered, while restraining or excluding others.

1 expertly dissects how it's possible to voice racist thoughts without actually using racial  
2 words, a practice perfected by President Ronald Reagan (Haney-López, 2014).

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

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

12 (as quoted in Lennox, 2020)

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

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

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

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

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

8 In California at least, these policy concerns have not been addressed in the six years  
9 since Bruce Baker and Gary Miron wrote about them<sup>12</sup>.

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

<sup>12</sup>Changes in policy to address some of these concerns have been strenuously opposed by charter school advocates. For example, the California Charter Schools Association opposed an accountability bill, AB1316 *School accountability: financial and performance audits: charter schools: contracts.* (2021–2022), which merely sought to make charter school finances more transparent.

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

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

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

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

1 School choice has been relentlessly marketed and promoted by billionaires who do not  
 2 send their children to public schools.<sup>13</sup> The Walton family, Eli Broad, Bill Gates, the Koch  
 3 brothers, the Zuckerbergs, and Laurene Jobs, are all on the list of the 500 richest people in  
 4 the world. Their collective wealth exceeds half a trillion dollars, and they are busily engaged  
 5 using that wealth to fix the very problems that their accumulation of wealth caused.

6 Anand Giridharadas whose book, *Winners Take All: The Elite Charade of Changing the World*,  
 7 says that it's a "Trying-to-Solve-the-Problem-with-the-Tools-That-Caused-It" issue  
 8 (Giridharadas, 2018, p. 142).

9 ~~effects of billionaire spending~~  
 10 The impact of the billionaires on education cannot be over emphasized. Just one  
One of many examples includes \$2B in grants from the Bill and Melinda Gates Foundation

~~example should suffice.~~ 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. He  
discontinued when the initiatives

The grants were eventually abandoned after it didn't produce the intended results. Gates was also  
 11 instrumental in funding the Common Core State Standards whose premise was that if we  
 12 only had high enough academic standards, student outcomes would improve, again  
 13 without evidence that they were educationally valuable.

the reforms  
 One may argue that Charter schools were born of racism and they perpetuate that racism. They are merely  
 14 the educational version of privatization, a movement driven by a search for profit, not  
 15 educational excellence. They appear to be the social project plaything of billionaires.

consider moving to discussion

## 19 Types of Charter Schools

20 Charter schools can be broadly classified along three axes:

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

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

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

<sup>13</sup> Diane Ravitch lumps these billionaires together, calling them the "Billionaires Boys Club", an epithet first used in *The Death and Life of the Great American School System*.

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

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

**19** Public school districts (LEAs, local education agencies, in the parlance of the California  
20 Department of Education (CDE)) may authorize one several kinds of charter schools. A  
21 district may sponsor a charter school directly, in which case the LEA exercises oversight.  
22 These dependent charter schools are authorized by the local public school board and are  
23 subject to the board’s jurisdiction. It also is possible for all the schools in a district to  
24 convert to charter schools, and then the public school board becomes the charter school  
25 board. Table 1 is a summary of the attributes of the types of schools in California.

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

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

- <sup>1</sup> **Profit-Making Status** Until the 2019–20 school year, charter schools in California could  
<sup>2</sup> be run directly or indirectly by a profit-making organization. California now prohibits  
<sup>3</sup> profit-making organizations, either a single school or a charter management organization,  
<sup>4</sup> from submitting an initial charter school petition or a renewal.
- <sup>5</sup> Even though profit-making charters are banned, there are many ways of getting  
<sup>6</sup> around this restriction. Charter operators can contract with outside firms to provide all or  
<sup>7</sup> just some services, and those firms may be profit-making firms. Charter operators are able  
<sup>8</sup> to lease, buy, or sell their facilities, and those transactions might generate a profit. Charter  
<sup>9</sup> operators can sell their facilities and lease them back from the buyer. This kind of financial  
<sup>10</sup> transaction converts an illiquid asset (buildings) into a liquid asset, cash, and also  
<sup>11</sup> generates a revenue stream from the rental income, all of which is ultimately paid for by  
<sup>12</sup> taxpayers. Charter operators may also charge schools a management fee or an expansion  
<sup>13</sup> fee. Charter operators are not restricted in the salaries they pay administrators.

1 However, charter school board members in California have recently become subject to  
2 the conflict-of-interest laws specified in Government Code §§1090–1099 and  
3 §§87100–87314 (Becerra & Medeiros, 2018). Generally, government officials are prohibited  
4 from benefiting financially from their positions as public servants, but it remains to be  
5 seen if these conflict-of-interest laws will prevent profiteering by school board members,  
6 administrators, or relatives of either.<sup>14</sup>

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

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

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<sup>14</sup>The law is necessarily complex. Two useful guides are Chaney et al. (2010) and Kevin Ennis et al. (2016) (which run to nearly 300 pages). A more general guide to local government ethics is “Understanding the Basics of Public Service Ethics” from California’s Institute for Local Government.

<sup>1</sup> seems to be slowing, but their performance, compared to TSPs, has not measurably  
<sup>2</sup> improved.<sup>15</sup> (*Virtual Schools in the U.S.* 2019, 2019, p. 11).

<sup>3</sup> Pre-pandemic, charter schools in California were legally deemed classroom-based (e.g.  
<sup>4</sup> not virtual) if students spent no more than 20% of their time in front of a computer.<sup>16</sup>  
<sup>5</sup> Blended charter schools, on the other hand, offer some sort of face-to-face interaction with  
<sup>6</sup> a teacher along with online activity without face-to-face interaction. But they too offer  
<sup>7</sup> only marginally better educational outcomes than fully virtual charter schools (*Virtual*  
<sup>8</sup> *Schools in the U.S.* 2019, 2019, p. 52). Rocketship schools use a blended instructional model.

### <sup>9</sup> **Charter Schools in the United States**

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

<sup>17</sup> The characteristic that home schooling and private schools share is that they are  
<sup>18</sup> agnostic about public schools. Not so for charter schools, voucher, and freedom-of-choice  
<sup>19</sup> plans. Charter schools, voucher programs, parent trigger programs, and  
<sup>20</sup> freedom-of-choice plans explicitly want to supplant or replace public schools (Garcia, 2018,  
<sup>21</sup> pp. 5, 15, 35).

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<sup>15</sup>Although *Charter Schools in Perspective: A Guide to Research* is otherwise an excellent summary of the research on charter schools, they incorrectly state (p.117) that there is little research of online or virtual charter schools. The authors must not be aware of the NEPC series on virtual charter schools. However, according to *Virtual Schools in the U.S.* 2019 (2019, p. 117), there is only one study on blended charter schools.

<sup>16</sup>The California Education Code §47612.5(e)(1) doesn't mention computers, but bases its definition on students being physically at the schoolsite with a certificated teacher in charge. Under that definition, a roomful of students behind computers with a teacher in attendance would qualify as classroom-based and not virtual. California's Education Code does not recognize the blended category.

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

11     ***Charter Schools in California***

12     Charter schools, in California as elsewhere in the United States, enter into a contract (the  
 13     charter) with a chartering authority that specifies what they are to do and how, and in  
 14     return, are exempt from the entirety of California's Education Code (with the exception of  
 15     five technical provisions). The California Legislature, when it enacted the *The Charter School*  
 16     *Act of 1992*<sup>17</sup> (Ed. Code §47600), spelled out its intent that the charter schools should

- 17        a) Improve pupil learning.
- 18        b) Increase learning opportunities for all pupils, with special emphasis on expanded  
 19           learning experiences for pupils who are identified as academically low achieving.
- 20        c) Encourage the use of different and innovative teaching methods.
- 21        d) Create new professional opportunities for teachers, including the opportunity to be  
 22           responsible for the learning program at the schoolsite.

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<sup>17</sup>Current 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>

- 1       e) Provide parents and pupils with expanded choices in the types of educational
  - 2           opportunities that are available within the public school system.
  - 3       f) Hold the schools established under this part accountable for meeting measurable
  - 4           pupil outcomes, and provide the schools with a method to change from rule-based to
  - 5           performance-based accountability systems.
  - 6       g) Provide vigorous competition within the public school system to stimulate continual
  - 7           improvements in all public schools.<sup>18</sup>
- 8 It is important to keep these seven goals in mind because charter schools have  
9 contractually agreed to these goals in return for funding, independently of whatever other  
10 goals they explicitly specified in their charter. Note, in particular, that nothing has been  
11 said about profitability, and in fact, California enacted a prohibition against for-profit  
12 charter schools (Ed. Code §47604 et seq.) in 2018.

13       The Act has been amended many times in its nearly 30 years of existence, but its intent  
14       has remained the same. □

### 15 **Surveys of Charter School Research**

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

20       Five surveys stand out. The first survey of the last decade is “Beyond ideological  
21       warfare: the maturation of research on charter schools” by Joanna Smith et al. which is a  
22       systematic review of charter school research as it existed in 2011. Smith et al. (2011) are  
23       interested, not so much in the conclusions of the studies they looked at, but how the  
24       research was performed, how was it structured, what facets of charter schools were looked

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<sup>18</sup>This goal was added in 1998.

at, and what was the subject of the research in order to “separate empirical evidence from politicized conjecture” (p. 460). Four years later, Mark Berends in “Sociology and School Choice” (Berends, 2015) chose as his focus the various theories that researchers used when looking at the social organization of charter schools. Next, Dennis Epple et al. did much the same, but concentrated on the technical aspects of study design (Epple et al., 2016). They observed that which research question(s) were being answered by a particular study was often much narrower or significantly different than the research question(s) authors set out to answer or thought they were answering. In addition to Public Agenda (2018), the most recent survey, in 2019, is by Ron Zimmer et al. In *Nearly three decades into the charter school movement, what has research told us about charter schools?* they look at who is served, racial segregation effects, both academic and non-academic outcomes, management structure, and financial effects. Although Garcia (2018) is not explicitly a survey of the existing literature, Garcia, in Chapter 3 (pp. 91–146), contains 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).

**16 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 example, in 2014, Gordon Lafer, now at In the Public Interest, 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* and *Breaking point: The cost of charter schools for public school districts*. Carol Burris, Executive Director of the Network for Public Education, and several co-authors have produced three reports on charter schools: Burris and Pfleger (2020),

<sup>1</sup> Burris and Bryant (2020), and Burris and Cimarusti (2021). The National Education Policy research center based at the University of Colorado, Boulder, with over 150 affiliated

<sup>2</sup> Center is a loose organization of over 150 scholars and academics at different universities

The described goal of the group is to

<sup>3</sup> whose goal is “to produce and disseminate high-quality, peer-reviewed research to inform education policy discussions” (“About the National Education Policy Center,” n.d.). The NEPC 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.

<sup>8</sup> Bruce Baker’s contributions here are especially noteworthy: *The business of charter schooling;*

<sup>9</sup> *Understanding the policies that charter operators use for financial benefit.* B. Baker and Miron

<sup>10</sup> (2015), “NEPC Review: California Charter Schools: Costs, Benefits, and Impact on School

<sup>11</sup> Districts (Center on Reinventing Public Education, May 2019)” B. D. Baker (2019), and the

<sup>12</sup> above mentioned *Profiles of For-Profit and Nonprofit Education Management Organizations:*

<sup>13</sup> *Fifteenth Edition* Miron et al. (2021).

<sup>14</sup> Gordon Lafer’s report, *Spending blind: the failure of policy planning in California charter school funding* is particularly scathing. He says, “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 educational need and where the charter school is of lower quality than nearby public schools. Lafer says, “It’s as if legislators turned on a faucet of money and then just walked away.” (p.12) It is saddening that in the four years since Lafer’s report came out, nothing has fundamentally changed.

<sup>1</sup> **Rocketship**

<sup>2</sup> Rocketship is well-known in the charter school world. It even has been the subject of a  
<sup>3</sup> “biography”, *On the rocketship* (Whitmire, 2014).<sup>19</sup>. Rocketship’s leaders and supporters  
<sup>4</sup> routinely describe it as “high performing”, “deserving of huge credit”, “dynamic”, and  
<sup>5</sup> “nationally lauded”. Rocketship schools, it is claimed, outperform some of the best public  
<sup>6</sup> schools in the country. Rocketship “believe[s] that every student deserves the right to  
<sup>7</sup> dream, to discover, and to develop their own unique talent”. Rocketship, charter school  
<sup>8</sup> advocates, and privatizers excel at choosing names and tag lines that are impossible to  
<sup>9</sup> argue against.

<sup>10</sup> Rocketship is one of the largest non-profit blended charter school management  
<sup>11</sup> organization in the United States. They operate 21 schools in three states and Washington,  
<sup>12</sup> D.C.; thirteen in California, three in both Nashville, TN and Washington, D.C., and two in  
<sup>13</sup> Milwaukee, WI. In Santa Clara County, CA, they have eight TK-5 elementary schools  
<sup>14</sup> authorized by the county that served 4,254 students in the 2019–20 school year plus 1240  
<sup>15</sup> students in two district authorized schools, for a total of 5494 students.

<sup>16</sup> **Founders and Supporters**

<sup>17</sup> Rocketship was founded by John Danner, Don Shalvey, Jennifer Andaluz, and Eric Resnick  
<sup>18</sup> in 2007. Danner had significant teaching experience (Nashville, TN public schools) prior to  
<sup>19</sup> Rocketship, as did Shalvey (Aspire Public Schools) and Andaluz (Downtown College Prep).  
<sup>20</sup> Resnick, the fourth member of the founding group was a hedge fund manager who had a  
<sup>21</sup> “a deep understanding of financial management and real estate transactions” (Danner,  
<sup>22</sup> 2006, p. 13). The inclusion of Resnick, an expert in real estate transactions, at the very  
<sup>23</sup> beginning of Rocketship, is interesting because one of the preferred ways for charter

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<sup>19</sup>Just two other charter schools share this distinction: Geoffrey Canada’s Harlem Children’s Zone (Tough, 2009) and the KIPP schools (Mathews, 2009; Horn, 2016)

<sup>1</sup> school investors and founders to generate profits is via real estate deals. John Danner  
<sup>2</sup> eventually left Rocketship in 2013 to found Zeal, an online math tutoring tool, and was  
<sup>3</sup> replaced by Preston Smith who became CEO.

<sup>4</sup> Not mentioned in the first charter petition, nor in the Articles of Incorporation of  
<sup>5</sup> Rocketship Education, the owners of the first Rocketship school, were Preston Smith, Matt  
<sup>6</sup> Hammer, and Reed Hastings, CEO of Netflix. Smith became the first principal of the  
<sup>7</sup> Rocketship's first school, Mateo Sheedy, and was subsequently listed as a Rocketship  
<sup>8</sup> co-founder in the charter petition for Rocketship's second school. Hammer brought  
<sup>9</sup> Danner and Smith together, and has relentlessly [redacted] noted charter schools through his  
<sup>10</sup> advocacy non-profit, Innovate Public Schools.<sup>20</sup> Hastings proselytized Rocketship to the  
<sup>11</sup> larger charter school community and when he promised Rocketship \$250K for each of the  
<sup>12</sup> first eight Rocketship schools they opened (~~Whitmire, 2014, p. 50~~), his donation caught the  
<sup>13</sup> attention of philanthropic venture funds.<sup>ERS</sup>

<sup>14</sup> **Rocketship History**

<sup>15</sup> The first Rocketship school, Mateo Sheedy, opened in Santa Clara County in 2007.  
<sup>16</sup> Rocketship's initial petition to the San José Unified School District was denied, so they  
<sup>17</sup> appealed to the Santa Clara County Board of Education, which granted their petition. Over  
<sup>18</sup> the years, Rocketship opened ten schools in Santa Clara County. Of those ten, only two  
<sup>19</sup> were authorized by a public school district. The remainder were either countywide charters  
<sup>20</sup> or charter schools whose petitions were denied by the local public school district, but  
<sup>21</sup> subsequently approved by the Santa Clara County Board of Education. Table 2 on page 34  
<sup>22</sup> lists the eleven Rocketship schools that were approved and the ten that opened. Note that  
<sup>23</sup> only two were approved by the school district in which they were expected to locate. This lopsided

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<sup>20</sup><https://innovateschools.org/>

suggests that current charter school laws are tilted in favor of charter schools.  
1 result show much charter school law is tilted in favor of charter schools. The irony of   
2 freemarketeers promoting charter schools shouldn't be lost on readers.

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

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

## <sup>1</sup> Rocketship Finances

- <sup>2</sup> 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.
- <sup>4</sup> Rocketship is no exception. The *operations* of online and blended 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's funded at taxpayer expense and what's not must somehow be funded with outside money.
- <sup>8</sup> Regardless, startup money is needed for facilities, desks and chairs, administrator salaries, legal fees, curriculum materials, etc., all of this before even one student registers. Startup facilities cost vary widely. If the charter school chooses to use public school district facilities under Proposition 39<sup>21</sup>, their need for funds will be less. Regulations drawn up by

<sup>21</sup>Proposition 39, passed by California voters in November 2000, contains a provision that requires public school districts to provide charter schools facilities “sufficient to accommodate the charter school’s students”

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

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

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

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

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

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

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

<sup>4</sup> **Rocketship Expansion Funding**

<sup>5</sup> **Fixme Note: This whole section needs expanding.** California, startup charter school  
<sup>6</sup> funding has waxed and waned, in part because federal funding has varied. Currently, he  
<sup>7</sup> U.S. Department of Education provides startup funds to states under the Charter Schools  
<sup>8</sup> Program State Educational Agency (SEA) grant program<sup>22</sup>. The federal charter school  
<sup>9</sup> funding programs are listed in National Charter School Resource Center (2020). *The federal*  
<sup>10</sup> *charter schools program: 2020 annual report* notes that

<sup>11</sup> At the core of the Charter Schools Program are the Grants to State Entities (SE  
<sup>12</sup> Grants). The State Entity program offers competitive grants to states, which  
<sup>13</sup> then make subgrants within their states to *open new charter schools and replicate*  
<sup>14</sup> *or expand existing charter schools.* (emphasis added)

<sup>15</sup> (National Alliance for Public Charter Schools, 2020)

<sup>16</sup> Funds like the New School Venture Fund<sup>23</sup> and the Charter School Growth Fund I & II<sup>24</sup>  
<sup>17</sup> exist to fund the development and expansion of charter schools and charter management  
<sup>18</sup> organizations. In 2007, when Rocketship Mateo Sheedy was started, Rocketship used lines  
<sup>19</sup> of credit and loans to fund its beginning (Danner, 2006, p. 260). Now, charter schools have  
<sup>20</sup> many more options for funding startup or operations.

<sup>21</sup> **Rocketship Expansion Difficulties**

<sup>22</sup> In 2014, the Santa Clara County Office of Education and Rocketship were sued by four  
<sup>23</sup> Santa Clara County public school districts: Alum Rock, Mount Pleasant, Franklin-McKinley

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<sup>22</sup><https://www2.ed.gov/about/offices/list/oi/csp/funding.html>

<sup>23</sup><https://www.newschools.org/>

<sup>24</sup><https://chartergrowthfund.org/>

1 and Evergreen. At issue was the SC COE's bulk authorization of twenty countywide  
2 Rocketship charter schools. Sixteen months, 17,500 pages of evidence, and an estimated  
3 \$435,000 later, Rocketship, the public school districts, and Santa Clara County settled  
4 (Noguchi, 2015). As part of the settlement, Rocketship agreed to withdraw 13 of the 20  
5 countywide charters thus far authorized. Since one of the remaining countywide charter  
6 had already been withdrawn, that left six potential charters still authorized but as of yet,  
7 unopened. So far, it appears that Rocketship has attempted to expand in locations beyond  
8 Santa Clara County: San Pablo<sup>25</sup> and Concord in California, Nashville in Tennessee,  
9 Milwaukee in Wisconsin, Washington, D.C. and Fort Worth in Texas.

10 ***Charter School Accountability***

11 In California, all K–12 schools, including privately managed charter schools like Rocketship,  
12 must submit annual budgets, Comprehensive Annual Financial Reports (CAFR), and since  
13 2014, Local Control and Accountability Plans (LCAP). LCAPs are three year plans updated in  
14 years two and three and which in detail how a school will use its funds

- 15 • to address state priorities, and  
16 • to improve educational outcomes for foster youth, English learners, and low-income  
17 students

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

21 **Rocketship and Privatization**

22 Some contend that the central purpose of charter schools is to disguise a money-making  
23 operation (Saltman, 2018). Whitmire, who now sits on the board of Rocketship Education

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<sup>25</sup>unsuccessfully

1 and who in 2014 published *On the rocketship*, makes note of the role that private venture  
2 funds played in Rocketship financing (Whitmire, 2014, pp. 25, 65), and it is instructive to  
3 remember that private, for-profit venture funds exist to make money. True, they often are  
4 “double bottom line” grantors (Clark et al., 2004). As Ball (cited in Tewksbury (2016, p. 75))  
5 makes clear

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

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

21 **Privatization**

22 Charter CMOs and EMOs appear to be following the lead of prison and health care  
23 privatizers. They lobby legislators intensively. They position themselves as being more  
24 efficient than the “wasteful” public sector, and they claim to be able to do better than  
25 public schools, prisons or hospitals at a lower cost. Since charter schools have positioned  
26 themselves as being in competition with TPSs, they need to do at least as well as TPSs, or  
27 failing that, appear to do so. This calls for creative marketing, and so to that end,

1 pro-charter advocacy organizations, some university-affiliated institutions and some think  
 2 tanks have been harnessed to churn out pro-charter puff pieces that are regularly  
 3 debunked.<sup>26</sup> Evidently even creative marketing is not enough to prod the free market to  
 4 supply the educational choice that charter school advocates feel is necessary, so pro-choice  
 5 advocacy organizations also lobby state representatives and fund pro-charter board  
 6 candidates.

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

[include citation](#)

16 **Fixme Note: Needs expansion.**

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

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<sup>26</sup>The National Educational Policy Center (<https://nepc.colorado.edu>) in the School of Education at the University of Colorado (Boulder) currently has over 150 NEPC Fellows who aim "to produce and disseminate high-quality, peer-reviewed research to inform education policy discussion" on a wide variety of topics. They often review pro-charter school publications which have been presented as academic research even though those publications have not been peer-reviewed and often have serious methodological problems which weaken or negate their conclusions.

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. They can tap into state or federal facilities grants. They can collect and sell student data. They can contract out to a for-profit management company. They buy technology from business partners. In all these cases, the net result is always the same: money flows out of the public school system into private hands.

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 has a student-to-teacher ration that's as high as 36:1 (SCCOE, 2021, pp. 23–30). 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.

### Philanthro-~~C~~Capitalism      Philanthrocapitalism

Philanthro-capitalism 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 his load by all means possible ... except by getting off his back.

- <sup>1</sup> For philanthro-capitalists, the techniques and vehicles used to extract a profit from public  
<sup>2</sup> education can be impressive. K.J. Saltman lists the following in *The swindle of innovative*  
<sup>3</sup> *educational finance* (pp.xii–xiii):
- <sup>4</sup> • social impact bonds,  
<sup>5</sup> • higher education lending and student income loans,  
<sup>6</sup> • charter school real estate, tax credit, and municipal schemes, and  
<sup>7</sup> • so-called philanthro-capitalist educational technology schemes.
- <sup>8</sup> Marachi and Carpenter (2020), Burris and Cimarusti (2021), Scott (2009), B. Baker and  
<sup>9</sup> Miron (2015) all make the same point: education has been captured by big business, and a  
<sup>10</sup> lot of people are making a lot of money out of it.



<sup>1</sup> **Research Design and Methodology**

<sup>2</sup> This dissertation is an exploratory case study using a public policy lens to examine the  
<sup>3</sup> finances of Rocketship Education. Case studies are an in-depth examination of single topic  
<sup>4</sup> that is limited in space or time. Public policy is the set of rules, laws, regulations, and mores  
<sup>5</sup> that affect the actions of an element of society. It is “the decisions, measures, programmes,  
<sup>6</sup> strategies and courses of action adopted by the government or the legislative body” (Knill &  
<sup>7</sup> Tosun, 2020, p. 3). Public policy mandates and constrains Rocketship Education’s actions  
<sup>8</sup> and how it structures its finances to meet its goals. Exploratory means that the precise  
<sup>9</sup> data that will be collected and the precise methods used to analyze those data are not fully  
<sup>10</sup> known in advance and will depend on this study’s findings as the inquiry evolves.

<sup>11</sup> **Process Overview**

<sup>12</sup> At a high level, the basic process followed by this dissertation is as follows:

- <sup>13</sup> • Gather financial data for the Rocketship schools being studied. The initial set of data  
<sup>14</sup> being analyzed is discussed in the section ‘Data Sources’ later in this chapter.
- <sup>15</sup> • Identify any gaps or anomalies in the data. This is where triangulation is useful and  
<sup>16</sup> is discussed further in the next section, ‘Triangulation’.
- <sup>17</sup> • Compare Rocketship’s financial processes to other public schools, to other charter  
<sup>18</sup> schools, and to other charter school chains, looking especially for differences.
- <sup>19</sup> • Analyze the flow of money in and out of Rocketship. Where does money come from?  
<sup>20</sup> Where is money is being spent? What public policies (or lack of public policies)  
<sup>21</sup> account for Rocketship’s actions?

<sup>22</sup> Explaining the finances of Rocketship Education is the heart of this dissertation.

<sup>23</sup> Where do Rocketship’s revenues come from? Where are they spending that revenue? And,  
<sup>24</sup> critically, if Rocketship takes in more money than it spends on education, where does that  
<sup>25</sup> money go?

<sup>26</sup> For example, it is possible that Rocketship Education might use its revenue stream as  
<sup>27</sup> collateral and issue so called general obligation bonds (GO bonds) which are purchased by

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

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

16 ***Triangulation***

17 The existence of multiple sources of data allows *triangulation* to be used. While  
18 triangulation in the social science research often refers to the mixed methods use of  
19 quantitative and qualitative methodologies, **the lay definition** refers to the analysis of  
20 multiple forms of corroborating evidence in the form of financial and media  
21 documentation. For example, Bhandari (2022) notes that one of the forms of triangulation  
22 is "[u]sing data from different times, spaces and people" and also that "[t]riangulation in  
23 research means using multiple datasets, methods, theories and/or investigators to address

<sup>1</sup> a research question. It's a research strategy that can help you enhance the validity and  
<sup>2</sup> credibility of your findings.”<sup>27</sup>

<sup>3</sup> ***Looking Ahead***

<sup>4</sup> The remainder of this chapter first looks at how charter and public schools are financed in  
<sup>5</sup> California by describing the normal, common financial disclosures made by all districts  
<sup>6</sup> and schools, including charter schools. These should provide a high level sense of charter  
<sup>7</sup> and public school financing in California, a common base line. In fact, these disclosures  
<sup>8</sup> should characterize the finances of Rocketship completely and accurately. The topic of  
<sup>9</sup> Rocketship finances is quite broad because, in addition to all of the financial dealings of  
<sup>10</sup> traditional public schools, almost all of which also apply to charter schools, charter schools  
<sup>11</sup> have large and immediate needs for facilities that TPSs typically don't have. This brings  
<sup>12</sup> into the picture bonds, loans, grants, leases, construction, and the purchase and sale of real  
<sup>13</sup> estate.

<sup>14</sup> The second section in this chapter discusses how potential gaps or anomalies in the  
<sup>15</sup> financial data might be discovered. This is where triangulation can be used to cross-check  
<sup>16</sup> the validity of that data. Does everything add up? Are there important, missing  
<sup>17</sup> documents? How much do these gaps or anomalies matter? Are the oddities long-standing  
<sup>18</sup> or fleeting?

<sup>19</sup> **the data have been**  
<sup>20</sup> Once data has been collected, this study will have as complete and as accurate picture  
<sup>21</sup> of Rocketship's finances as possible using only publicly available documents. The third  
<sup>22</sup> section will shift to how Rocketship can be compared to other demographically similar  
<sup>23</sup> charter school chains and to public school districts. Assuming that there are few financial  
oddities, this section will compare Rocketship's finances to other demographically similar

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<sup>27</sup>Triangulation does not imply exactly three concepts or ideas; often, as is in this dissertation, more than three concepts, ideas, data are combined in the analysis.

1 schools. Norms and context do matter if the goal is to make fair comparisons. For example,  
 2 paying a superintendent an annual salary of half a million dollars may be the norm in a  
 3 large urban district of 200,000 students, but wildly inappropriate for a small rural district  
 4 of 1000 students. Are Rocketship Education's schools (financially) like other charter schools  
 5 or traditional public schools? If not, how are they different?

6 Lastly, the fourth section in this chapter will describe how this dissertation will study  
 7 the flows of money in and out of Rocketship. Previously, this study will have looked at  
 8 amounts of money at points in time. Just as important are the flows of money. Where do  
 9 they come from, and where do they go? For example, Rocketship lets contracts, just like any  
 10 school or district. Are these contracts forms of self-dealing? Are they priced comparably to  
 11 the market? Are there assets that are being sold at below market rates or leased at above  
 12 market rates?

### 13 **School Financing in California (2019–20)**

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

20 There are actually three versions of California's education budget: the one for the  
 21 current year (enacted), the one for the prior year (revised) and the one for two years prior  
 22 (final). In June of every year, the California Legislature passes a budget and the Governor  
 23 signs it into law. This is called the enacted budget.<sup>28</sup> During the course of the fiscal year,

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<sup>28</sup>California's budget is usually passed the night before the June 15<sup>th</sup> deadline. This version of the budget describes the *intent* of the Governor and the Legislature in enacting the budget. The real work is done in what are called *trailer bills* that are passed piecemeal in the months following the adoption of the official budget.

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

## K-12 Funding by Source

(*Dollars in Millions*)

	2017-18 Final	2018-19 Revised	2019-20 Enacted	Change From 2018-19	
				Amount	Percent
<b>Proposition 98</b>					
General Fund <sup>a</sup>	\$47,194	\$48,327	\$49,322	\$994	2.1%
Local property tax	19,644	20,645	21,921	1,276	6.2%
Subtotals	\$66,839	\$68,973	\$71,243	\$2,270	3.3%
<b>Other State</b>					
Other General Fund	\$6,879	\$9,749 <sup>b</sup>	\$10,503 <sup>b</sup>	\$754 <sup>c</sup>	7.7%
Lottery	\$1,382	\$1,305	\$1,304	-\$1	-0.1%
Special funds	\$75	\$79	\$228	\$149	189.0%
Subtotals	\$8,336	\$11,133	\$12,036	\$903 <sup>c</sup>	8.1%
<b>Other Local<sup>d</sup></b>					
	\$12,023	\$12,712	\$11,814	-\$898	-7.1%
<b>Federal</b>					
	\$7,435	\$8,190	\$8,204	\$94	1.1%
<b>Total</b>	<b>\$94,633</b>	<b>\$101,008</b>	<b>\$103,377</b>	<b>\$2,369</b>	<b>2.3%</b>
Students <sup>e</sup>	5,960,120	5,944,769	5,933,407	-11,362	-0.2%
Proposition 98 funding per student	\$11,214	\$11,602	\$12,007	\$405	3.5%
Total funding per student	\$15,878	\$16,991	\$17,423	\$432	2.5%

<sup>a</sup> Consists of funding for K-12 education, preschool, and other agencies serving K-12 students.

<sup>b</sup> Includes \$3.9 billion in additional retirement payments authorized in the 2019-20 budget package (\$2.8 billion attributed to 2018-19 and \$1 billion attributed to 2019-20).

<sup>c</sup> These year-to-year comparisons are notably affected by how the administration attributed the additional retirement payments authorized in the 2019-20 budget package across fiscal years.

<sup>d</sup> Includes revenue from local fees, property taxes collected in excess of the Local Control Funding Formula allotments, parcel taxes, and reimbursements.

<sup>e</sup> Reflects average daily attendance.

Note: Legislative Analyst's Office (2021). In the public domain.

1 revisions are made to this enacted budget either because of circumstance or because of  
2 changed priorities, and this now becomes the revised budget. But even then, this budget  
3 isn't final. Technical adjustments still need to be made: Exactly how much money was  
4 spent, or what was misclassified and improperly allocated will change the revised budget  
5 numbers. This then becomes the final budget.

6 Figure 1 on the preceding page, *California 2019–20 K–12 Funding by Source*, shows what  
7 money California has to fund its primary and secondary educational system, i.e. grades  
8 K–12. This money is then allocated to local educational agencies (LEAs), through a formula  
9 known as the Local Control Funding Formula (LCFF) to individual charter schools, county  
10 offices of education, and local public school districts. The total amount of money for K–12  
11 funding is allocated using a formula that was enacted by voters in 1988 (LAO, 2017):

12 Proposition 98. Prop. 98 was originally meant to be the minimum guaranteed funding  
13 level, but has been instead used as a ceiling. The Legislative Analyst's Office (LAO) terms  
14 Prop. 98 "A Tale of Complexity" and says that "A Plethora Tests and Rules Govern the  
15 Minimum Guarantee", and that "State Has Made Myriad Adjustments to the Proposition 98  
16 Calculations". Undoubtedly LCFF is complex, but LCFF is better than what existed  
17 previously, the Revenue Limit System. That system was also complex, but in a completely  
18 difference way, and had many separately funded programs called categorical programs,  
19 each with their own requirements, rules, and funding levels.

20 As seen in Figure 1 on the previous page, Proposition 98 funding accounts for nearly  
21 70% of California's K–12 funding, the remainder coming from local property taxes and fees,  
22 and from various state sources. This money gets distributed to county offices of education  
23 which then distribute it to public school districts. Districts then distribute funds to charter  
24 schools. Figure 2 *LASD 2019–20 All Funds Summary* in section on page 55 shows how one  
25 public school district, the Los Altos School District (LASD) breaks down its revenues. The  
26 All Funds Summary is akin to a business's income statement.

**Table 3**  
*Summary of Charter School Financial Documents*

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

***1 The Financing of Charter Schools***

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

*9 Since there are numerous publicly available sources of the same charter school  
 10 financial data, the raw materials needed for triangulation are available: these are, in  
 11 roughly chronological order, petitions/renewals, budgets, LCAPs, interim financial  
 12 statements, and finally, audited Comprehensive Annual Reports (CAFRs). Table 3, *Summary*  
 13 of *Charter School Financial Documents*, summarizes the financial reports which are available  
 14 about charter school finances.*

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

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

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

16 The following is more detail on some sources of financial data which apply to charter  
17 schools. [Formatting can be improved here](#)

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

25 Before a charter school is allowed to begin operation, every charter school in  
26 California is required to present to a chartering authority a petition which must  
27 contain certain required elements. The absence of one of these elements is grounds  
28 for denying the charter's petition to operate. For example, what is the intent of the

1 charter school? How is the charter school going to measure its success or failure?  
2 What population is it targeting? And, what are its financial projections?

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

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

15 Along with a budget, charter schools must approve a Local Control and  
16 Accountability Plan (LCAP), and the LCAP needs to be in agreement with the budget.

17 **CAFRs** A major source of financial data is the annual, independently audited,  
18 consolidated financial statements of Rocketship Education. Some of these financial  
19 statements are available for non-profits associated with Rocketship Education.  
20 Similar to bond underwriters (see below), financial auditors are liable for “omitting,  
21 misstating, or obscuring [items which] could reasonably be expected to influence  
22 decisions that the primary users make on the basis of those financial statements”  
23 (Cayamanda, 2020), and this requirement tends to increase the diligence of the  
24 auditors. However, potential liability doesn’t always result in truly comprehensive  
25 financial statements; sometimes the lure of accounting fees overwhelms any  
26 misgivings, as was the case with Enron and Arthur Andersen in 2001, and apparently  
27 with Donald Trump in 2022. In general, however, fraud is thankfully rare, in part  
28 because fraud on the part of auditors would likely result in the loss of the auditor’s  
29 license, effectively ending their business.

30 **IRS filings** There are federal forms that non-profits need to file that provide some  
31 financial data. The most relevant are the IRS Forms 990, [Tax] Return of  
32 Organization Exempt from Income Tax. (The tax returns of for-profit organizations  
33 are not public documents and their contents do not have to be disclosed; however, in  
34 order to sell stock to the public, i.e. on a stock exchange, firms are required to

1 publish various financial documents, which like bond prospectuses, are required to  
2 be informative and complete.)

### Bond Prospectus Documents

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

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

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

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

<sup>1</sup> **Data Sources**

<sup>2</sup> To make the discussion of the data being collected more concrete, this section presents the  
<sup>3</sup> initial set of financial and non-financial data that will be analyzed. These fall into one of  
<sup>4</sup> four categories:

- <sup>5</sup>     • Financial reports  
<sup>6</sup>     • Non-financial reports  
<sup>7</sup>     • Petitions & renewals  
<sup>8</sup>     • Other data and datasets

<sup>9</sup>     Each is discussed in a subsection below. In order to make what's being analyzed more  
<sup>10</sup> concrete, I present some examples drawn from the Los Altos School District (LASD) for the  
<sup>11</sup> 2019–20 school year. These LASD documents make good models because they have  
<sup>12</sup> consistently won the Meritorious Budget Award for Excellence from the Association of  
<sup>13</sup> School Business Officials International for the quality and comprehensiveness of its  
<sup>14</sup> financial statements for each of the last 15 years.

<sup>15</sup> ***Financial Reports***

<sup>16</sup> Only a few financial statements are needed to get a good overall picture of a school's or  
<sup>17</sup> district's finances. These are:

- <sup>18</sup>     • The enacted Annual Budget and Interim Reports  
<sup>19</sup>     • The audited Comprehensive Annual Financial Report (CAFR)  
<sup>20</sup>     • The Local Control Accountability Plan (LCAP)

<sup>21</sup> When looking at financial statements, one should look for:

- <sup>22</sup>     • Unusually large (or small) entries  
<sup>23</sup>     • Unusual changes year-to-year  
<sup>24</sup>     • Unusual ratios  
<sup>25</sup>     • Totals which do not add up or which exceed their component parts  
<sup>26</sup>     • Entries that are not supported by detail elsewhere

1 California's Fiscal Crisis and Management Assistance Team (FCMAT) publishes a list of  
2 indicators of financial mis-management, FCMAT (2020), that might be useful in evaluating  
3 the soundness of Rocketship's finances and the completeness of its financial statements.

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

- 8 • The six year forecast spreadsheet that LASD uses, an example of which is reproduced  
9 in Figure 8 *LASD 2019–20 Multi-Year Projection* on page 62. Most of the elements of a  
10 forecast are combinations of SACS<sup>29</sup> codes. The main drawback of using this  
11 framework is that each school would have to have its elements extracted from their  
12 SACS submissions. The main benefit is that these elements have been used for years  
13 and so are known to be useful in budgeting.
- 14 • A spreadsheet of the 9 high-level SACS object codes. This option has the advantage  
15 that these sums can be calculated automatically using reports available on Annual  
16 Financial Data web page<sup>30</sup> maintained by the California Department of Education.  
17 These reports go back to FY2003–4. The main disadvantage is that any gaps or  
18 anomalies may not show up in the aggregate numbers.
- 19 • A third way of approaching the problem of making sense of large amounts of data is  
20 to use a model. Some possible models are
- 21 – Bruce Baker's *National Education Cost Model* (B. D. Baker et al., 2018, p. 5)
- 22 – the Operating Resource Flow model from B. Baker and Miron (2015, p. 16) and  
23 Figure 12
- 24 – the resource cost model (RCM) or the education cost function (ECF) as  
25 developed by B. D. Baker (2018, pp. 188–197)
- 26 – ratio analysis or index analysis as in B. D. Baker and Richards (2004, pp. 70–86)

27 Of the four models mentioned, only the last is likely to be useful in this study's analysis  
28 because that method can identify quickly what's different in a particular budget or petition.

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

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

- <sup>1</sup> However, some of the techniques used in the other models might be useful in prying out  
<sup>2</sup> data that would otherwise not be visible.

<sup>3</sup> **Annual Budgets**

<sup>4</sup> Budgets, in California, are the first of four important financial documents that schools  
<sup>5</sup> produce during a fiscal year. For any given fiscal year, which runs from July 1 to June 30, the  
<sup>6</sup> first financial document produced is the annual budget, a forward looking financial  
<sup>7</sup> statement, which is approved before the end of the prior fiscal year.<sup>31</sup> Next are two  
<sup>8</sup> (unaudited) interim reports, one in December, and another in March, which track how well  
<sup>9</sup> the school or district is adhering to the approved annual budget, and finally, after a  
<sup>10</sup> certified public accountant has audited the school or district, a comprehensive annual  
<sup>11</sup> financial report (CAFR). State law requires that an independent auditor certify this  
<sup>12</sup> retrospective account of the school or district's financial activity as being an accurate  
<sup>13</sup> representation of the school's finances for the previous fiscal year.

<sup>14</sup> Figure 2 on the next page, *LASD 2019–20 All Funds Summary*, is a very high-level  
<sup>15</sup> summary of a school's or a district's budget. It's a snapshot of what the district's revenues  
<sup>16</sup> are expected to be, roughly where that revenue is expected to come from, what the  
<sup>17</sup> district's expenses are expected to be, and whether revenue and expenses are expected to  
<sup>18</sup> be in balance. It is the rough equivalent of a business income statement.<sup>32</sup>

<sup>19</sup> Because Figure 2 on the following page, *LASD 2019–20 All Funds Summary*, is a snapshot,  
<sup>20</sup> detecting unusual changes year-to-year is not possible. Changes are detectable using  
<sup>21</sup> Figure 3 on page 59 which compares fiscal two years. However, with just a budget summary,

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<sup>31</sup> Since a school's budget needs to be approved before the state budget is finalized, it is guaranteed that a school's budget will need to be modified after it has been approved.

<sup>32</sup> Schools group their finances by funds. Most of their revenue goes into the general fund, and most of their expenses come out of the general fund. Some transactions must by law be accounted for in different funds. The three largest are the General Fund, the Special Revenue Fund, and the Capital Projects Fund, and together they account for virtually all of the financial activity of LASD. Other schools may have a different set of funds, but all contain a General Fund that is the primary fund for their day-to-day financial activities.

**Figure 2**  
*LASD 2019–20 All Funds Summary*

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

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

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

- <sup>1</sup> one can nonetheless note some interesting ratios, for example, the percentage of expenses
- <sup>2</sup> spent on salaries and benefits. For LASD in 2021–20, this is 80.18% which is in line with
- <sup>3</sup> what is typical of elementary school districts in California. One can calculate the
- <sup>4</sup> state-wide average for all districts for 2019–20 using the Data Table at
- <sup>5</sup> [www.ed-data.org/state/CA](http://www.ed-data.org/state/CA), and that comes out to 83.71%. So, LASD spends a little less
- <sup>6</sup> on salaries and benefits than the average elementary school district in California does.
- <sup>7</sup> Calculating this ratio brings up a general issue: What is an appropriate comparison
- <sup>8</sup> group? In this particular case, the Ed-Data web site does not have county-level financial

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

8 The other common financial business report is the balance sheet, which identifies  
 9 assets and liabilities. In the educational world, this is the statement of net position.  
 10 Figure 3 on page 59 shows LASD’s assets and liabilities at the end of the 2019–20 school  
 11 year. Note that unlike a balance sheet, a statement of net position for schools (and other  
 12 governmental entities) does not balance; assets are not exactly equal to liabilities.<sup>33</sup>

13 As an example of a number which stands out and is therefore worth investigating, is  
 14 the large increase in Capital Assets, year over year, an increase of \$132M (line 3 of 3 on  
 15 page 59, *LASD YE 2020 Summary of Net Position*). In “Comprehensive Annual Financial  
 16 Report FY 2020,” six notes appear immediately after Figure 3, and these provide an  
 17 explanation for the increase: LASD purchased a property whose cost was \$134.9M net of  
 18 \$2.7M in depreciation. This purchase shows up again in line 1 of Figure 6 on page 61 and  
 19 explains the enormous 9052% increase in the value of LASD’s largest asset in FY2019, land.

20 In addition, the “Comprehensive Annual Financial Report FY 2020” contains a section,  
 21 on pp. 19–45, called *Notes to the Basic Financial Statements*. These notes are an integral part  
 22 of the certified, audited annual statement, just as they are in audited financial reports in  
 23 the business world; they cannot be omitted, and must be accurate and complete. Note 7B  
 24 of Kenyon (2021a, p. 7), General Obligation (GO) Bond Anticipation Notes (BANs), explains

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<sup>33</sup>Business accountants achieve this seemingly low probability equality by adding a fudge factor, *owner's equity*, so that *assets = liabilities + equity* always, exactly.

1 how LASD uses a common technique to convert general obligation bonds into cash: issue  
 2 BANs, backed by general obligation bonds, and payable when those GO bonds are issued.<sup>34</sup>

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

6 Within a CAFR are five summaries of financial tables that go one level deeper than the

7 All Funds Summary. These are

- 8 • Summary of Net Position (Figure 3 on the next page)
- 9 • Change in Net Position (Figure 4 on page 60)
- 10 • Net Costs of Services (Figure 5 on page 60)
- 11 • Capital Assets (Figure 6 on page 61)
- 12 • Long-term Liabilities (Figure 7 on page 61)

13 LASD rolls up its detailed financial data into a single multi-year summary, as shown in  
 14 Figure 8 on page 62. In addition to purely financial data, the multi-year summary includes  
 15 the key assumptions that were behind the numbers. In fact, the first section of Figure 8 is  
 16 only assumptions, and it is those assumptions which drive the numbers in sections 2–4.

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

19 ***Non-Financial Reports***

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

21 The principle non-financial report of schools is the Local Control Accountability Plan  
 22 (LCAP). Although the LCAP is a three year plan, it is updated annually. Typically the goals

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<sup>34</sup>One reason this makes sense is that interest rate on BANs is less than the interest rate of GO bonds, so LASD makes money by issuing BANs to pay off GO bonds. In a different situation, school districts issue tax revenue anticipation notes (TRANs) because property taxes are paid by taxpayers semi-annually and salaries are paid monthly, so districts often and predictably do not have the cash on hand to pay their employees. The solution is to issue TRANs backed by anticipated revenue, and are paid off when the school or district receives the funds.

**Figure 3**  
LASD YE 2020 Summary of Net Position

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

Note: Kenyon (2021a, p. 6). In the public domain.

- <sup>1</sup> remain the same, but their financing may change if the metrics used to measure progress
- <sup>2</sup> toward achieving those goals isn't showing progress. In unusual circumstances, how the
- <sup>3</sup> goals are to be achieved might change. LCAPs are the State of California's way of ensuring
- <sup>4</sup> that all public schools, including charter schools, meet the same set of priorities or goals.
- <sup>5</sup> LCAPs contain specifications for how a school or district will meet all eight of the state's
- <sup>6</sup> goals and how achievement will be measured. Apparently, some LCAPs have been on the
- <sup>7</sup> order of 500 pages long, although the norm is much less.

**Figure 4**  
LASD YE 2020 Change of Net Position

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

Note: Kenyon (2021a, p. 7). In the public domain.

**Figure 5**  
LASD YE 2020 Net Cost of Services

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

Note: Kenyon (2021a, p. 9). In the public domain.

**Figure 6**  
LASD YE 2020 Capital Assets

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

Note: Kenyon (2021a, p. 10). In the public domain.

**Figure 7**  
LASD YE 2020 Long-term Liabilities

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

Note: Kenyon (2021a, p. 11). In the public domain.

**Figure 8**  
*LASD 2019–20 Multi-Year Projection*

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

Note: Kenyon (2021b, p. 137) In the public domain.

- <sup>1</sup> For each activity or group of activities, schools indicate what goal is being met, if the
- <sup>2</sup> goal includes increased services for disadvantaged student, how well the school or district
- <sup>3</sup> has met that goal, and the money that has been allocated to achieving and reporting those

<sup>1</sup> goals. (The reality of what the Department of Education wants is an order of magnitude  
<sup>2</sup> more complicated than this description, but it is accurate as far as it goes.)

<sup>3</sup> Unlike budgets and CAFRs, LCAPs don't have to "add up", nor do they have to offer a  
<sup>4</sup> complete financial picture, but they do have to be consistent with other data. Expenditures  
<sup>5</sup> have to be budgeted, and the amounts budgeted need to match what's in the LCAP.

<sup>6</sup> ***Other Data and Datasets***

<sup>7</sup> Unlike many studies, there is not a paucity of data on Rocketship, rather there is a surfeit.  
<sup>8</sup> The data collected so far is voluminous. The current number of pages of initial and renewal  
<sup>9</sup> petitions runs to 7371 pages. Three bond prospectuses total over 1000 pages. And there are  
<sup>10</sup> many financial data documents yet to obtain. For example, of the five categories of  
<sup>11</sup> financial data listed in the section 'The Financing of Charter Schools', only roughly half has  
<sup>12</sup> been collected.

<sup>13</sup> The challenge for this inquiry will be to organize the data so that gaps and anomalies  
<sup>14</sup> can be identified, interesting and valid comparisons can be made with public schools and  
<sup>15</sup> other charter schools, and the flows of money in and out of Rocketship can be identified.

<sup>16</sup> One approach would be to create a common framework and recast all the financial data  
<sup>17</sup> from each school into that common framework. But, until the data have actually been  
<sup>18</sup> collected and analyses started, choosing one particular framework within which to work is  
<sup>19</sup> likely to lead to work which will need to be redone using a different framework.

<sup>20</sup> The raw data will be collected from

- <sup>21</sup> • Materials and recordings (when available) of authorizer approval meetings
- <sup>22</sup> • Marketing material, print and online, created by Rocketship
- <sup>23</sup> • Checks written, a record of money that has been paid out

<sup>24</sup> These documents are all in the public domain and with the exception of the last, should, if  
<sup>25</sup> they have been filed, be available from the California Departments of Education and  
<sup>26</sup> Finance, or from the Santa Clara County Office of Education. A record of checks written is

- <sup>1</sup> only available from Rocketship, although independent auditors have examined Rocketship's
- <sup>2</sup> books and have determined that there are no material omissions or misrepresentations.

### <sup>3</sup> **Non-financial Data Sources**

- <sup>4</sup> Data sources that are not financial in nature are needed to be able to compare fairly
- <sup>5</sup> Rocketship's schools to other schools, particularly those outside of Santa Clara County.
- <sup>6</sup> Some of the following sources may be consulted depending on what is being compared or
- <sup>7</sup> analyzed.

- <sup>8</sup>     • Demographic data from counties, states, and the federal government
  - <sup>9</sup>         – The County of Santa Clara (232 datasets)
  - <sup>10</sup>         – The California Open Data Portal (2,668 datasets)
  - <sup>11</sup>         – The United States Government (335,221 datasets)
- <sup>12</sup>     • Data from many hundreds of studies of public education or charter schools
- <sup>13</sup>     • National Center for Education Statistics (NCES) at the Institute for Education Sciences (IES)
- <sup>14</sup>     • American Community Survey (U.S. Census Bureau)
- <sup>15</sup>     • California Department of Education and the State Board of Education
- <sup>16</sup>     • Santa Clara County, Charter Schools Department
- <sup>17</sup>     • Stanford Educational Data Archive
- <sup>18</sup>     • School Finance Indicators Database
- <sup>19</sup>     • EdSource, Ed-Data, & other aggregators of educational data specific to California
- <sup>20</sup>     • Court records that involve Rocketship
- <sup>21</sup>     • Standardized test scores
  - <sup>22</sup>         – National Assessment of Educational Progress (NAEP) [two series]
  - <sup>23</sup>         – Early Childhood Longitudinal Study, Kindergarten Cohorts of 1998 and 2010 (ECLS-K:1998, 2010)
  - <sup>24</sup>         – California Assessment of Student Performance and Progress (CAASPP) and the Academic Progress Indicator (API)

<sup>25</sup>     Although many of these datasets are not in and of themselves financial, they will prove useful in calculating ratios of where Rocketship's spending differs from spending at other charter or public schools. If, for example, Rocketship spends less on special education on a

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

5 **Are There Gaps or Anomalies in the Data?**

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

10 So, for example, one might ask questions such as:

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

1      The table below is an example of how a spreadsheet might be used to track what  
2      documents are available from which schools, when they were available, and other relevant  
3      attributes. **Fixme Note: Insert example spreadsheet here.**

4      After the documents and data have been collected and cleaned<sup>35</sup>, this study will look at  
5      comparing Rocketship's financials to traditional public schools and districts, and to other  
6      charter schools and charter school chains.

7      ***Are There More Serious Problems?***

8      Unfortunately, charter schools and charter school chains have a long history of various  
9      kinds of fraud. Lafer (2017), In the Public Interest (2018), Burris et al. (2020), and Burris  
10     and Bryant (2020), are just a few of the reports that detail fraud and waste in charter  
11     schools. Although Rocketship has engaged in some questionable activities, it has not been  
12     implicated in anything illegal.<sup>36</sup> But with billions of dollars allocated to charter schools for  
13     facilities in the last 15 years in California alone (Lafer, 2017, p. 4), coupled with lax or no  
14     oversight, the temptation to misappropriate funds must be strong. It is also instructive to  
15     note that Californian charter schools have fought tooth and nail to prevent any laws that  
16     would increase transparency or hold charter operators to the same conflict-of-interest  
17     standards that public schools and other government entities are held to. While the charter  
18     sector has for the most part been successful in warding off demands for accountability, the  
19     Attorney General of California issued an official ruling in 2018 stating that the Brown Act,  
20     the CPRA, and Government Code §1090 apply to charter schools as well as to other LEAs  
21     (Becerra & Medeiros, 2018).

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<sup>35</sup>Raw data needs to be prepared so that entries are uniform across all elements of a dataset: Missing data might have to be synthesized, units made uniform, outliers removed, etc.

<sup>36</sup>Rocketship schools in Santa Clara have had ties with a virtual charter school serving special education students hundred of miles away. Rocketship has also collected pandemic-relief funds intended for businesses and not available to public schools.

1     However, it's not necessary to misappropriate funds to make money off of charter  
 2     school facilities. As the report *Fraud and waste in California's charter schools* from In the Public  
 3     Interest details,

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

In the Public Interest (2018, p. 6)

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

## 19         **Red Flags**

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

- 22         • Absent strong financial controls
- 23         • Loose controls on accessing banks accounts
- 24         • Absent anti-fraud statements
- 25         • Misplaced or misaligned incentives and goals
- 26         • Performance just above target multiple times

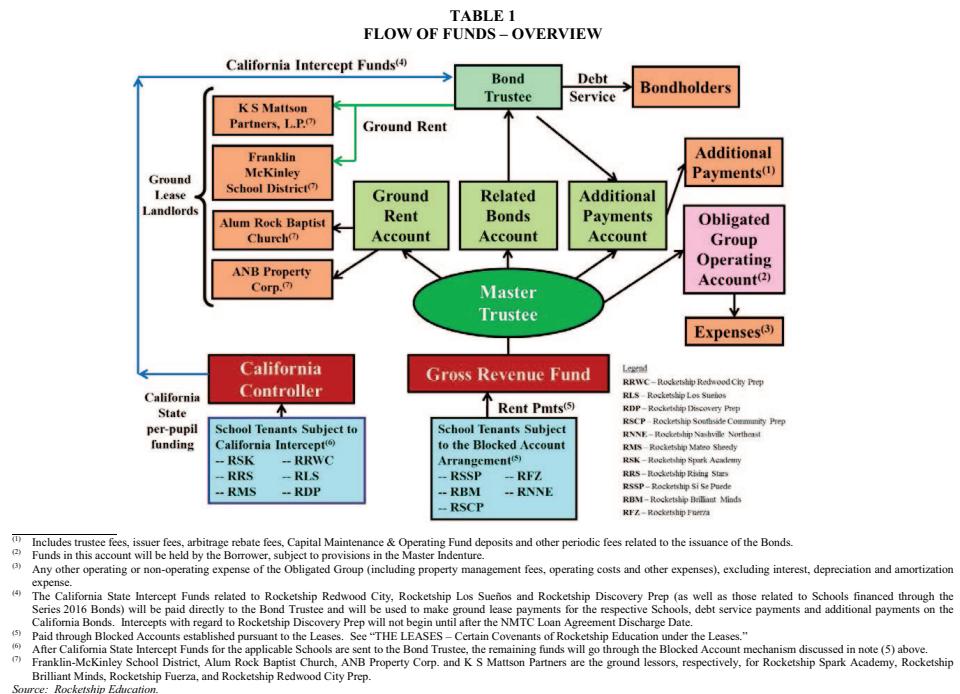
- <sup>1</sup> • Working on weekends
  - <sup>2</sup> • Single person oversees an account
  - <sup>3</sup> • Repeated contracting with a “supplier” for a fixed amount
  - <sup>4</sup> • Hidden bank accounts
  - <sup>5</sup> • Repeated transactions just below materiality
  - <sup>6</sup> • Transactions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

### <sup>9</sup> **Analyzing Bond Financing**

<sup>10</sup> Bond financing can be both complicated (a hard problem, but solution methods exist) and  
<sup>11</sup> complex (many unknowns and interrelated factors). Illustrating this are two examples of  
<sup>12</sup> the analysis from just a single prospectus, that of Rocketship’s \$43M bond offering. That  
<sup>13</sup> offering is described in the 536 pages which comprise “\$42,160,000 Charter School Revenue  
<sup>14</sup> Bonds (Rocketship Education - Obligated Group).” The \$43M offering is complicated  
<sup>15</sup> because there are many moving parts which are described in the offering in the  
<sup>16</sup> well-known language of bond finance. Terms, rates, contingencies, amounts, dates, and  
<sup>17</sup> required performance are all specified in a fashion that has withstood legal onslaught  
<sup>18</sup> many times over. But the offering is also complex because it must also convince others that  
<sup>19</sup> its predictions are reasonable. The most important of those predictions is that the issuer  
<sup>20</sup> can pay the interest and repay the principal when they due.

<sup>21</sup> Figure 9 *Flow of Funds: Overview* gives the overall picture and shows how rents from  
<sup>22</sup> schools (blue) are “intercepted” by the California Controller (red) and paid directly to  
<sup>23</sup> landlords, or paid into the Gross Revenue Fund (red) from which the Master Trustee pays  
<sup>24</sup> lessors (orange) and bond holders and expense accounts (orange). What is not shown is the  
<sup>25</sup> \$750 per ADA (in 2017, rising to \$1,211 in 2020–21) that Rocketship will apply to lease

**Figure 9**  
*Flow of Funds: Overview*



53

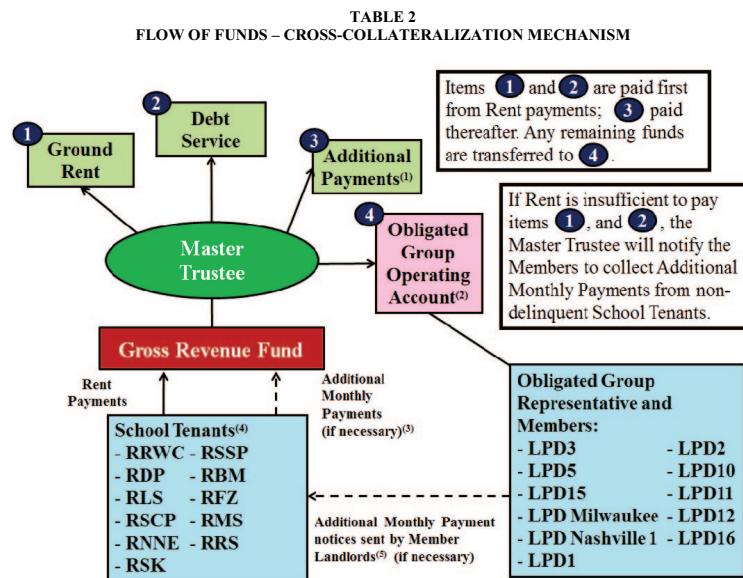
Note: California School Finance Authority (2017a, p. 53). In the public domain.

1 payments. Since money is fungible, the State of California is giving Rocketship between  
2 \$2.4 and \$3.7M depending on the year, money they would otherwise not have. This is  
3 effectively profit.

4 The next figure, Figure 10 "Flow of Funds: Cross-Collateralization" adds an important  
5 detail: how Rocketship uses its assets as collateral more than once.<sup>37</sup> In this case, if the  
6 payments of "School Tenants" are insufficient, the Master Trustee may require additional  
7 monthly payments from the "Obligated Group Representatives and Member" to  
8 supplement those from "School Tenants".

<sup>37</sup>Cross-collateralization means using an asset as collateral for two or more obligations, here lease and bond payments.

**Figure 10**  
*Flow of Funds: Cross-Collateralization*



<sup>(1)</sup> Reflects amounts necessary to pay all Additional Payments pursuant to the applicable Loan Agreements, as defined therein. Does not indicate Additional Monthly Payments.

<sup>(2)</sup> Funds in this account will be held by the Borrower, subject to provisions in the Master Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Master Indenture – Gross Revenue Fund” discussed previously.

<sup>(3)</sup> “Additional Monthly Payment” is an additional monthly Rent payment made by Rocketship from revenues of a non-delinquent School to make up for any monthly Rent shortfall within the Obligated Group, as required under each Lease.

<sup>(4)</sup> Rocketship will contribute funds from these Schools to the Gross Revenue Fund (via the applicable Lease Agreements) to cover Additional Monthly Payments and any other payments which are not previously covered through California State Intercept Funds.

<sup>(5)</sup> Required to be sent if any portion of Base Rent is not received by the Master Trustee when due pursuant to any Lease.

Source: Rocketship Education.

55

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

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

### 3 How Does Rocketship Compare?

#### 4 Demographic Data

- 5 When searching for anomalous data, individual Rocketship schools need to be compared to
- 6 individual traditional public schools or to individual charter schools, but only after making
- 7 any needed adjustments to account for the demographic contexts in which the schools
- 8 operate. It makes no sense to compare the finances of, say, Rocketship Mateo Sheedy in

1 San José with the finances of the Westside Union Elementary School in Los Baños, less  
2 than 65 miles away as the crow flies. One is a medium-sized charter school in a large urban  
3 school district, the other is a larger public school in a rural public district. This means that  
4 demographic data must be used along with financial data to obtain valid and useful  
5 comparisons.

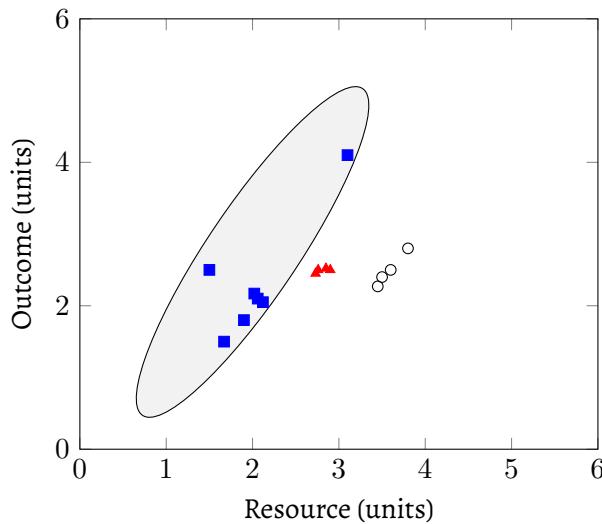
6 When it comes to representation, scatter plots are an easy-to-understand way of  
7 presenting many individual data points. Indeed, Bruce D. Baker makes frequent use of  
8 scatter plots in *Educational inequality and school finance: Why money matters for america's*  
9 *students* to capture how outcomes vary over resources (B. D. Baker, 2018, p. 209).

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

13 Figure 11 is an example of a scatter plot. The data is completely made up just to  
14 illustrate what a scatter plot might look like. One could interpret the scatter plot to mean  
15 that the Rocketship schools, those within the grey ellipse and shown as blue squares, fall  
16 outside the normal range of other, comparison schools, shown as red triangles and white  
17 circles. The units could be, for example, number of students/school vs number of  
18 teachers/school, or size of facility vs lease cost/sq. ft.

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

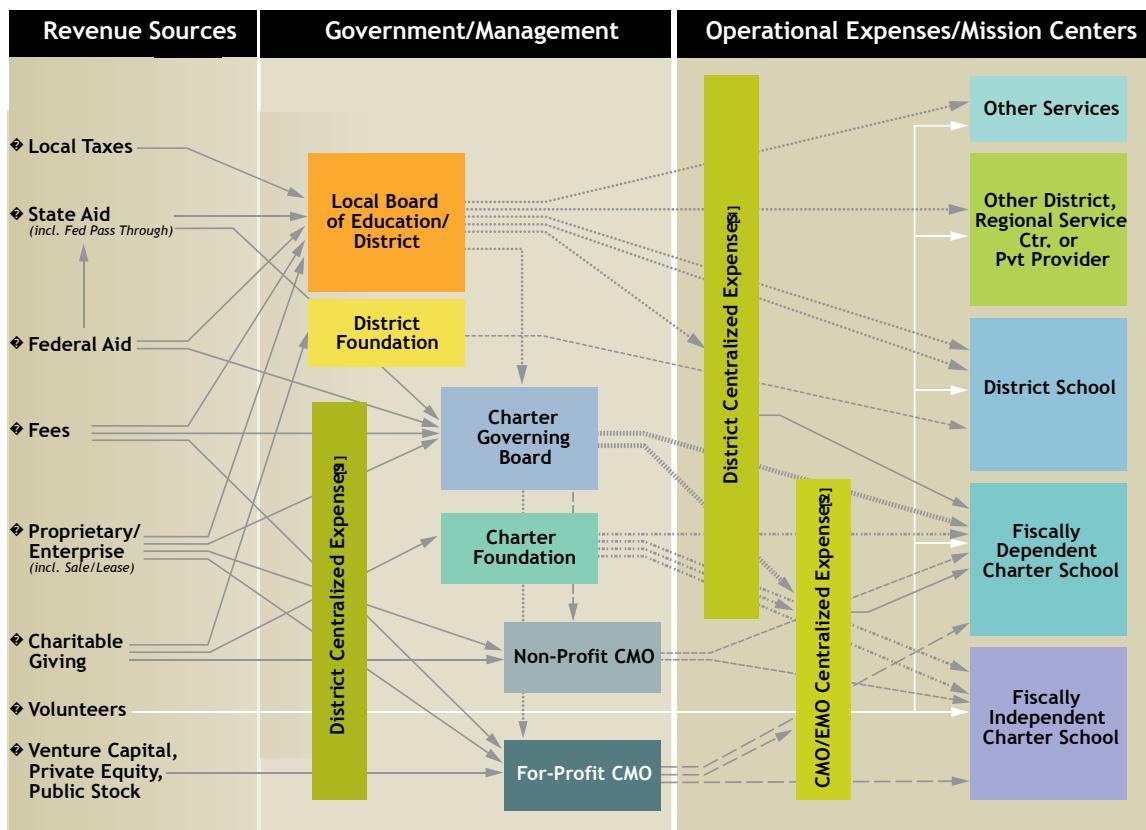
- 20 • Data from the United States Department of Education, primarily the National  
21 Center for Education Statistics (NCES). These datasets (500) are searchable online  
22 using the Open Data Platform <http://nces.ed.gov/>. Of particular interest is the  
23 massive Digest of Education Statistics, produced annually from 1990 onwards. The  
24 Digest for 2019 runs to 651 pages.
- 25 • The NCES Open Data Platform can analyze over 15,000 data sets in its collection.
- 26 • The Institute of Education Sciences, which is part of the NCES, maintains DataLab, a  
27 tool to analyze a very large number datasets, some of which span years, thus  
28 enabling longitudinal studies to be undertaken



**Figure 11**  
*An example scatter plot*

- 1     • The Stanford Educational Data Archive (SEDA) is a carefully cleaned and curated  
2       dataset that includes
    - 3               ... a range of detailed data on educational conditions, contexts, and  
4               outcomes in schools and school districts across the United States. It  
5               includes data at a range of institutional and geographic levels of  
6               aggregation, including schools, districts, counties, commuting zones,  
7               metropolitan areas, and states. It includes measures of academic  
8               achievement, achievement gaps, school and neighborhood racial and  
9               socioeconomic composition, school and neighborhood racial and  
10              socioeconomic segregation patterns, and other features of the schooling  
11              system.
- Reardon.etal2021
- 12     • The National Assessment of Educational Progress (NAEP), both the current results  
13       and the long-term trend results.
  - 14     • The Early Childhood Longitudinal Studies (ECLS), kindergarten cohorts of 1998 &  
15       2011.

**Figure 12**  
*Operating Resource Flows*



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

### <sup>1</sup> What About the Flow of Money Through Rocketship?

- <sup>2</sup> Since a goal of this dissertation is to map the flow of money into and out of Rocketship, I will use diagrams similar to the one used by B. Baker and Miron (2015), which is reproduced here as Figure 12.
- <sup>5</sup> In this example, money flows from left to right, and there are no loops. Colors are used merely to distinguish the various blocks.
- <sup>6</sup>



## Findings and Results

<sup>2</sup> Recall this study's research questions:

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

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

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

## 9 Research Question #1

## 10 Research Question #2

## 11 Research Question #3



<sup>1</sup>

## **Discussion**

- <sup>2</sup> This chapter discusses my results and how they should be interpreted.

- <sup>3</sup> **Judging Case Studies**



1 2

## Abbreviations

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



## Glossary

- blended learning** A method of teaching where both in-person instruction and virtual instruction are used.
- charter school** A quasi-private school that is publicly funded but privately run.
- chartering authority** A governmental entity that grants charter schools the authority to operate and which provides oversight. In California, a chartering authority could be a public school district, a county office of education, or the California Department of Education.
- charter management organization (CMO)** “A non-profit organization that operates or manages a network of charter schools (either through a contract or as the charter holder) linked by centralized support, operations, and oversight.” ((CA Dept of Education), 2021)
- cross-collateralization** A term from bond financing which indicates that an asset has been used as collateral in two different obligations.
- education management organization (EMO)** “A for-profit entity that operates or manages a network of charter schools (either through a contract or as the charter holder) linked by centralized support, operations, and oversight.” ((CA Dept of Education), 2021)
- general obligation bonds** General obligation bonds are backed by an LEA’s revenues. State law limits bond debt to 2.5% of total assessed valuation for unified school district and 1.25% for elementary and high school districts.
- public school** Public schools are funded by taxes and are governed by a publicly elected Board of Trustees. Public schools accept any and all students who wish to enroll, at any time of year, regardless of race, national origin, sexual orientation, gender, religion, or citizenship.
- typical or neuro-typical children** Children without special needs.
- unduplicated pupils** The State of California augments school district revenue on a per pupil basis for every pupil that qualifies for free or reduced price lunch, or is an English language learner, or is a foster youth, but only an unduplicated basis. Notably, children with special needs are not considered *unduplicated pupils*. Neither are homeless children.



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1

## Colophon

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

5



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

16



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

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

30




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

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

7



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

12



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