

1 Rocketship Education: An Exploratory Case Study

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¹

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- ² My debts are many. It goes without saying that I am solely responsible for any errors or
³ omission in this dissertation.

1

Abstract

2 This dissertation is an exploratory case study of the finances of the Rocketship charter
3 school chain. Where appropriate, an educational public policy lens will be applied.
4 Rocketship is a ~~successful~~^{popular} not-for-profit charter management organization and is one
5 of the oldest in the United States. This study seeks to determine if Rocketship ~~makes~~
6 ~~yields profits for investors~~
7 money for someone, despite it being a non-profit entity, and if it does, how and where
8 does it do so. This study also compares Rocketship to other examples of privatization
9 in the United States, especially of public education. In order to characterize fairly and
10 completely Rocketship's profitability, this study analyzes publicly available documents
11 in order to track money flowing in and out of Rocketship. Using initial and renewal
12 charter petitions, annual budget documents, filings with the California Department
13 of Education and with the federal government, plus data from publicly available
14 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
15 inform local, state, and federal legislatures when they establish public policy for
16 charter schools.

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

1 Introduction

2 If, in Harold Lasswell's words, politics is about who gets what, when, and how (Lasswell,
3 1936), then education is surely one of the most consequential – and fascinating — of public
4 policy issues. At stake is the future well-being of 56.4 million students on whose behalf
5 federal, state, and local governments spend upwards of three quarters of a trillion dollars
6 annually. The number of stakeholders is huge: every parent and every child is a stakeholder,
7 as are teachers, administrators, legislators, employees of fifty state departments of
8 education, the federal Department of Education, the President of the United States, the
9 U.S. Supreme Court, and state and local courts. Stakeholders exist throughout the United
10 States, in states, counties, cities, towns, villages, and in almost 100 thousand schools in
11 thousands of school districts.

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

17 Formerly sleepy school board elections have attracted national interest, and with that
18 interest, a flood of money. The 2020 Los Angeles school board election cost over \$14M for
19 just four seats and generated articles in the national media. Likewise, a statewide
20 proposition in Massachusetts to limit charter school expansion was covered extensively by
21 national newspapers with one advocacy group spending more than \$15M (not including a
22 \$425,000 fine for violating campaign law). And Betsy DeVos, U.S. Secretary of Education
23 under the twice impeached President Donald Trump, drew fierce criticism from the start
24 of her tenure, criticism which was endlessly reported on. What caused these uproars? Why
25 was so much money spent on these and other elections? The answer is charter schools.

¹ **About Charter Schools**

² Schools in the United States take three basic forms: the traditional public schools (TPSs),
³ charter schools, and private schools. All but six states¹ allow some form of charter school;
⁴ all have private schools and an extensive public school system. Properly speaking, school
⁵ choice encompasses public, charter, private, and homeschooling. But, because charter
⁶ schools have been the most controversial, the phrase “school choice” commonly refers to
⁷ charter schools.

⁸ Schools, under this definition of school choice, take a number of forms: they can, like
⁹ TPSs be in-person, but unlike TPSs, they can also be online (virtual), or even a blend of the
¹⁰ two. How school choice is financed varies as well. School vouchers, education savings
¹¹ accounts, and tax-credit scholarships have all been used, usually augmented by tax dollars.
¹² The notion of school choice has also been extended to cover 529 savings accounts, student
¹³ income loans, social impact bonds, and philanthrocapitalism.

¹⁴ Regardless of how school choice financed, school choice complicates what used to be a
¹⁵ simple system of mostly public schools and a few private schools. This new kind of
¹⁶ financing has raised the some fundamental questions: Who benefits from this new
¹⁷ financing? Do the children for whom education is the difference between poverty and
¹⁸ flourishing benefit? Is education is being turned into a low-risk, profitable investment for
¹⁹ hedge funds, private equity firms, investment banks, and the 1%?

²⁰ The various forms of school choice have waxed and waned, but charter schools were
²¹ present at the creation of the privatization movement in education, and have continued to
²² enroll more and more students, diverting more and more dollars out of the public school
²³ system (Lafer, 2018, p. 18)(Lafer et al., 2021, p. 9). School choice has spawned an entire
²⁴ industry devoted to marketing school choice: academic departments and institutions,

¹Kentucky, Montana, Nebraska, North and South Dakota, and Vermont

¹ educational associations, think tanks, astroturf² advocacy groups, and political action
² committees; all are examples of the marketing of the privatization movement in education.

³ According to the National Center of Education Statistics of the U.S. Department of
⁴ Education, there were 7,427 elementary and secondary charter schools in the United States
⁵ enrolling 3,290,149 students in 2018, the latest year for which there is data (Brey et al., 2021,
⁶ Table 216.90, p.144). This represents 7.5% of the total number of schools and 6.5% of the
⁷ total number of students in the United States. The state with the greatest charter school
⁸ presence was California which had 1,358 schools (13.0% of the total) and 652,825 students
⁹ (10.6%). Within California, in the 2019–20 school year, charter schools in Santa Clara
¹⁰ County enrolled 31,584 students (13.6% out of 231,865) (California Department of Education,
¹¹ n.d.).

¹² These are notable patterns, and the SARS-CoV-2 virus, which caused the COVID-19
¹³ pandemic, has accelerated the growth of charter schools, in contrast to recent years of
¹⁴ slowing growth. This growth appears to be almost completely due to the expansion of
¹⁵ virtual charter schools (Strauss, 2021). Despite continued growth, charter schools remain
¹⁶ controversial and have generated heated debate. Reports and studies from charter school
¹⁷ opponents have been answered by reports and studies from charter school advocates. Both
¹⁸ sides claim their methodology to be superior and consider the other side's fatally flawed.³

¹⁹ What the research indicates is that *some* charter schools, under *some* circumstances,
²⁰ for *some* students, seem to do *somewhat* better than either public schools or independent
²¹ charter schools. (Garcia, 2018, p.119) Charter schools are, on average, just average. If
²² charter schools are on average not better than public schools, why are they so fervently
²³ touted as the answer to the perceived ills of American public education? Why are

²Wordnik definition: "The disguising of an orchestrated campaign as a "grass-roots" event – i.e., a spontaneous upwelling of public opinion."

³Jeffery 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 eye-popping sums (10× the usual amount) spent supporting public school board candidates
2 who advocate for charter schools? Why are charter schools still growing in both enrollment
3 and in numbers? My goal in this dissertation is to offer some answers to questions like
4 these by looking closely at the finances of a single charter school chain, Rocketship
5 Education, and analyzing how Rocketship spends its revenues.

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

13 The remainder of this chapter provides some context for why I conducted this study.
14 The chapter “A Review of the Literature” discusses the voluminous literature on charter
15 schools. The next chapter, “Research Design and Methodology”, details what data was
16 collected and how it was collected, and how it was analyzed. The chapter “Findings and
17 Results” provides the results of analyzing that data in context of this study’s research
18 questions (section “Research Questions”). The last chapter “Discussion” considers the
19 public policy implications of my study and its conclusions, and makes some suggestions
20 for how current public policy should be changed to achieve some of the seven goals that the
21 California Legislature set out in *The Charter School Act of 1992*.

¹ **What is the Purpose of this Study?**

² The goal of this case study is to analyze carefully and fully the finances of Rocketship
³ Education and associated entities. I chose Rocketship Education⁴ to study because its
⁴ **longevity indicates success**, and because it shares key attributes with other charter schools
popularity
⁵ and charter school chains. This **success** has led to **it being a model** for other charter schools,
core aspects of its model being adopted by other charter chains
⁶ for example, the Caliber Public Schools or the Navigator Schools in California.

⁷ Charter schools, Rocketship included, offer themselves as better alternatives to
⁸ traditional public schools. Rocketship claims that its pedagogical model of blended
⁹ learning

- ¹⁰ • is more efficient than that of traditional public schools,
¹¹ • offers personalized learning⁵ through computer-mediated instruction, and
¹² • offers the human connectedness (at least part of the time) of traditional public
¹³ schools.

could be interrogated? tested?

¹⁴ These are claims that can be verified by comparing individual Rocketship schools to
¹⁵ independent charter schools and to TPSs in the same district. The Rocketship chain can be
¹⁶ compared to other charter school management organizations, to portfolios of charter
Such comparisons would need to be done with care...
¹⁷ schools, as well to traditional public school districts.

¹⁸ Many studies have looked at the outcomes of charter schools and charter chains,
¹⁹ including one specifically on Rocketship's effect on Milwaukee's public schools if proposed
²⁰ legislation were to have been passed. But Rocketship's finances have not been studied in
²¹ detail, until now.

⁴Rocketship 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.

⁵Note that personalized learning is not the same differentiated instruction. All students follow the same path with personalized learning, albeit at different rates, instead of following different paths at different rates, as with properly implemented differentiated instruction.

1 Several themes run through this study. The first is Rocketship's relationship to the
2 privatization movement in education. The second is how Rocketship's finances drive its
3 need to expand. The third is how Rocketship needs continued marketing and public
4 relations to survive. These themes lead to the following research questions:

5 **Research Questions**

6 **Research question #1** How are Rocketship finances similar to or different from other
7 charter schools, charter school chains, or traditional brick-and-mortar public
8 schools?

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

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

13 More broadly, there are additional reasons for studying charter school finances. Are
14 we (the states, the federal government) misallocating the money we spend of charter
15 schools? Could we be spending our tax dollars more wisely? What did taxpayers get for
16 their money?

17 **The Importance of This Study**

18 This case study is the first to examine in depth the finances of a single charter school chain.
19 Up to now, there have been studies of the finances of independent charter schools or
20 charter school chains, but only in aggregate (i.e. all known charter school chains in the
21 United States,⁶ or a selected group of charter school chains). Other studies have looked at
22 the effects of charter schools on segregation or on academic achievement, but again, only
23 in aggregate. None have studied the finances of just a single charter school chain.

⁶See Miron et al. (2021) for a list of currently known charter school chains.

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

4 **Theoretical and Conceptual Frameworks**

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

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

14 (Grant & Osanloo, 2014, pp. 16–17)

15 Further,

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

19 (Grant & Osanloo, 2014, pp. 16–17)

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

22 **A Case Study Approach as a Practical Framework**

23 Broadly, social science research falls into one of two categories. The research may make
24 many observations with a narrow focus, or may instead adopt a broader focus, but with a

¹ correspondingly smaller number of observations. Gerring calls these “large C” or “small C”
² studies, respectively (Gerring, 2017, p. xvii). Of course, the boundary between large C and
³ small C studies is not sharply defined.

⁴ Gerring calls small C studies *case studies*. In this dissertation I look at one entity,
⁵ Rocketship Education, and at only one aspect of Rocketship, its finances. But I look at its
⁶ finances broadly, examining as many different kinds of financial transactions as are
⁷ publicly available for the subset of Rocketship schools that are in Santa Clara County. I
⁸ discuss the elements of what makes a case study a good case study in section “??” of the
⁹ chapter “Discussion”.

¹⁰ McCombes (2019) says that case studies are a “detailed study of a specific subject, such
¹¹ as a person, group, place, event, organization, or phenomenon”. They are ‘good for
¹² describing, comparing, evaluating and understanding different aspects of a research
¹³ problem” and are “an appropriate research design when it allows you to explore the key
¹⁴ characteristics, meanings, and implications of the case.” Two papers go into detail about
¹⁵ using the case study approach: Crowe et al. (2011) and Rashid et al. (2019). Robert Yin’s
¹⁶ textbook, *Case Study Research and Applications*, provides a detailed methodology for doing
¹⁷ case study research well.

¹⁸ A case study framework for public policy research is ideal because the theory and
¹⁹ practice of case studies is well-known and has been used both for public policy research
²⁰ and in public policy analysis for years. A case study framework formalizes an in-depth
²¹ examination of a single topic, in this case, Rocketship’s finances.

²² ***Public Policy as a Theoretical Framework***

²³ A public policy framework provides a rich set of tools and techniques with which to analyze
²⁴ Rocketship’s finances. Three factors justify using a public policy framework to guide
²⁵ understanding and evaluating Rocketship’s finances. Firstly, charter school finance is

1 constrained primarily by public policies set by state legislatures, the creators of charter
2 schools. These laws regulate taxes, grants, borrowing capacity, and reporting requirements
3 of charter schools and charter school chains (Aguinaldo et al., 2020), and by definition,
4 whatever falls within the purview of legislators is public policy. Secondly, Harry Brighouse
5 et al., in *Educational Goods*, provide a succinct definition of what public policy analysis is
6 which matches the purpose of undertaking this case study. They use a values, evidence, and
7 decision-making framework “to make judgments about how well specific policies are likely
8 to realize valued outcomes” (Brighouse et al., 2018, p.1). Lastly, these three concerns —
9 values, evidence, decision-making — are considered the key concerns by academics and
10 researchers in the public policy field (Bueno de Mesquita, 2016; Clemons & McBeth, 2021;
11 Fowler, 2013; Gupta, 2011). Using a public policy framework is appropriate when examining
12 charter school finances.

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

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

27 Two keys to identifying alternatives during policy formation and later when evaluating

1 consequences is choosing or creating a model and forecasting. Models identify what is
2 going to be studied and their relationships, and forecasting is a prediction of the future
3 whose consequences are (hopefully) identified in a model. Scott Page lists 26 different
4 models in *The Model Thinker* that have been used in science, business, and medicine.

5 This dissertation relies on two excellent guides to public policy: *Policy Studies for*
6 *Educational Leaders* by Francis C. Fowler which offers a broad and complete treatment of
7 public policy specifically in the field of education, and *Public Policy Praxis* by
8 Randy S. Clemons and Mark K. McBeth An additional comprehensive treatment of public
9 policy can be found in Gupta (2011).

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's⁷. 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 reforms which were
6 widely copied (Pulliam & Van Patten, 2007, p. 147). Later, John Dewey, a leader in the
7 progressive era, preached reform, but it really wasn't until the publication of *Nation at Risk*
8 in 1983 that the modern zeal for education reform rose to prominence. J.D. Pulliam and
9 J.J. Van Patten list 29 major education reform reports from 1982 to 2005 (p.252). That
10 American public education needed reform was repeated constantly, mainly by
11 conservatives, despite underwhelming evidence of its veracity and substantial evidence to
12 the contrary. Through repetition, the need for reform has become accepted wisdom. The
13 answer to this need was to take the government's monopoly on education out of the hands
14 of faceless bureaucrats and subject it to the rigors of free markets which would, it was
15 asserted, with scant evidence, increase efficiency, choice, and quality. Thus vouchers and
16 charter schools were legitimized.

17 No amount of research, it seems, can dispel the *idée fixe* that American education was
18 in dire straits, and further, piecemeal changes were simply not enough to make substantive
19 changes. No matter what J. R. Henig (1994) or D. C. Berliner and Biddle (1995) or Nichols
20 et al. (2007) or Glass (2008) or D. Berliner and Glass (2014) wrote, the idea that American
21 education needed fundamental, pervasive reform persisted.

22 To be clear, it is not the case that every American school is a model for the rest of the
23 world. Roithmayr (2014) and Heitzeg (2009) provide many examples of schools which have
24 been referred to as school-to-prison pipelines. But it is also clear that those schools have

⁷Wikipedia has an excellent summary article on *Education in the United States* https://en.wikipedia.org/wiki/Education_in_the_United_States

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

15 What is astonishing is that Jeffrey R Henig's book, *Rethinking School Choice*, which
16 came out a mere three years after the passage of the nation's first state charter school law
17 in Minnesota⁸ and two years after the second in California⁹ lays out a key argument against
18 charter schools. Henig says, "[T]he real danger in the market-based choice proposals is not
19 that they might allow some students to attend privately run schools at public expense, but
20 that *they will erode the public forums in which decisions with societal consequences can democratically*
21 *be resolved.*" (emphasis added) (J. R. Henig, 1994, *xiii*). The belief that that American schools
22 were in crisis is simply not supported by the evidence. But the idea that American schools
23 are in crisis has been relentlessly promoted, and sheer repetition has turned fiction turned
24 into fact; charter schools then become an idea whose time had come. But charter schools

⁸Laws of Minnesota 1991, chapter 265, article 9, section 3

⁹Education Code, Title 2, Division 4 Part 26.8, §47600 *et. seq*

¹ didn't take off until "education reformers across party lines realized that charter school
² laws could be crafted in ways that made it possible to open nonunion public schools, or
³ even allow public schools to be managed by for-profit companies" (Goldstein, 2015, p. 172).

⁴ This literature review will first look at charter schools, their origins and the early
⁵ research, before examining the types of charters which exist. Then it looks at the various
⁶ models of charter schools like virtual charter schools, charters which use blended learning,
⁷ and charter management organizations before taking a close look charter schools in Santa
⁸ Clara County and in Rocketship in particular. It ends with consideration of the finances of
⁹ charter schools, especially virtual or blended charter schools.

¹⁰ **A History of Charter Schools**

¹¹ Charter schools (privately run, but publicly financed schools) had an ugly origin in the
¹² post-*Brown v Board of Education* era as a method of evading the U.S. Supreme Court's
¹³ mandate to educate both black and white Americans equally and not separately. Fifty years
¹⁴ later, charter schools turned segregation academies into the preferred vehicle for
¹⁵ privatizing public schools for profit while maintaining segregation.

¹⁶ ***The Origins of Charter Schools in Segregation***

¹⁷ The first charter schools were not founded for educational or economic reasons. Charter
¹⁸ schools had their origin in the aftermath of *Brown v. Board of Education*, 347 U.S. 483 (1954).
¹⁹ "[Brown] was the genesis of school choice as a public policy mechanism." (Garcia, 2018, p. 8)
²⁰ In the Deep South, academies sprung up as part of the massive resistance to the U.S.
²¹ Supreme Court's unanimous 1954 ruling that:

²² Segregation of children in public schools solely on the basis of race deprives
²³ children of the minority group of equal educational opportunities, even

¹ though the physical facilities and other "tangible" factors may be
² equal. *Brown v. Board of Education*, 347 U.S. 483 (1954) (USSC+)

³ In order to circumvent *Brown*, white parents in eleven states formed thousands of private
⁴ schools, and until the early 1970's, these segregation academies received public funds
⁵ (Rooks, 2017, p. 81). These origins of charter schools have been amply documented, in
⁶ Frankenberg et al. (2010), Frankenberg et al. (2011), and especially in Suitts (2019) and Suitts
⁷ (2020). Michelle Alexander in *The New Jim Crow* (Alexander, 2011, p. 223) quotes Rosenberg
⁸ (1991, p. 52) "The statistics from the Southern states are truly amazing. For ten years,
⁹ 1954–1964, virtually *nothing happened.*" [emphasis in Alexander (2011)] She goes on to say,
¹⁰ Not a single black child attended an integrated public grade school in South
¹¹ Carolina, Alabama, or Mississippi as of the 1962–1963 school year. Across the
¹² South as a whole, a mere 1 percent of black school children were attending
¹³ school with whites in 1964—a full decade after *Brown* was decided.

¹⁴ In the years after *Brown*, some localities went further than merely forming segregation
¹⁵ academies. Prince Edward County in Virginia closed all of its schools for five years rather
¹⁶ than integrate. Others closed pools, parks, zoos, and recreational facilities instead of
¹⁷ integrating. This deliberate evasion of racial equality continued until a 1968 Supreme Court
¹⁸ ruling put a stop to the practice of closing public facilities to avoid integrating them
¹⁹ (Brennan, 1968).

²⁰ The irony is that charter schools started life as 100% white, and now, when they serve
²¹ minority students, these minority students are intensely segregated. Frankenberg et al.
²² (2019) noted that

²³ Nearly three out of four students in the typical black student's charter school
²⁴ are also black. This indicates extremely high levels of isolation, particularly
²⁵ given the fact that black students comprise less than one-third of charter

¹ students. Latino isolation is also high, but not as severe as for blacks or whites
² across all charter schools. (p. 47)

³ Unfortunately, these segregation academies still exist, but instead of excluding
⁴ children of color the way segregation academies did, they only include children of color
⁵ and they are no longer called segregation academies but are instead called charter schools.

⁶ Nikole Hannah-Jones, in her keynote speech at the Network for Public Education's
⁷ Fourth Annual Conference, said that it has never been the case that a majority of
⁸ African-Americans have attended majority white schools ("Nikole Hannah-Jones's Keynote
⁹ Speech at the Network for Public Education, 4th Annual Conference," 2017). She then

¹⁰ added ruefully, that this was quite a feat considering that African-Americans make up only
¹¹ 13% of the population of the United States. Orfield and Frankenberg (2014) note that the
¹² percent of African-Americans in majority white schools rose from 0% in 1954 to a peak of
¹³ 43.5% in 1988 before steadily declining to 23.2% in 2011. (Table 3: Percent of Black Students
¹⁴ in Majority White Schools, 1954–2011 Orfield & Frankenberg, 2014, p. 10). Hannah-Jones
¹⁵ also commented that American public education doesn't even live up to the Separate but
¹⁶ Equal doctrine espoused in *Plessy v Ferguson* and overturned by *Brown v Board of Education*:
¹⁷ schools are still segregated schools and are still unequal.

¹⁸ Charter Schools, Free Markets and Privatization

¹⁹ Just a year after *Brown*, Milton Friedman published his article "The Role of Government in
²⁰ Education" in *Economics and the Public Interest* that reframed charter schools as an economic
²¹ problem in education instead as a solution to evade or avoid court-ordered integration.

²² That paper ensured that charter schools would no longer be morally tainted by their
²³ association with virulent racism, but rather charter schools would break the government's
²⁴ monopoly on education by creating a free market where parents could choose the best

¹ alternative from an array of competing choices. Left unspecified was how the free market
² would ensure that the array of competing choices actually offered valued educational
³ alternatives rather than merely alternatives in different locations.

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

¹¹ Now, only liberty and freedom matter, in education, as in other fields. It's school
¹² choice or bust; school choice is proffered not only as *the panacea* for all that ails America's
¹³ schools, but it is touted as the morally right thing to do. With no trace of irony, the twice
¹⁴ impeached President Donald Trump framed school choice as the "civil rights issue of our
¹⁵ time" in a garbled statement at the signing of an executive order on Safe Policing for Safe
¹⁶ Communities:

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

²⁰ (as quoted in Lennox, 2020)

²¹ Education reformers have latched on to the notion that schools need to be privatized
²² and freed from bureaucratic control for reasons of efficiency, increased flexibility, and
²³ accountability (Garcia, 2018, p. 63). This claim is made despite educational management
²⁴ organizations (EMOs) themselves being opaque bureaucracies.

²⁵ In 2015, Bruce Baker and Gary Miron identified four major policy concerns with the
²⁶ privatization of public education:

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

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

16 In California at least, these policy concerns have not been addressed in the six years since
17 Bruce Baker and Gary Miron wrote about them¹⁰.

18 Charter schools are now just one of the many forms of *privatization*, when public
19 functions are performed by private parties for profit. Privatization is a manifestation of
20 the corporate takeover of the world. More than fifty years ago, G. William Domhoff
21 published the first of seven editions of *Who Rules America?* (Domhoff, 2014) in which he
22 argues that corporations and the corporate elite really run the United States, and by
23 extension, the world. Si Kahn and Elizabeth Minnich make much the same point in their
24 book *The Fox in the Henhouse: How Privatization Threatens Democracy* (Kahn & Minnich, 2005).
25 They list “[s]chools, prisons, welfare, Social Security, water and sewer systems, buses,
26 trains, subways, highways, waterways, sanitation systems” (p. 30) as examples of formerly

¹⁰Changes in policy to address some of these concerns have been strenuously opposed by charter school advocates. For example, the California Charter Schools Association opposed an accountability bill, AB1316 *School accountability: financial and performance audits: charter schools: contracts.* (2021–2022), which merely sought to make charter school finances more transparent.

1 government run functions that are in whole or part privatized. They could have also listed
2 postal mail, air traffic control, space travel, and now every facet of education, as being
3 wholly or partly privatized. Donald Cohen and Allen Mikaelian lay out in depressing detail
4 how privatization has infiltrated American life and the consequences of this takeover of
5 public goods by private firms run for profit. (Cohen & Mikaelian, 2021).

6 Privatizers make money by turning goods or services that used to be publicly available
7 into private goods and services that must be paid for before they can be used. The
8 canonical example of privatization is the enclosure of the commons in Britain whereby
9 land which used to be collectively owned by a village was now owned by an individual who
10 charged villagers for the use of that land (Simon Fairlie, 2009). But that's not the only way
11 to turn a profit. In addition, privatizers can:

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

25 Charter school opearators have even more options. They can:

- 26 • Inflate enrollment
- 27 • Charge excessive management fees
- 28 • Hide finances behind a private, for-profit corporation
- 29 • Mis-characterize expenses
- 30 • Omit or inaccurately report financial data

- ¹ • Fail to open a school after receiving a grant
 - ² • Closing a school soon after opening it
 - ³ • Sell their facilities to investors and lease them back at inflated prices
- ⁴ Many charter schools have a long history of duplicitous or fraudulent actions (In the Public Interest, 2018; Burris & Bryant, 2020; B. Baker & Miron, 2015).

⁶ School choice has been relentlessly marketed and promoted by billionaires who do not
⁷ send their children to public schools.¹¹ The Walton family, Eli Broad, Bill Gates, the Koch
⁸ brothers, the Zuckerbergs, and Laurene Jobs, are all on the list of the 500 richest people in
⁹ the world. Their collective wealth exceeds half a trillion dollars, and they are busily engaged
¹⁰ using that wealth to fix the very problems that their accumulation of wealth caused.

¹¹ Anand Giridharadas whose book, *Winners Take All*, has the subtitle *The Elite Charade of
12 Changing the World*. It's a "Trying-to-Solve-the-Problem-with-the-Tools-That-Caused-It
13 issue" he says. (Giridharadas, 2018, p. 142).

¹⁴ The impact of the billionaires on education cannot be emphasized enough. Bill Gates
¹⁵ made \$2B in grants aimed at creating smaller schools (Gates, 2009, p. 11), despite a lack of
¹⁶ evidence that they were educationally valuable. He eventually abandoned the effort for lack
¹⁷ of results. Gates was also instrumental in funding the creation of the Common Core State
¹⁸ Standards whose premise was that if we only had high enough academic standards, then
¹⁹ student outcomes would improve.

²⁰ **Types of Charter Schools**

²¹ Charter schools can broadly be classified along three axes:
²² **authorizer/oversight** What entity approved their charter and who will exercise oversight
²³ of their operations?

¹¹Diane 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 **profit/non-profit** Are they intended to generate a profit, or are they strictly non-profit?

² **in-person/blended/virtual** Are their classes in-person, virtual, or a blend of the two?

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

¹² If the petition contains all the required elements, then the public school district may
¹³ approve the petition, with or without additional stipulations. If the public school district
¹⁴ denies the charter school’s petition, the charter school may appeal that denial to County
¹⁵ Board of Education (CBOE) of the county in which it resides, and if the CBOE denies the
¹⁶ charter school’s appeal, under certain circumstances, the charter school may appeal to the
¹⁷ State Board of Education (SBE). A denial by the SBE terminates the process.

¹⁸ Public school districts (LEAs, local education agencies, in the parlance of the CDE)
¹⁹ may authorize one several kinds of charter schools. A district may sponsor a charter school
²⁰ directly, in which case they exercise oversight. These dependent charter schools are
²¹ authorized by the local public school board and are subject to the board’s jurisdiction. It
²² also is possible for all the schools in a district to convert to charter schools, and then the
²³ public school board becomes the charter school board.

²⁴ Table 1 on the following page shows a summary of the attributes of the types of
²⁵ schools in California.

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

| | Private | Charter | Public |
|------------------------------|---------------------|----------------|-----------------|
| Funding | parent tuition | tax dollars | tax dollars |
| Governance | self-appointed | self-appointed | elected board |
| Duration | unlimited | time-limited | unlimited |
| Ed. Code | no | no | yes |
| Taxation Powers | none | none | limited |
| Facilities Bonds | yes | yes | yes |
| Enrollment | limited | limited | unlimited |
| Unionized | rarely | perhaps | usually |
| Curriculum | completely flexible | flexible | mostly fixed |
| Standardized Testing | no | yes | yes |
| Accountable | no | authorizer | state & parents |
| Teacher Certification | sometimes | usually | often not |
| Teacher Pension | perhaps | perhaps | yes |

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

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

¹⁴ However, charter school board members have recently become subject to the

¹ conflict-of-interest laws specified in Government Code (Gov. Code) §§1090–1099 and
² §§87100–87314. Generally, government officials are prohibited from benefiting financially
³ from their positions as public servants, but it remains to be seen if these
⁴ conflict-of-interest laws will prevent profiting by school board members.¹²

⁵ **Type of Instruction** Charter schools, unlike almost all public schools, vary in their
⁶ instructional format. In-person instruction is the same as traditional, brick-and-mortar
⁷ schools. On the other hand, virtual charter schools have no face-to-face instruction;
⁸ everything is mediated by some sort of technology, typically, computers running
⁹ specialized software. Blended instruction is a mixture of in-person and virtual instruction.

¹⁰ Virtual charter schools have been studied extensively by Alex Molnar, Gary Miron and
¹¹ others and at the National Education Policy Center, University of Colorado, Boulder since
¹² 2013. (*Virtual Schools in the U.S.* 2013, 2013; Molnar, 2014, 2015; Miron & Gulosino, 2016;
¹³ Molnar, 2017; Miron et al., 2018; Gary Miron et al., 2019) Their findings over the course of
¹⁴ nine years are depressingly consistent: virtual school not run by a public school district
¹⁵ significantly underperform public schools. Their conclusions are echoed by Woodworth
¹⁶ et al. (2015) and Garcia (2018). Yet, despite being clearly academically inferior to public
¹⁷ schools, the number of students attending virtual schools has risen year after year. Their
¹⁸ pre-pandemic growth seems to be slowing, but their performance, compared to
¹⁹ brick-and-mortar schools, has not measurably improved.¹³ (Gary Miron et al., 2019, p. 11).

²⁰ Pre-pandemic, charter schools were legally deemed virtual if students spend more
²¹ than 80% of their time in front of a computer. Blended charter schools, on the other hand,

¹²The 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.

¹³Although *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 Gary Miron et al. (2019, p. 117), there is only one study on blended charter schools.

¹ offer some sort of face-to-face interaction with a teacher. But they too offer only
² marginally better educational outcomes than fully virtual charter schools (Gary Miron
³ et al., 2019, p. 52).

⁴ ***Charter Schools in the United States***

⁵ Charter schools are one of several different kinds of school choice that are or have been
⁶ available in the United States. Vouchers, private schools, home schooling, educational
⁷ savings accounts, freedom-of-choice plans, magnet schools, and open enrollment are all
⁸ forms of school choice. Home schooling accounts for less than 5% of all the students in
⁹ United States. Private schools enroll about 12% of the total. Magnet school account for a
¹⁰ few percent. Roughly, the various form of school choice account for a quarter of all
¹¹ American students.

¹² The characteristic that home schooling and private schools share is that they are
¹³ agnostic toward public schools. Not so for charter schools, voucher, and freedom-of-choice
¹⁴ plans. Charter schools, which account for 6.5% of all students, vouchers, educational
¹⁵ savings accounts, and freedom-of-choice plans explicitly want to supplant or replace
¹⁶ public schools. (Garcia, 2018, pp. 5, 15, 35).

¹⁷ The first charter schools, other than segregation academies, were founded in
¹⁸ Milwaukee, Wisconsin in 1991, followed by California starting in 1993. Conceptually, charter
¹⁹ schools were based on an amalgam of ideas from Milton Friedman, Albert Shanker, and
²⁰ Ray Budde. Milton Friedman came at it from an ideological point of view couched in
²¹ economic terms. Albert Shanker, in 1988, in a speech at the National Press Club, proposed
²² that *teachers* in conjunction with *parents* be allowed to form a school *within* a school district.
²³ There was no mention of competition, or free markets, or even of charter schools.
²⁴ Shanker's speech emphasized curriculum, and learning, not governance or finance. Ray
²⁵ Budde first thought of charter schools in the early 1970s, but his proposal generated no

¹ interest and it wasn't until 1988 that he published his ideas (Budde, 1988).

² ***Charter Schools in California***

³ Charter schools, in California as elsewhere in the United States, enter into a contract (the
⁴ charter) with a chartering authority that specifies what they are to do and how, and in
⁵ return, are exempt from the entirety of California's Education Code (with the exception of
⁶ five technical provisions). The California Legislature intended by enacting the *The Charter*
⁷ *School Act of 1992*¹⁴ (Ed. Code §47600) that the charter schools

⁸ a) Improve pupil learning.

⁹ b) Increase learning opportunities for all pupils, with special emphasis on expanded
¹⁰ learning experiences for pupils who are identified as academically low achieving.

¹¹ c) Encourage the use of different and innovative teaching methods.

¹² d) Create new professional opportunities for teachers, including the opportunity to be
¹³ responsible for the learning program at the schoolsite.

¹⁴ e) Provide parents and pupils with expanded choices in the types of educational
¹⁵ opportunities that are available within the public school system.

¹⁶ f) Hold the schools established under this part accountable for meeting measurable
¹⁷ pupil outcomes, and provide the schools with a method to change from rule-based to
¹⁸ performance-based accountability systems.

¹⁹ g) Provide vigorous competition within the public school system to stimulate continual
²⁰ improvements in all public schools.¹⁵

²¹ It is important to keep these seven goals in mind because charter schools have
²² contractually agreed to these goals in return for funding, independently of whatever other

¹⁴ Current California law can be accessed at <https://leginfo.legislature.ca.gov/faces/home.xhtml>. California Regulations are accessed 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>

¹⁵This goal was added in 1998.

¹ goals they explicitly specified in their charter. Note, in particular, that nothing has been
² said about profitability, and in fact, California enacted a prohibition against for-profit
³ charter schools (Ed. Code §47604 et seq.) in 2018.

⁴ The act has been amended many times in its nearly 30 years of existence, but its intent
⁵ has remained the same.

⁶ **Surveys of Charter School Research**

⁷ It's been about 30 years since the first charter school law was past. In the last decade,
⁸ researchers have published several surveys of the research on charter schools. The prior
⁹ two decades were somewhat experimental and different enough that the research that
¹⁰ came out of that period is less relevant than the research done more recently because so
¹¹ little was known. Chronologically, the first study is "Beyond Ideological Warfare: The
¹² Maturation of Research on Charter Schools" by Joanna Smith et al. which is a systematic
¹³ review of charter school research as it existed in 2011. Smith et al. (2011) are interested, not
¹⁴ so much in the conclusions, but how the research was performed, how was it structured,
¹⁵ what facets of charter schools were looked at, and what was the subject of the research in
¹⁶ order to "separate empirical evidence from politicized conjecture" (p. 460). Five years later,
¹⁷ Dennis Epple et al. did much the same, but concentrated on the technical aspects of study
¹⁸ design (Epple et al., 2016). One valuable observation Epple et al. make is to clarify exactly
¹⁹ what research question was being answered by a particular study. Often the answer was
²⁰ much narrower or significantly different than the research question(s) that authors set out
²¹ to answer or thought they were answering. Mark Berends in "Sociology and School Choice"
²² chose as his focus the various theories that researchers used when looking at the social
²³ organization of charter schools. In addition to the previously mentioned *Charter Schools in*
²⁴ *Perspective: A Guide to Research*, the most recent survey (2019) is by Ron Zimmer et al. In

¹ *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. Garcia (2018), 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).

⁷ **Research on Charter School Finances**

⁸ Charter schools have been much studied, and the last decade has produced a number of reports based on carefully collected evidence. For example, in 2014, Gordon Lafer, now at In the Public Interest, published an analysis of proposed laws in Milwaukee, WI (Lafer, 2014) that were 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), Burris and Bryant (2020), and Burris and Cimarusti (2021). The National Education Policy Center is a loose organization of over 150 scholars and academics at different universities 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, policy memos and research 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. Bruce Baker’s contributions here are especially noteworthy: *The Business of Charter Schooling: Understanding the Policies That Charter Operators Use for Financial Benefit*. B. Baker and Miron (2015), “NEPC

¹ Review: California Charter Schools: Costs, Benefits, and Impact on School Districts
² (Center on Reinventing Public Education, May 2019)" B. D. Baker (2019), and the above
³ mentioned *Profiles of For-Profit and Nonprofit Education Management Organizations: Fifteenth*
⁴ *Edition* Miron et al. (2021).

⁵ Gordon Lafer's report, *Spending Blind: The Failure of Policy Planning in California Charter*
⁶ *School Funding* is particularly scathing. He says, "Any time there is a low bar of entry for
⁷ firms seeking to access government funds, one can expect to find corruption, and the
⁸ charter industry is no exception." (p.18) But even absent corruption, there is ample
⁹ opportunity to make lots of money. Lafer documents \$2.5B of taxpayer money spent over
¹⁰ fifteen years on charter school facilities, in many cases where there is no documented
¹¹ educational need and where the charter school is of lower quality than nearby public
¹² schools. Lafer says, "It's as if legislators turned on a faucet of money and then just walked
¹³ away." (p.12) It is saddening that in the four years since Lafer's report came out, nothing
¹⁴ has changed.

¹⁵ **Rocketship**

¹⁶ Rocketship is well-known in the charter school world. It even has been the subject of a
¹⁷ "biography", *On the Rocketship* (Whitmire, 2014). ¹⁶. Rocketship's leaders and supporters
¹⁸ routinely describe it as "high performing", "deserving of huge credit", "dynamic", and
¹⁹ "nationally lauded". Rocketship schools, it is claimed, outperform some of the best public
²⁰ schools in the country. Rocketship "believe[s] that every student deserves the right to
²¹ dream, to discover, and to develop their own unique talent".

²² Rocketship is one of the largest non-profit blended charter school management
²³ organization in the United States. They operate 21 schools in three states and Washington,

¹⁶Just two other charter schools share this distinction: Geoffrey Canada's Harlem Children's Zone (Tough, 2009) and the KIPP schools (Mathews, 2009; Horn, 2016)

¹ D.C.; thirteen in California, three in both Nashville, TN and Washington, D.C., and two in
² Milwaukee, WI. In Santa Clara County, CA, they have eight TK-5 elementary schools
³ authorized by the county that served 4,254 students in the 2019–20 school year plus 1240
⁴ students in two district authorized schools.

⁵ ***Founders and Supporters***

⁶ Rocketship was founded by John Danner and three others in 2007. Danner, had significant
⁷ teaching and charter school experience prior to Rocketship, as did Don Shalvey (Aspire
⁸ Public Schools) and Jennifer Andaluz (Downtown College Prep). The fourth member of the
⁹ founding group was Eric Resnick, a hedge fund manager who had a “a deep understanding
¹⁰ of financial management and real estate transactions” (Danner, 2006, p. 13). The inclusion
¹¹ of Resnick, an expert in real estate transactions, at the very beginning of Rocketship, is
¹² interesting because one of the preferred ways for charter school funders and founders to
¹³ make money is via real estate deals. John Danner eventually left Rocketship in 2013 to found
¹⁴ Zeal, an online math tutoring tool, and was replaced by Preston Smith who became CEO.

¹⁵ Not mentioned in the first charter petition, nor in the Articles of Incorporation of
¹⁶ Rocketship Education, the ^{owners} owner of the first Rocketship school¹⁷, were Preston Smith, Matt
¹⁷ Hammer, and Reed Hastings, CEO of Netflix. Smith became the first principal of the
¹⁸ Rocketship’s first school, Mateo Sheedy, and is listed as a Rocketship co-founder in the
¹⁹ charter petition for Rocketship’s second school. Hammer brought Danner and Smith
²⁰ together, and has relentlessly promoted charter schools through his advocacy non-profit,
²¹ Innovate Public Schools.¹⁷ Hastings proselytized Rocketship to the larger charter school
²² community and when Hastings promised Rocketship \$250K for each of the first eight
²³ Rocketship schools they opened (Whitmire, 2014, p. 50), his donation caught the attention
²⁴ of philanthropic venture funds.

¹⁷<https://innovateschools.org/>

Table 2
Rocketship schools in Santa Clara County, California

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

¹ **Rocketship History**

- ² The first Rocketship school, Mateo Sheedy, opened in Santa Clara County in 2007.
- ³ Rocketship's initial petition to the San José Unified School District was denied, so they
- ⁴ appealed to the Santa Clara County Board of Education, which did grant their petition.
- ⁵ Over the years, Rocketship opened ten schools in Santa Clara County. Of those ten, only
- ⁶ two were authorized by a public school district. The remainder were either countywide
- ⁷ charters or charter schools whose petitions were denied but subsequently approved by
- ⁸ Santa Clara County.

¹ **Rocketship Finances**

² Charter schools have a number of financial needs. They need startup funds, operating
³ funds, and many times, funds to expand. Rocketship is no exception. The *operations* of
⁴ online and blended charter schools are funded by federal, state, and local governments, but
⁵ funding *expansion* may or may not be funded with tax dollars, depending on the laws of a
⁶ particular state. The difference between what's funded at taxpayer expense and what's not
⁷ must somehow be funded with outside money. Regardless, startup money is needed for
⁸ facilities, desks and chairs, administrator salaries, legal fees, curriculum materials, etc., all
⁹ of this before even one student registers. But since state funding is tied to attendance,
¹⁰ startup funding is necessary. The federal government provides grants, administered by the
¹¹ states, for this purpose.

¹² One may ask why Rocketship has always intended to expand. Rocketship, like many
¹³ other CMOs and EMOs, needs to expand in order to increase revenue enough to be worth
¹⁴ the while of investors. A single school's profit is not enough, but by using economies of
¹⁵ scale, a “portfolio” of charter schools might be.

consider adding citation of CRPE pushing “portfolio”
models, emulating market-based models from business
sector into schooling.
<https://crpe.org/performance-management-in-portfolio-school-districts/>

¹⁶ **Rocketship Expansion Funding**

¹⁷ In California, startup charter school funding has waxed and waned, in part because federal
¹⁸ funding has varied. Currently, The U.S. Department of Education provides startup funds to
¹⁹ states under the Charter Schools Program State Educational Agency (SEA) grant program¹⁸.
²⁰ The federal charter school funding programs are listed in National Charter School Resource
²¹ Center (2020). The booklet *The Federal Charter Schools Program: 2020 Annual Report* notes that

²² At the core of the Charter Schools Program are the Grants to State Entities (SE
²³ Grants). The State Entity program offers competitive grants to states, which

¹⁸<https://www2.ed.gov/about/offices/list/oii/csp/funding.html>

1 then make subgrants within their states to *open new charter schools and replicate*
2 *or expand existing charter schools.* [emphasis added]

3 (National Alliance for Public Charter Schools, 2020)

4 Funds like the New Schools Venture Fund¹⁹ and the Charter School Growth Fund I & II²⁰
5 exist to fund the development and expansion of charter schools and charter management
6 organizations. Say more here... what entities are funders of
NSVF? Why are they “investing” in these
schools and how might they benefit?
7 In 2007, when Rocketship Mateo Sheedy was started, Rocketship used lines of credit
8 from... and loans to fund its beginning (Danner, 2006, p. 260). Now, charter schools have many
9 more options for funding startup or operations.

10 **Rocketship Expansion Difficulties**

11 In 2014, the Santa Clara County Office of Education and Rocketship were sued by four
12 Santa Clara County public school districts: Alum Rock, Mount Pleasant, Franklin-McKinley
13 and Evergreen. At issue was the SCCOE’s bulk authorization of twenty countywide
14 Rocketship charter schools. Sixteen months, 17,500 pages of evidence, and an estimated
15 \$435,000 later, Rocketship, the public school districts, and Santa Clara County settled
16 (Noguchi, 2015). As part of the settlement, Rocketship agreed to withdraw 13 of the 20
17 countywide charters thus far authorized. Since one countywide charter has already been
18 withdrawn, that left six potential charters still authorized but as of yet, unopened. So far, it
19 appears that Rocketship has ~~decided~~ attempted to expand in locations ~~other than~~ beyond Santa Clara County:
20 San Pablo and Concord, California, Nashville in Tennessee, Milwaukee in Wisconsin,
21 Washington, D.C. and Fort Worth in Texas. with a failed attempt to expand into San Pablo, California.

¹⁹<https://www.newschools.org/>

²⁰<https://chartergrowthfund.org/>

since Rocketship also technically has campuses (is not fully online), it could be argued to be a brick and mortar school, so claiming a distinction might be disputed

1 Other Aspects of Charter School Finances

all schools, including privately managed charter schools like Rocketship

~~2 In California, Rocketship, like brick-and-mortar schools,~~ must submit annual budgets,

~~3 annual Comprehensive Annual Financial Reports (CAFR), and since 2014, Local Control and~~

~~4 Accountability Plans (LCAP). LCAPs are three year plans updated in years two and three~~

~~5 and which in detail how a school will use its funds~~

~~6 • to address state priorities, and~~

~~7 • to improve educational outcomes for foster youth, English learners, and low-income~~

~~8 students~~

~~9 along with the metrics which will be used to show progress (Aguinaldo et al., 2021,~~

~~10 pp. 66–84). LCAPs must be approved by the school's board after a public hearing. LCAPs~~

~~11 are particularly interesting from a financial point of view because they detail how taxpayer~~

~~12 money will be spent. Will you analyze how Rocketship's LCAPs differ from traditional public schools' LCAPs?~~

13 Rocketship and Privatization

~~14 Some contend that the purpose of charter schools, be they brick-and-mortar, virtual, or~~

~~, who now sits on
the board of
Rocketship, and
had been
commissioned in~~

~~15 blended, is merely to disguise a money-making operation (Saltman, 2018). Whitmire
16 (2014), now on the board of Rocketship Education, makes note of the role that private~~

~~17 venture funds played in Rocketship financing (Whitmire, 2014, pp. 25, 65), and it is
clarify whose quotes are whose here
18 instructive to remember that private, for-profit venture funds exist to make money. True,
they often are “double bottom line” grantors (Clark et al., 2004), but as Tewksbury (2016,~~

~~19 p. 75), citing Ball (2012, p. 32), makes clear~~

~~21 ... particularly with the added case of Rocketship, a blended learning chain
22 of charter schools, is that the NSVF [New Schools Venture Fund] is using its
23 clout to further blur the lines between for-profit and nonprofit educational
24 projects and organizations, thus smoothing the groves [grooves?] for
25 marketizing educational policy and practices. Ball (2012) makes the~~

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

Excellent quote!

7 Privatizers use investment banks, hedge funds, and private equity firms as their
8 vehicle for investing (Stowell, 2018). These investment vehicles are called *alternative*
9 *investments*, in contrast to *traditional investments* like stocks and bonds. These three are the
10 most common in the charter school world. Investment banks provide the financial
11 expertise that hedge funds and private equity firms need.

12 **Forms of Privatization**

13 If privatization is merely profit-making cloaked in charitable clothing, then examining the
14 forms that privatization take will allow us to look at charter school finances to see if they
15 match what privatizers do. If there’s a match it’s highly likely that charter schools are
16 principally money-making operations and not educational institutions. This is so because
17 it is unlikely that an educational institution would structure itself as money-making
18 operations structure themselves; the incentives, benefits and disadvantages of each
19 approach don’t overlap.

20 **The Basic Form of Privatization**

21 The *modus operandi* of privatization is:
22 1. Choose a robust revenue stream funded by the government.
23 2. Ruthlessly lower costs.
24 3. Replicate or scale.

The parallel funding by investors of media outlets aimed to promote the products being invested in has been described as “vertical integration”, a practice described as having been enacted by charter school investor Jonathan Sackler, who also heavily funded The 74 Million, a pro-charter media company publishing promotional pieces that highlight “successes” and dismiss harms <https://www.alternet.org/2017/11/notorious-family-contributing-opioid-crisis-and-funding-charter-schools/>

appear to be
1 Charter CMOs and EMOs are only following the lead of prison and health care
2 privatizers (see the section Charter and Educational Management Organizations on on-the
3 next page). Since charter schools have positioned themselves as being in competition with
4 TPSs, they need to do at least as well as brick-and-mortar schools, or appear to do so. This
5 calls for creative marketing, and so to that end, pro-charter advocacy organizations, some
6 university-affiliated institutions and some think tanks have been harnessed to churn out
7 pro-charter puff pieces which are regularly debunked.²¹ Evidently creative marketing is
8 not enough to prod the free market to supply the educational choice that charter school
9 advocates feel is necessary, so they also

10 • Lobby state representatives
11 • Fund pro-charter board candidates

12 The techniques and vehicles used by philanthro-capitalists to extract a profit from
13 public education are impressive. K.J. Saltman lists the following in *The Swindle of Innovative
14 Educational Finance* (pp.xii–xiii):

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

19 Marachi and Carpenter (2020), Burris and Cimarusti (2021), Scott (2009), B. Baker and
20 Miron (2015) all make the same point: education is big business, and a lot of people are
21 making a lot of money out of it.

²¹The 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 they have not been peer-reviewed.

¹ ~~Charter and Educational Management Organizations~~

² Ironically, one of the selling points of charter schools is that they do away with the bloated
³ bureaucracies of public schools, and yet more students are educated in “education service
⁴ providers”, a label that is sometimes used to cover both nonprofit charter school
⁵ management organizations (CMOs) and for profit charter school management
⁶ organizations (EMOs) (Miron et al., 2021, p. 9).

Research Design and Methodology

1
2 This dissertation is an exploratory case study using a public policy lens to examine the
3 finances of Rocketship Education. Case studies are in-depth examinations of ^asingle topic
4 that ~~is~~ ^{are} limited in space or time. Public policy is the set of rules, laws, regulations, and
5 mores that affect the actions of an element of society. It is “the decisions, measures,
6 programmes, strategies and courses of action adopted by the government or the legislative
7 body” (Knill & Tosun, 2020, p. 3). Public policy mandates and constrains Rocketship
8 Education’s actions and how it structures its finances to meet its goals. Exploratory means
9 that the precise data that will be collected and the precise methods used to analyze ~~that~~ ^{those}
10 data are not known in advance. Nonetheless, what data needs to be collected and how to
11 analyze ~~that~~ ^{those} data is more than merely generally known. ^{Fix - does this mean there *will* be a}
12 Explaining the finances of Rocketship Education is the heart of this dissertation.
13 Where do Rocketship’s revenues come from? Where are they spending that revenue? And,
14 critically, if Rocketship takes in more money than it spends, does it thereby offer investors
15 a return on their investments?

16 As an example of the latter, it is possible that Rocketship Education might use its
17 revenue stream as collateral and issue bonds which are purchased by entities unrelated to
18 education such as hedge funds or wealthy individuals. All bonds are risky to some extent,
19 some much more than others, and the purchasers of those bonds are compensated for
20 taking on that risk by being paid interest on the amount borrowed. An immediate question
21 comes to mind: Is the interest rate appropriate for the risk being taken on? Answering that
22 question entails comparing Rocketship Education to other, similar borrowers. If the
23 interest rate is higher than expected, then Rocketship Education is effectively giving some
24 of its revenue away. Another question one might ask is, “How is Rocketship Education
25 spending its bond proceeds?” Are those expenses in line with what other charter school
26 chains or public school districts are spending their bond proceeds on?

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

from

6 At a high level, the basic process followed by this dissertation is as follows:

- 7 • Gather financial data for the Rocketship schools being studied.
- 8 • Identify any gaps and anomalies in the data. This is where triangulation is useful.
9 (See below.)
10 • Compare ~~Rocketship to other~~ public schools, to other charter schools, and to other
11 charter school chains, looking especially for differences.
- 12 • Analyze the flow of money in and out of Rocketship. Where does money come from?
13 Where is money is being spent? What public policies (or lack of public policies)
14 account for Rocketship's actions?

15 The existence of multiple sources of financial data ~~exist~~ allows ^{would allow for} triangulation to be used.

16 Bhandari (2022) notes that one of the forms of triangulation is “[u]sing data from different
17 times, spaces and people” and also that “[t]riangulation in research means using multiple
18 datasets, methods, theories and/or investigators to address a research question. It’s a
19 research strategy that can help you enhance the validity and credibility of your findings.”²²

20 The remainder of this chapter first looks at how charter and public schools are
21 financed in California by looking at the normal, common financial disclosures made by all
22 districts and schools, including charter schools. Looking at these should provide a high
23 level sense of charter and public school financing in California. In fact, these disclosures
24 should characterize the finances of Rocketship completely and accurately. The topic of
25 Rocketship finances is quite broad because, in addition to all of the financial dealings of
26 traditional public schools, almost all of which also apply to charter schools, charter schools

While typically, triangulation refers to the mixed methods uses of quantitative and qualitative methodologies, it may also be applied to the analysis of multiple forms of corroborating evidence in the form of financial and media documentation.

See fines and attendance audit from 2019 - public video.

²²Triangulation 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 have large and immediate needs for facilities that TPSs typically don't have. This brings
2 into the picture bonds, loans, grants, leases, construction, and the purchase and sale of real
3 estate.

4 The second section will attempt to discover gaps or anomalies in the financial data.
5 This is where triangulation can be used to cross-check the validity of that data. Does
6 everything add up? Are there important, missing documents? How much do these gaps or
7 anomalies matter? Are the oddities long-standing or just fleeting?

8 At this point, this study will have as complete and as accurate picture of Rocketship's
9 finances as possible using publicly available documents. The third section will shift from
10 gathering data to comparing (financially) Rocketship to other demographically similar
11 charter school chains and to public school districts? Assuming that there are few financial
12 oddities, this section will compare Rocketship's finances to other demographically similar
13 schools. Norms and context do matter if the goal is to make fair comparisons. For example,
14 paying a superintendent an annual salary of half a million dollars may be the norm in a
15 large urban district, but wildly inappropriate for a small rural district. Are Rocketship
16 Education's schools (financially) like other charter schools or traditional public schools? If
17 not, how are they different?

18 Lastly, the fourth section in this chapter will ~~try and reconstruct the~~ ^{map the} flows of money in
19 and out of Rocketship. Previously, this study will have looked at amounts of money at
20 points in time. Just as important are the flows of money. Where do they come from, and
21 where do they go? For example, Rocketship lets contracts, just like any school or district.
22 Are these contracts forms of self-dealing? Are they priced comparably to the market? Are
23 there assets that are being sold at below market rates?

¹ **School Financing in California**

² Schools in California are financed with a combination of federal, state, and local monies.
³ Since federal funds account for only 6.15% of total funding for California's elementary
⁴ school children (Legislative Analyst's Office, 2021), the federal contribution will not be
⁵ considered further. Note that federal facilities grants to charter schools are not part of this
⁶ 6.15%.

⁷ Figure 1, *2021–22 K-12 Funding by Source*, on the following page shows at a very high
⁸ level where funding for the enacted 2021–22 education budget comes from. This is money
⁹ coming into the system from government sources. Other sources of inflow are grants,
¹⁰ money raised by educational foundations, donations, or by the sale of bonds. By and large,
¹¹ inflows are fewer and more visible than outflows because they are public monies. Inflows
¹² are generally not under a charter school's control. (Charter school advocacy groups, of
¹³ course, *influence* the size and timing of these flows, but don't control them.)

¹⁴ Outflows are more complex and are much more under the direct control of a charter
¹⁵ school. For example, one of the sources of K-12 funding identified in Figure 2021–22 *K-12*
¹⁶ *Funding by Source*, is called "Lottery" (\$1.193 billion). This is the share (a minimum of 34%) of
¹⁷ lottery proceeds established by Proposition 37 (1984) (and subsequently modified by
¹⁸ Proposition 20 (2000)) State University system, and the University of California system by
¹⁹ the California State Lottery. Local educational agencies (LEAs) have no say on how much
²⁰ money is distributed, how it is allocated, or when it is distributed. On the other hand, how
²¹ LEAs spend this money (outflow) depends on local decisions made within a complex,
²² constantly changing set of rules. Most of the lottery money is unrestricted (well mostly
²³ unrestricted; it must be spent on *instruction*), but some is restricted, i.e. it must be spent
²⁴ on certain programs.

Figure 1
2021–22 K-12 Funding by Source

K-12 Funding by Source

(Dollars in Millions Except Funding Per Student)

Consider highlighting what aspect of this table you would draw the reader's attention to.

| | 2019-20 Final | 2020-21 Revised | 2021-22 Enacted | Change From 2 Amount |
|--|------------------|--------------------|----------------------|-------------------------|
| Proposition 98 | | | | |
| General Fund | \$48,419 | \$58,500 | \$56,694 | -\$1,806 |
| Local property tax | 21,620 | 22,418 | 23,829 | 1,411 |
| Subtotals | (\$70,039) | (\$80,918) | (\$80,523) | (-\$395) |
| Other State | | | | |
| Other General Fund ^a | \$8,750 | \$7,906 | \$8,979 ^b | \$1,073 |
| Lottery | 1,193 | 1,262 | 1,260 | -2 |
| Special funds | 182 | 155 | 167 | 12 |
| Subtotals | (\$10,125) | (\$9,324) | (\$10,406) | (\$1,083) |
| Other Local | | | | |
| Property taxes for local facility bonds | \$5,049 | \$5,650 | \$5,650 | — |
| Other taxes, fees, and reimbursements ^c | 7,250 | 7,649 | 7,570 | -\$79 |
| Subtotals | (\$12,299) | (\$13,299) | (\$13,220) | (-\$79) |
| Federal Funds | | | | |
| One-time aid ^d | \$711 | \$23,596 | \$12,487 | -\$11,109 |
| Other federal funds | 7,866 | 8,437 | 7,648 ^e | -789 |
| Subtotals | (\$7,866) | (\$32,033) | (\$20,135) | (-\$11,898) |
| Totals | \$101,041 | \$135,573 | \$124,285 | -\$11,288 |
| Students ^f | 5,896,938 | 5,871,650 | 5,754,927 | -116,723 |
| Proposition 98 funding per student | \$11,877 | \$13,781 | \$13,992 | \$211 |
| Total funding per student | 17,014 | 23,089 | 21,596 | -1,493 |

^a Consists primarily of state pension payments on behalf of districts, state debt service on school facility bonds, non-Proposition 98 funding for California State Preschool Program, and operational expenses of the California Department of Education.

^b The June 2020 budget plan shifted funding for several child care programs from the California Department of Education to the California Department of Social Services beginning in 2021-22. The 2021-22 amount excludes approximately \$1.4 billion related to programs affected by this shift. This is more than offset by (1) approximately \$1.4 billion in one-time funding for various infrastructure improvements and (2) baseline increases in pension costs and debt service on school facility bonds.

^c Includes revenue from property taxes collected in excess of the Local Control Funding Formula allotments, parcel taxes, fees, and local reimbursements.

^d Consists of funding from the Coronavirus Aid, Relief, and Economic Security Act (March 2020), the Coronavirus Response and Relief Supplemental Appropriations Act (December 2020), and the American Rescue Plan Act (March 2021).

^e Amount for 2021-22 excludes more than \$900 million in federal funding related to child care programs shifting from the California Department of Education to the California Department of Social Services in 2021-22.

^f Reflects average daily attendance.

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

¹ ***Financing of Public Schools***

² Fortunately, since there are numerous publicly available sources of the same charter school
³ financial data, the raw material^S needed for triangulation^{are} is available; these are
⁴ petitions/renewals, budgets, interim financial statements, CAFRs, and LCAPs. Although
⁵ petitions are not submitted under penalty of perjury, any material change to the petition
⁶ would likely be cause for a re-evaluation of the petition, something that is undesirable.
⁷ Petitions are presented at the start of a charter school's life and whenever a charter needs
⁸ to be renewed. Budgets are defined by four reports. First is an annual budget which
⁹ defines how a charter school will spend its revenues in the following fiscal year. Next are
¹⁰ two unaudited interim reports, the 1st Interim Report and the 2nd Interim Report which
¹¹ track spending versus budget. The final budget-related report, issued in the following
¹² fiscal year, is the retrospective, audited Comprehensive Annual Report (CAFR). It is worth
¹³ noting here that budgets are frequently modified during a school year, but only after
¹⁴ having been approved by the governing board at a public meeting. Lastly, the Local Control
¹⁵ and Accountability Plan (LCAP) explains how a school's expenditures over a three year
¹⁶ period will address all state priorities plus any locally developed priorities. Although the
¹⁷ LCAP is a three year plan, it contains annual goals, metrics that are used to measure
¹⁸ progress, and expenditures associated with meeting those goals.

This part is very helpful for the reader to get a sense of what documents you'd be analyzing.

¹⁹ ***Financing of Charter Schools***

²⁰ ~~The following~~
For example, here are some sources of financial data specific to charter schools.

- ²¹ 1. Every charter school in California is required to present to a chartering authority a
²² petition which must contain certain required elements before the charter school is
²³ allowed to begin operation. The absence of one of these elements is grounds for
²⁴ denying the charter's petition to operate. For example, what is the intent of the
²⁵ charter school? How is the charter school going to measure its success or failure?
²⁶ What population is it targeting? And, what are its financial projections?

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

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2. Once a charter has been granted the right to operate, it must file annually with the California Department of Education certain forms that detail its revenues and expenses. State law also mandates an annual audit by an independent accounting firm which charter schools must file with their County Office of Education. All together, these forms should provide a complete picture of a charter school's finances, and crucially, everything should balance.

10 Charters must also publish at a public meeting an annual budget, and they, just like TPSs, cannot spend – at least in theory – unbudgeted money unless the
11 governing board approves at a public meeting any changes.

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3. A major source of financial data is the annual, audited, consolidated financial statements of Rocketship Education. Equally, some financial statements are available for non-profits associated with Rocketship Education. Combined, these statements should provide a comprehensive view of Rocketship's finances, but looking backwards, for the previous year.

18 Similar to bond underwriters (see below), financial auditors are liable for
19 "omitting, misstating, or obscuring [items which] could reasonably be expected to
20 influence decisions that the primary users make on the basis of those financial
21 statements" (Cayamanda, 2020), and this tends to increase the diligence of the
22 auditors. However, potential liability doesn't always result in truly comprehensive
23 financial statements; sometimes the lure of accounting fees overwhelms any
24 misgivings, as was the case with Enron and Arthur Andersen in 2001.

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4. There are federal forms that non-profits need to file that provide some financial data. The most interesting seems to be IRS Form 990, Return of Organization Exempt from Income Tax. I totally want to write "prospecti" here to make it plural! :) lol
5. Bond prospectuses are also a source of financial information. When bonds are issued, they are described in detail in a prospectus. These prospectuses, in addition to specifying the terms (e.g. interest rate, repayment schedule, collateral) of the bond, contain information relevant to assessing the risk associated with purchasing that bond.

33 Bond prospectuses can be mined for data that might not appear in petitions
34 and financial statements because bond underwriters are "potential liability for any

1 material misrepresentations or omissions contained in a registration statement or
2 prospectus" (Block et al., 2008). This liability, of course, is not unlimited. If bond
3 underwriters exercise due diligence or the misrepresentation is not material, they
4 are likely not liable. Crucially, the definitions of *material misrepresentation* and *due*
5 *diligence* depended on both statute and case law, so a bond underwriter can only
6 make a reasoned guess at their liability. The result is that bond underwriters are
7 likely to be more diligent than is absolutely necessary.

8 All of these sources should be in basic agreement, i.e. the LCFF funding received by a
9 Rocketship charter school should match what the state thinks it's sending to the school,
10 what the school reports to the state it received and spent, what independent auditors
11 report the school receives and spends, and what it actually spends, naturally after
12 accounting for revenue sources other than LCFF. If these figures are not in agreement,
13 something is amiss and should be investigated.

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

19 ***Examples of Financial Statements***

20 To make the discussion of these financial statements more concrete, here are some
21 examples drawn from the Los Altos School District (LASD) for the 2019–20 school year. The
22 LASD documents make good models because they have consistently won the Meritorious
23 Budget Award for Excellence from the Association of School Business Officials
24 International for the quality and comprehensiveness of its financial statements.

25 Only a few financial statements are needed to get a good overall picture of a school or
26 district's finances. These are:

- 1 • Annual Budget
- 2 • Comprehensive Annual Financial Report
 - 3 – Government Fund Balances (Figure 2 on page 46)
 - 4 – Summary of Net Position (Figure 3 on page 48)
 - 5 – Change in Net Position (Figure 4 on page 49)
 - 6 – Net Costs of Services (Figure 5 on page 49)
 - 7 – Capital Assets (Figure 6 on page 50)
 - 8 – Long-term Liabilities (Figure 7 on page 50)
- 9 • Local Control Accountability Plan (LCAP) (not presented)

10 **The Annual Budget**

11 Budgets, in California, are the first of four important financial documents that schools
12 produce during a fiscal year. For any given fiscal year (July 1–June 30), the first financial
13 document is the annual budget, a forward looking financial statement, which is approved
14 before the end of the prior fiscal year. Next are two (unaudited) interim reports which track
15 how well the school or district is adhering to the approved annual budget, and finally, after
16 a certified public accountant has audited the school or district, a comprehensive annual
17 financial report (CAFR) which is an audited, certified, retrospective account of the school
18 or district's financial activity.

19 Figure 2 on page 46 is a very high-level summary LASD's finances. It shows what the
20 district's revenues are expected to be, roughly where they are expected to come from, what
21 the district's expenses are expected to be, and whether these are expected to be in balance.
22 It is the rough equivalent of a business income statement.²³

23 When looking at financial statements, one should look for:

- 24 • Unusually large (or small) entries
- 25 • Unusual changes year-to-year

²³Schools 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. But 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 a school.

- Unusual ratios
- Totals which do not add up
- Entries that are not supported by detail elsewhere

Figure 2 on the following page is a snapshot of the next fiscal year. Because it is a snapshot, detecting usual changes year-to-year is not possible. (Changes are detectable using Figure 3 on page 48 which compares fiscal two years the year ending in 2019 and the year ending in 2020.) However, with just a budget summary, one can note some ratios, for example, the percentage of expenses spent on salaries and benefits. This is 80.18% which is in line with what is typical of elementary school districts in California. One can calculate the state-wide average for all districts for 2019–20 using the Data Table at www.ed-data.org/state/CA, and that comes out to 83.71%. So, LASD spends a little more on salaries and benefits than the average elementary school district in California does.

Calculating this ratio brings up a general issue: What is an appropriate comparison group? In this particular case, the Ed-Data web site does not have county-level financial data, so the only comparison which can be made is at the state level. But should the state-level comparison group be all districts, or just elementary school districts? Again, the Data Table tab on www.ed-data.org/state/CA does not filter by type of district (although the Graph tab does), so, in this case, using just the Ed-Data data, our choices are forced. More generally, the most appropriate comparison group is usually the smallest, available group which shares the attributes of what's being compared.

The equivalent of a business balance sheet, which identifies assets and liabilities, is the statement of net position. Figure 3 on page 48 shows LASD's net position, i.e. assets minus liabilities at the end of the 2019–20 school year. Note that unlike a balance sheet, a statement of net position for schools (and other governmental entities) does not balance;

Figure 2
LASD All Funds Summary

| | General Fund | Special Revenue Funds | Capital Project Funds | Total All Governmental Funds |
|--|-------------------|-----------------------|-----------------------|------------------------------|
| REVENUES | | | | |
| LCFF/Revenue Limit Sources | 48,960,469 | - | - | 48,960,469 |
| Federal Revenue | 1,128,389 | - | - | 1,128,389 |
| Other State Revenue | 3,799,074 | - | - | 3,799,074 |
| Other Local Revenue | 15,253,502 | 42,250 | 2,013,980 | 17,309,732 |
| TOTAL REVENUES | 69,141,434 | 42,250 | 2,013,980 | 71,197,664 |
| EXPENDITURES | | | | |
| Certificated Salaries | 26,804,421 | - | - | 26,804,421 |
| Classified Salaries | 11,964,000 | - | - | 11,964,000 |
| Employee Benefits | 18,838,463 | - | - | 18,838,463 |
| Books & Supplies | 1,508,676 | - | - | 1,508,676 |
| Services & Other Operating Expenditures | 8,879,712 | 300,000 | 2,715,938 | 11,895,650 |
| Capital Outlay | 235,312 | - | 258,400 | 493,712 |
| Other Outgo | 8,262 | - | 332,803 | 341,065 |
| TOTAL EXPENDITURES | 68,238,846 | 300,000 | 3,307,141 | 71,845,986 |
| Excess (Deficiency) of Revenues Over Expenditures | 902,588 | (257,750) | (1,293,161) | (648,322) |
| OTHER FINANCING SOURCES/USES | | | | |
| Interfund Transfers In | - | 300,174 | - | 300,174 |
| Interfund Transfers Out | - | - | (300,174) | (300,174) |
| TOTAL OTHER FINANCING SOURCES/USES | - | 300,174 | (300,174) | - |
| NET INCREASE/(DECREASE) IN FUND BALANCE | 902,588 | 42,424 | (1,593,335) | (648,322) |
| BEGINNING FUND BALANCES | 5,440,096 | 3,630,240 | 24,295,150 | 33,365,486 |
| ENDING FUND BALANCES | 6,342,683 | 3,672,664 | 22,701,816 | 32,717,164 |

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

Note: Kenyon (2019). In the public domain.

- ¹ assets are not exactly equal to liabilities.²⁴
- ² One unusual change that is immediately noticeable is the large increase in Capital
- ³ Assets, year over year, an increase of \$132M. In “Comprehensive Annual Financial Report FY 2020,” five notes appear after Table 1. These are reproduced as Figure 3 on page 48 and
- ⁴ these provide an explanation for the increase. In addition, the “Comprehensive Annual
- ⁵ Financial Report FY 2020” contains a section, on pp. 19–45, called *Notes to the Basic Financial*

²⁴Business accountants achieve this seemingly low probability equality by adding a fudge factor, *owner's equity*, so that *assets = liabilities + equity* always, exactly.

¹ *Statements.* These notes are an integral part of the certified, audited annual statement, just
² as they are in audited financial reports in the business world; they cannot be omitted, and
³ must be accurate and complete. Note 7B of Kenyon (2021a, p. 7), General Obligation (GO)
⁴ Bond Anticipation Notes (BANs), explains how LASD uses a common technique to convert
⁵ general obligation bonds into cash: issue BANs, backed by general obligation bonds, and
⁶ payable when those bonds are issued.²⁵

⁷ It's important to remember is that changes in finances can be complex, but they
⁸ should also be adequately explained by a transparent and complete CAFR. When the
⁹ documents are incomplete or opaque is when serious concerns should be raised.

¹⁰ **Local Control Accountability Plans (LCAPs)**

¹¹ LCAPs, or Local Control and Accountability Plans, are the State of California's way of
¹² ensuring that public schools and districts all meet the same goals. They contain
¹³ specifications for how a school or district will meet all eight of the state's goals and how will
¹⁴ achievement be measured. Apparently, some LCAPs have been on the order of 500 pages
¹⁵ long, although the norm is much less.

¹⁶ For each activity, schools or district indicate what goal is being met, if the goal
¹⁷ includes increased services for disadvantaged student, how well the school or district has
¹⁸ met that goal, the money that has been allocated to achieving and reporting those goals.
¹⁹ (The reality of what the Department of Education wants is an order of magnitude more
²⁰ complicated than this description, but it is accurate as far as it goes.)

²¹ Unlike budgets and CAFRs, LCAPs don't have to "add up", nor do they have to offer a
²² complete financial picture, but they do have to be consistent with other data. Expenditures

²⁵One 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 paid off by GO bonds. In a different situation, school districts issue tax revenue anticipation notes (TRANs) because property taxes are paid 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 property taxes, and paid off when the county actually pays the district.

Figure 3
Summary of Net Position

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

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

- ¹ have to be budgeted, and the amounts budgeted need to match what's in the LCAP.

- ² **Petitions & Renewals**

- ³ The last category of financial data that's publicly available is what's in a charter school's
- ⁴ initial petition and any renewal petitions. One of the required elements of any petition is a
- ⁵ financial projection. Although no one expects a charter school (or any school for that
- ⁶ matter) to prepare and adhere to a budget that exactly matches what's been projected,
- ⁷ budgets are expected to be similar to actual expenditures, for some meaning of "similar".

Figure 4
Change of Net Position

| Table 2: Change in Net Position | | | | | |
|--|------------------------|---------------------|----------------------|-------------------|--|
| | June 30, 2019 | June 30, 2020 | Change | Percentage Change | |
| Revenues | | | | | |
| Program Revenues: | | | | | |
| Charges for Services | \$ - | \$ 446,710 | \$ 446,710 | 100% | |
| Operating Grants and Contributions | 10,052,323 | 7,968,769 | (2,083,554) | -21% | |
| Capital Grants and Contributions | - | 23,000,000 | 23,000,000 | 100% | |
| General Revenues: | | | | | |
| Property Taxes | 63,216,247 | 65,285,688 | 2,069,441 | 3% | |
| Grants and Entitlements - Unrestricted | 3,933,401 | 2,511,734 | (1,421,667) | -36% | |
| Other | 7,347,728 | 7,498,513 | 150,785 | 2% | |
| <i>Total Revenues</i> | <i>84,549,699</i> | <i>106,711,414</i> | <i>22,161,715</i> | <i>26%</i> | |
| Program Expenses | | | | | |
| 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% | |
| <i>Total Expenses</i> | <i>80,028,195</i> | <i>83,596,957</i> | <i>3,568,762</i> | <i>4%</i> | |
| Change in Net Position | 4,521,504 | 23,114,457 | 18,592,953 | 411% | |
| <i>Beginning Net Position</i> | <i>(23,111,506)</i> | <i>(18,590,002)</i> | <i>4,521,504</i> | <i>20%</i> | |
| <i>Ending Net Position</i> | <i>\$ (18,590,002)</i> | <i>\$ 4,524,455</i> | <i>\$ 23,114,457</i> | <i>124%</i> | |

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

Figure 5
Net Cost of Services

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

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

Figure 6
Capital Assets

| Table 5: Capital Assets | | | | | |
|---------------------------------------|----------------------|-----------------------|------------------------|----------------------|--|
| | June 30, 2019 | June 30, 2020 | Increase (Decrease) | Percentage Change | |
| Land | \$ 1,488,885 | \$ 136,262,476 | \$ 134,773,591 | 9052% | |
| Site improvements | 1,225,056 | 1,225,056 | - | 0% | |
| Buildings and improvements | 129,573,748 | 130,339,280 | 765,532 | 1% | |
| Equipment | 4,636,939 | 3,871,407 | (765,532) | -17% | |
| <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% | |
| Net Capital Assets | \$ 89,045,541 | \$ 221,076,448 | \$ 132,030,907 | 148% | |

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

Figure 7
Long-term Liabilities

| Table 6: Long-term Liabilities | | | | | |
|--------------------------------------|-----------------------|-----------------------|------------------------|----------------------|--|
| | June 30, 2019 | June 30, 2020 | Increase (Decrease) | Percentage Change | |
| Long-term Debt: | | | | | |
| General obligation bonds: | | | | | |
| Current interest bonds | \$ 40,665,000 | \$ 95,850,000 | \$ 55,185,000 | 136% | |
| Unamortized bond premium | 4,596,243 | 9,376,755 | 4,780,512 | 104% | |
| Bond anticipation notes | 10,000,000 | 79,000,000 | 69,000,000 | 690% | |
| Lease-leaseback obligations | 2,405,645 | 2,185,036 | (220,609) | -9% | |
| 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% | |
| Total Long-term Liabilities | \$ 141,558,936 | \$ 269,006,215 | \$ 127,447,279 | 90% | |

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

1 Data Sources

2 Unlike many studies, there is not a paucity of data on Rocketship, rather there is a surfeit.
3 The data collected so far is voluminous. The current number of pages of initial and renewal
Three bond prospectus documents total over
4 petitions runs to 7371 pages. Just three bond prospectuses are over 1000 pages. And there
are many financial data documents yet to obtain
5 are much data yet to obtain. For example, of the eight categories of financial data listed in
the section “Financial Data Sources”, only some of the first have been collected.
6 for this inquiry will be
7 The challenge then is to organize the data so that gaps and anomalies can be
8 identified, interesting and valid comparisons can be made with public schools and other
charter schools, and the flows of money in and out of Rocketship identified. One approach
10 would be to create a common framework and recast all the financial data from each school
into that common framework. But, until the data have actually been collected and analyses
12 started, choosing one particular framework within which to work is likely to lead to work
will need to be
13 which has to be redone using a different framework.

14 Financial Data Sources

15 The primary problem that these financial data sources are seeking to solve is capturing all
questions analyses answer involves
16 of the financial flows tied to Rocketship’s ten schools in Santa Clara County. That mass of
17 data needs to be organized and interpreted, and using an interpretive framework will
18 make the analysis easier. Some examples of potential frameworks are:
19 1. The six year forecast spreadsheet that LASD uses, an example of which is reproduced
20 in Figure 8 *LASD’s Multi-Year Projection* on page 53. Most of the elements of forecast
21 are combinations of SACS²⁶ codes. The main drawback of using this framework is
22 that each school would have to have its elements copied from their SACS
23 submissions. A lesser drawback is that comparisons with other schools or districts
24 might be harder since these codes are California-specific. The main benefit is that

²⁶Standardized Account Code Structure, the chart of accounts (cost centers) used by the California Department of Education. These are defined in “California School Accounting Manual: Definitions, Instructions, and Procedures.” The function (activity) codes are on pp.149–151 (\$325–3 *et seq.*)

1 these elements have been used for years and so are known to be very useful ... but for
2 forecasting, not for the purposes of this study.

3 2. A spreadsheet of the 9 high-level SACS object codes. This option is has the advantage
4 that these sums can be calculated using reports available on Annual Financial Data
5 web page²⁷ maintained by the California Department of Education. These reports go
6 back to FY2003–4. The main disadvantage is that any gaps or anomalies may not
7 show up in the aggregated numbers.

8 3. A third way of approaching the problem of making sense of large amounts of data is
9 to use a [simulation] model. Some possible models are

- 10 • Bruce Baker's *National Education Cost Model* (B. D. Baker et al., 2018, p. 5)
- 11 • the Operating Resource Flow model from B. Baker and Miron (2015, p. 16)
- 12 • the resource cost model (RCM) or the education cost function (ECF) as
13 developed by B. D. Baker (2018, pp. 188–197)
- 14 • ratio analysis or index analysis as in B. D. Baker and Richards (2004, pp. 70–86)
15 This method can identify quickly what's different in a particular budget or
16 petition.

- 17 • Initial and renewal charter school petitions
- 18 • Materials and recordings (when available) of authorizer approval meetings
- 19 • Marketing material, print and online, created by Rocketship
- 20 • Annual, approved budgets, and audited annual actuals
- 21 • Annual Comprehensive Financial Reports (CAFRs)
- 22 • Checks written, a record of money that has been paid out

Good description of the
options. Which of these
will you use and why?

23 Non-financial Data Sources

24 Data sources that are not financial in nature are needed to be able to compare fairly
25 Rocketship's schools to other schools, particularly those outside of Santa Clara County.
26 Some of the following sources may be consulted depending on what is being compared or
27 analyzed.

- 28 • Demographic data from counties, states, and the federal government
 - 29 – The County of Santa Clara (232 datasets)

²⁷<https://www.cde.ca.gov/ds/fd/fd>

Figure 8
LASD's Multi-Year Projection

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

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

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

Trim

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

- 21 Determining whether there are gaps or anomalies in a charter school's financial data is
- 22 time-consuming but not very involved. Reviewing the data is not difficult – usually there are
- 23 no advanced algorithms to apply, just using basic arithmetic to check if all the numbers
- 24 add up. One can ask questions like:
- 25 • Are the data present or even accessible first place? Charter schools are notorious for
- 26 simply not filing required documents or filing horrendously late, or offering
- 27 incomplete filings. Petitions are not usually a problem because without a petition, or
- 28 with a materially incomplete petition, the petition will not be granted. However,
- 29 once a school is operational, late or missing filings will not bring everything to a halt.
- 30 • Have the data been fudged? There are forensic techniques (e.g. Benford's Law) that
- 31 can point to suspect data (Zhu et al., 2021). There is also triangulation which involves

1 comparing one source of data with another to see if they match. For example,
2 charter petitions make forecasts of revenue and expenses. How accurate were those
3 forecasts? Were the reasons given for anomalies plausible? foreseeable? reasonable?
4 One mistake is not usually a sign that something is being covered up, but several
5 large mistakes usually are.

- 6 • California requires that LEAs meet the numbers they previously forecast or explain
7 why they didn't meet those numbers, and certify they can meet their financial
8 obligations this year, and two years into the future. If an LEA cannot certify that they
9 did and that they can, they might receive a visit from the California Department of
10 Education's Financial Crisis & Management Assistance Team (FCMAT), and in the
11 extreme case be subject to a state takeover or to involuntary closure.

12 Table 3 below shows a summary of the attributes of missing data or CPRA requests
13 which have been unanswered within the statutory 10 days.

Table 3
Missing Data and Unanswered CPRA Requests (as of January 29, 2022)

| Organization | Description | Type | Response Due By |
|--------------|---------------------------------|------|-------------------|
| Mateo Sheedy | Approved budgets for FY2022 | CPRA | January 15, 2022 |
| SCCOE | Board packet for Mosaic renewal | CPRA | December 17, 2021 |

14 documents and have
After the required data has been collected and cleaned²⁸, this study will turn to
15 looking at comparing Rocketship's financials to traditional public schools and districts,
16 and to other charter schools and charter school chains.

17 **Are There More Serious Problems?**

18 Unfortunately, charter schools and charter school chains have a long history of various
19 kinds of fraud. Lafer (2017), In the Public Interest (2018), Burris et al. (2020), and Burris
20 and Bryant (2020), are just a few of the reports that detail fraud and waste in charter
21 schools. Although it has engaged in some questionable activities, Rocketship has not been

²⁸Raw 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.

1 implicated in anything illegal.²⁹ But with billions of dollars allocated to charter schools for
2 facilities in the last decade and a half just in California (Lafer, 2017, p. 4), the temptation to
3 misappropriate funds must be strong. It is also instructive to note that Californian charter
4 schools have fought tooth and nail to prevent any laws that would increase transparency or
5 hold charter operators to the same conflict-of-interest standards that public schools and
~~While the charter sector has for the most part been successful in warding off demands for accountability,~~
6 other government entities are held to. ~~Mostly they have been successful,~~ the Attorney
7 General of California did issue a ruling holding them to those standards. ~~in xxx year (cite).~~
~~It's important to keep in mind, however, that~~ ~~in order~~
8 ~~However,~~ it's not necessary to misappropriate funds to make money off of charter
9 school facilities. As the report *Fraud and Waste in California's Charter Schools* details,
10 While charter schools constructed with general obligation bonds cannot be
11 sold or used for anything other than the authorized school, schools
12 constructed with tax-exempt conduit bonds become the private property of
13 the charter operator. Even if the charter is revoked, neither the state nor a local
14 school district can take control of this property. Additionally, schools
15 constructed with private funding subsidized by New Market Tax Credits or
16 acquired with private funds but whose mortgage payments are reimbursed
17 through the Charter Facilities Grant Program (known as "SB740") are typically
18 owned without restriction. In the Public Interest (2018, p. 6)

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

²⁹ 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.

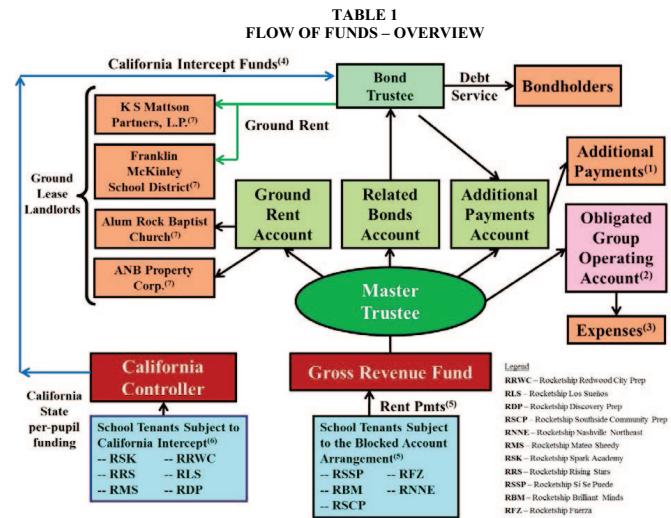
¹ **Analyzing Bond Financing**

² Bond financing can be both complicated (a hard problem, but solution methods exist) and
³ complex (many unknowns and interrelated factors). Illustrating this are two examples of
⁴ the analysis from just a single prospectus, that of Rocketship's \$43M bond offering. That
⁵ offering is described in the 536 pages which comprise "\$42,160,000 Charter School Revenue
⁶ Bonds (Rocketship Education - Obligated Group)." The \$43M offering is complicated
⁷ because there are many moving parts which are described in the offering in the
⁸ well-known language of bond finance. Terms, rates, contingencies, amounts, dates, and
⁹ required performance are all specified in a fashion that has withstood legal onslaught
¹⁰ many times over. But the offering is also complex because it must also convince others that
¹¹ its predictions are reasonable. The most important of those predictions is that the issuer
¹² can pay the interest and repay the principal when they due.

¹³ The first figure, Figure 9 *Flow of Funds: Overview* gives the overall picture and shows
¹⁴ how rents from schools (blue) are "intercepted" by the California Controller (red) and paid
¹⁵ directly to landlords, or paid to the Gross Revenue Fund (red) from which the Master
¹⁶ Trustee pays lessors (orange) and bond holders and expense accounts (orange). What is not
¹⁷ shown is the \$750 per ADA (in 2017, rising to \$1,211 in 2020–21) that Rocketship will apply
¹⁸ to lease payments. Since money is fungible, the State of California is giving Rocketship
¹⁹ between \$2.4 and \$3.7M depending on the year (2016–17 to 2020–21 at the \$750/ADA rate),
²⁰ money they would otherwise not have. This is effectively profit.

²¹ The next figure, Figure 10 "Flow of Funds: Cross-Collateralization" adds an important
²² detail: how Rocketship uses its assets as collateral more than once. (The term
²³ *cross-collateralization* means using an asset as collateral for two or more obligations, here
²⁴ lease and bond payments.) In this case, if the payments of "School Tenants" are insufficient,
²⁵ the Master Trustee may require additional monthly payments from the "Obligated Group

Figure 9
Flow of Funds: Overview



⁽¹⁾ Includes trustee fees, issuer fees, arbitrage rebate fees, Capital Maintenance & Operating Fund deposits and other periodic fees related to the issuance of the Bonds.

⁽²⁾ Funds in this account will be held by the Borrower, subject to provisions in the Master Indenture.

⁽³⁾ Any other operating or non-operating expense of the Obligated Group (including property management fees, operating costs and other expenses), excluding interest, depreciation and amortization expense.

⁽⁴⁾ The California State Intercept Funds related to Rocketship Redwood City, Rocketship Los Santos and Rocketship Discovery Prep (as well as those related to Schools financed through the Series 2016 Bonds) will be paid directly to the Bond Trustee and will be used to make ground lease payments for the respective Schools, debt service payments and additional payments on the California Bonds, along with the Rocketship Discovery Funds, will be used after the NMTC funds have been disbursed.

⁽⁵⁾ Paid through Blocked Accounts established pursuant to the Leases. See “THE LEASES – Certain Covenants of Rocketship Education under the Leases.”

⁽⁶⁾ After California State Intercept Funds for the applicable Schools are sent to the Bond Trustee, the remaining funds will go through the Blocked Account mechanism discussed in note (5) above.

⁽⁷⁾ Franklin-McKinley School District, Alum Rock Baptist Church, ANB Property Corp. and K S Mattson Partners are the ground lessors, respectively, for Rocketship Spark Academy, Rocketship Brilliant Minds, Rocketship Fuerza, and Rocketship Redwood City Prep.

Source: Rocketship Education.

53

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

- 1 Representatives and Member” to supplement those from “School Tenants”.
~~kinds of analyses that are~~
- 2 These two examples show the ~~kind of analysis that is~~ needed to characterize a bond offering.

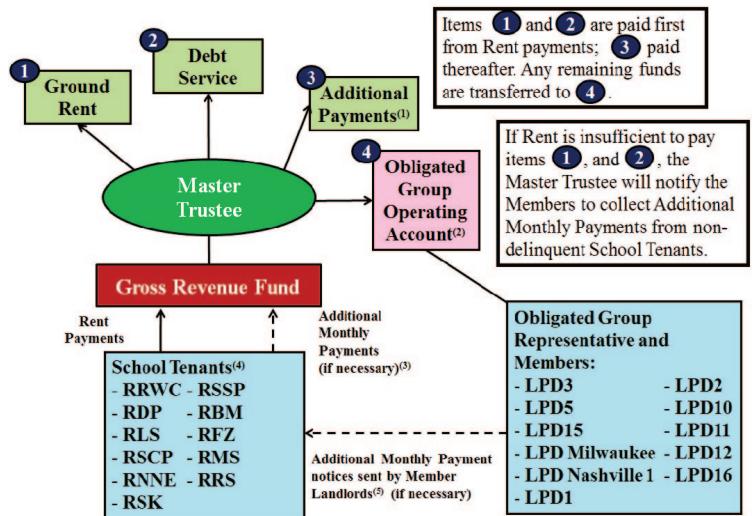
4 How Does Rocketship Compare?

5 Demographic Data

- 6 When searching for anomalous data, individual Rocketship schools need to be compared to
7 individual traditional public schools or to individual charter schools, but only after making

Figure 10
Flow of Funds: Cross-Collateralization

TABLE 2
 FLOW OF FUNDS – CROSS-COLLATERALIZATION MECHANISM



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

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

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

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

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

Source: Rocketship Education.

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

- 1 any needed adjustments to account for the demographic contexts in which the schools
- 2 operate. It makes no sense to compare the finances of, say, Rocketship Mateo Sheedy in
- 3 San José with the finances of the Westside Union Elementary School in Los Baños, less
- 4 than 65 miles away as the crow flies. One is a medium-sized charter school in a large urban
- 5 school district, the other is a larger public school in a rural public district. This means that
- 6 demographic data must be used along with financial data to obtain valid and useful
- 7 comparisons.
- 8 When it comes to representation, scatter plots are an easy-to-understand way of
- 9 presenting many individual data points. Indeed, Bruce D. Baker makes frequent use of

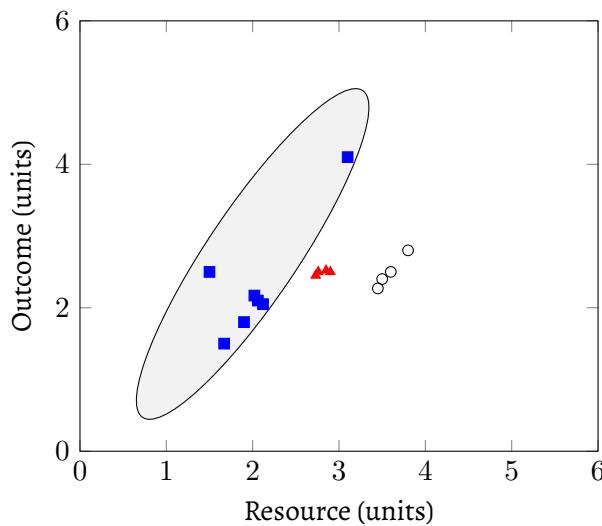


Figure 11
An example scatter plot

¹ scatter plots in *Educational Inequality and School Finance: Why Money Matters for America's*
² *Students* to capture how outcomes vary over resources (B. D. Baker, 2018, p. 209).
³ B. D. Baker and Richards suggest using a dozen or so indexes to measure institutional
⁴ performance like Cost per Classroom or Effort to Succeed (B. D. Baker & Richards, 2004,
⁵ p. 82), and a suitable choice of indices vs schools is a good way of spotting anomalies.

⁶ Figure 11 “An example scatter plot” is an example scatter plot. The data ~~is completely~~ ^{are}
⁷ ~~made up just to illustrate what a scatter plot might look like.~~ ^{hypothetical, in order to} One could interpret the
⁸ scatter plot to mean that the Rocketship schools, those within ~~the~~ the grey ellipse and shown
⁹ as blue squares, fall outside the normal range of other, comparison schools, shown as red
¹⁰ triangles and white circles. The units could be, for example, number of students/school vs
¹¹ number of teachers/school, or size of facility vs least cost/sq. ft. ^{per square foot.}

¹² If needed, I intend to make use of the following datasets that specialize in education.
¹³ • Data from the United States Department of Education, primarily the National
¹⁴ Center for Education Statistics (NCES). These datasets (500) are searchable online
¹⁵ using the Open Data Platform <http://nces.ed.gov/>. Of particular interest is the
¹⁶ massive Digest of Education Statistics, produced annually from 1990 onwards. The

1 Digest for 2019 runs to 651 pages.

- 2 • The NCES Open Data Platform can analyze over 15,000 data sets in its collection.
- 3 • The Institute of Education Sciences, which is part of the NCES, maintains DataLab, a
- 4 tool to analyze a very large number datasets, some of which span years, thus
- 5 enabling longitudinal studies to be undertaken
- 6 • The Stanford Educational Data Archive (SEDA) 4.0 is a carefully cleaned and curated
- 7 dataset that includes

8 ... a range of detailed data on educational conditions, contexts, and

9 outcomes in schools and school districts across the United States. It

10 includes data at a range of institutional and geographic levels of

11 aggregation, including schools, districts, counties, commuting zones,

12 metropolitan areas, and states. It includes measures of academic

13 achievement, achievement gaps, school and neighborhood racial and

14 socioeconomic composition, school and neighborhood racial and

15 socioeconomic segregation patterns, and other features of the schooling

16 system.

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- 17 • The National Assessment of Educational Progress (NAEP), both the current results
- 18 and the long-term trend results.
- 19 • The Early Childhood Longitudinal Studies (ECLS), kindergarten cohorts of 1998 &
- 20 2011.

21 **What About the Flow of Money Through Rocketship?**

22 Since a goal of this dissertation is to map the flow of money into and out of Rocketship, I

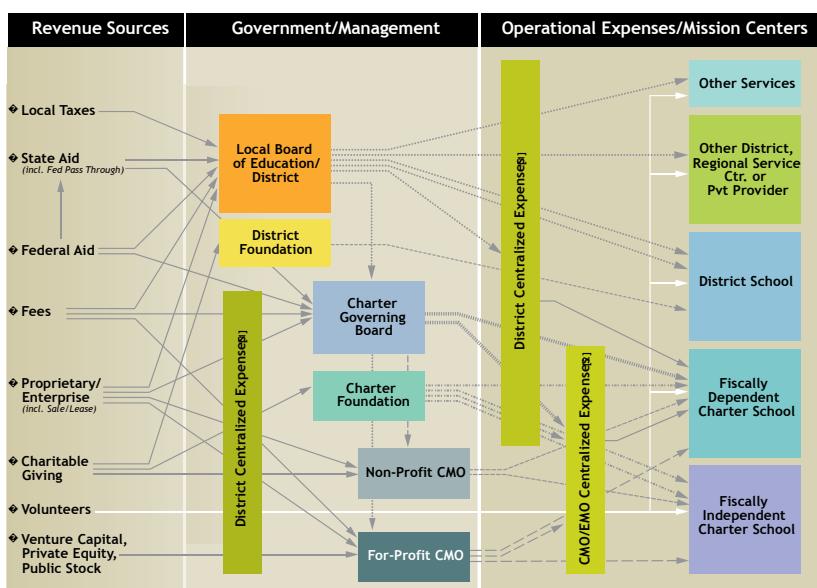
23 will use diagrams similar to the one used by Bruce Baker and Gary Miron (2015), which is

24 reproduced here as Figure 12.

25 In this example, money flows from left to right, and there are no loops. Colors are

26 used merely to distinguish the various blocks.

Figure 12
Operating Resource Flows



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

Findings and Results

Discussion

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

- ¹ **blended learning** A method of teaching where both in-person instruction and virtual
² instruction are used.
- ³ **charter school** A quasi-private school that is publicly funded but privately run.
- ⁴ **chartering authority** A governmental entity that grants charter schools the authority to
⁵ operate and which provides oversight. In California, a chartering authority could be
⁶ a public school district, a county office of education, or the California Department of
⁷ Education.
- ⁸ **cross-collateralization** A term from bond financing which indicates that an asset has been
⁹ used as collateral in two different obligations.
- ¹⁰ **public school** Public schools are funded by taxes and are governed by a publicly elected
¹¹ Board of Trustees. Public schools accept any and all students who wish to enroll, at
¹² any time of year, regardless of race, national origin, sexual orientation, gender,
¹³ religion, or citizenship.
- ¹⁴ **typical or neuro-typical children** Children without special needs.
- ¹⁵ **unduplicated pupils** The State of California augments school district revenue on a per
¹⁶ pupil basis for every pupil that qualifies for free or reduced price lunch, or is an
¹⁷ English language learner, or is a foster youth, but only an unduplicated basis.
¹⁸ Notably, children with special needs are not considered *unduplicated pupils*. Neither
¹⁹ are homeless children.
- ²⁰

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1

Colophon

2



3 This dissertation was created using programs that are open source with freely available components
4 and programs. The fonts, the text editor, the markup language, and the operating system are all
5 FOSS (free, open source software).

6 The body and headings were set in 12pt Alegreya.

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

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

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

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

1 Zotero is a program to manage and maintain a bibliographic database and to provide citations
2 on demand. It, along with the editor Emacs (“an operating system disguised as an editor”) and the
3 package `ref tex`, cooperate with `memoir` to provide a complete system for writing scholarly papers,
4 theses, reports, and dissertations.

5 All of these program run on Linux, a version of Unix. The particular distribution being used
6 here is called Arch Linux.

7 It is notable that Linux, Emacs, and `TEX` are all programs that are decades old, have never
8 been replaced or superseded, are constantly being improved, and are actively used. They share a
9 common set of characteristics: their fundamental architecture is sound, extensibility is a core
10 feature, and they and the thousands of specialized packages are freely available. I predict that
11 iPhones will barely be a faint memory before Unix, Emacs, and `TEX`_fade from view.