What State Policymakers Need to Know about Funding Virtual Charter Schools

A new type of public school has emerged over the past decade, one that is not constrained by its geographic location or its physical size and one that is seeing tremendous growth throughout the country — virtual charters. In the last ten years, enrollment in virtual charter schools has grown to more than 310,000 students in 30 states.

Virtual charter schools differ in significant ways from traditional public schools and brick-and-mortar charter schools, and they have forced states to re-evaluate their school finance formulas. This report outlines the key differences and explores how states can change their funding systems to address the needs of this new type of public education.[1]

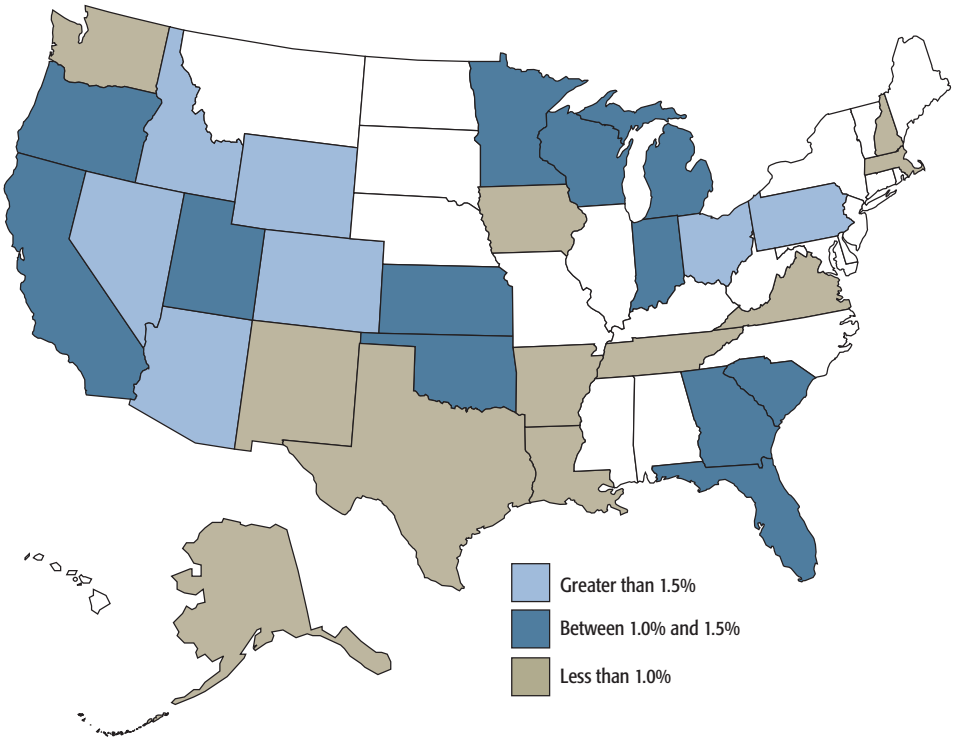
KEY TAKEAWAYS:

- Virtual charter schools are operating in 30 states, including Pennsylvania, where one virtual charter school enrolls almost three times the number of students as the average district in the state.
- Virtual charter schools have unique characteristics that make it difficult, if not impossible, to fund them through traditional school finance formulas. These characteristics include unlimited school size and unlimited enrollment borders.
- Several states have created funding formulas specific to virtual charter schools, providing less money per student than is allotted for students in brick-and-mortar schools. Such states include Colorado, Georgia, Ohio and Pennsylvania.

What are Virtual Charter Schools?

Virtual charter schools, also known as cyber charters or e-schools, are public schools that function under the same state rules and regulations as traditional charter schools. However, they deliver 100 percent of their courses online.

Student Enrollment in Virtual Charters as a Percentage of Total Enrollment



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Virtual Charter Growth in States

According to the National Alliance for Public Charter Schools, 34 states and the District of Columbia have laws in place in 2014 that allow for the operation of virtual charter schools.[2] However, only 30 of the 34 states have virtual charter schools in operation — the other four states have laws in place but have no virtual charters open as of February 2014. In the 2012-13 school year, student enrollment in virtual charter schools grew by 20,000 students (7.5 percent) over 2011-12. Student enrollment in virtual charters accounts for almost 1 percent of student enrollment in the 30 states that have virtual schools. **Arizona** leads all states with 3.9 percent of their student population enrolled in virtual charter schools.

Four Funding Issues

The growth in the number of students enrolled in virtual charter schools has forced states to review how these schools are funded. While traditional K-12 schools and brick-and-mortar charter schools are similar enough that they can be funded under the same system, virtual charters have unique characteristics that make it difficult, if not impossible, to fund through traditional finance formulas. In fact, there are four issues that make funding virtual schools different from traditional brick-and-mortar schools:

- Student enrollment areas
- The potential size of schools
- How student can be counted for funding purposes
- The cost of providing educational services

Each of these issues can force states to change either how they fund all schools in their state or to revert to a different system of funding traditional schools and those that operate as virtual schools. In addition, the combination of the first two issues — enrollment areas and school size — can result in a loss of funding predictability for traditional K-12 and brick-and-mortar charter schools.

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Funding Issues Faced by Various School Structures

	Traditional K-12 Schools	Brick-and-mortar Charter Schools	Virtual Charter Schools
Student Enrollment Area	Limited by district's borders	Limited based on geographical distance	Unlimited
Size of School	Limited by building(s) capacity	Limited by building(s) capacity	Unlimited
Student Counts for Funding Purposes	Seat time	Seat time	Course enrollment or course completion
Cost of Providing an Education		Roughly equivalent to traditional schools	Reduced costs – no food service, transportation, capital and building maintenance costs

Funding Issue 1: Student Enrollment Areas

Both traditional K-12 schools and brick-and-mortar charter schools have geographic limitations for student enrollment. While some states have open enrollment laws that allow students to attend schools located outside their district borders, most limit a student's enrollment to the schools inside their district boundaries. Enrollment in brick-and-mortar charter schools is typically limited by the distance between a student's home and the charter school building. But there are no such geographic limitations for virtual charter schools. Now a student in San Francisco can attend a school located in Los Angeles or San Diego.

Funding Issue 2: Size of Schools

Both traditional K-12 schools and brick-and-mortar charter schools are limited in the number of students that they serve based on the size of their buildings. Virtual schools have no limitation on the number of students they serve. In fact, the Pennsylvania Cyber Charter School enrolled 10,343 students in the 2012-13 school year — up from approximately 500 students just 11 years earlier.[3] To put this into perspective, this one virtual charter school enrolls almost three times the number of students as the average district in Pennsylvania. What's more, there is no limit to how much larger this school can grow.

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A Loss of Predictability

The National Alliance for Public Charter Schools estimates that, in the 2013-14 school year, 2.5 million students will be enrolled in charter schools. Most of these 2.5 million students transferred from traditional K-12 schools to charter schools.

When traditional schools lose students to charter schools, not only do they lose the state and federal funding that they received for that child but they often have to send that child's share of local funding to their new charter school. For example, if a school district funds its students with $6,000 in state and federal funding and $4,000 in local funding, then for each student they would have to forward not only the state and federal dollars that they receive to the charter school but they'd also have to cut a check from their own money for $4,000.

Traditional schools have argued that they cannot downsize their expenses fast enough to offset the loss of funding for transferring students. Because of this, some states have changed their funding formulas to allow districts to adjust their expenses as they lose students. This is often done by allowing districts to average out their student counts over a number of years.

While the loss of students to traditional charters may have hurt many traditional schools, at least those transfers were predictable to a certain extent. A charter school had to open in your community for your students to transfer out. If one did open in your community, then the number of students you could lose was limited to the number of students that the charter's building could handle.

However, the introduction of virtual charter schools has removed any possibility of predictability. Now school leaders who have never had to think about students transferring to charter schools suddenly have to. This includes many suburban schools and even schools in remote rural areas of the state.

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> Data from the National Center for Education Statistics shows that, on average, schools spend 10 percent of their budgets on facilities, 9.4 percent on maintenance and operation, and 4.4 percent on transportation. Using these numbers, we can make a general estimate that virtual schools should cost approximately 23.8 percent less to deliver a quality education than brick-and-mortar schools."

Losing a Student You've Never Had

One of the issues unique to virtual charter schools is that traditional school districts can be financially responsible for students who have never attended their schools.

When a home-school student or student enrolled in a private school transfers into a virtual charter school, they suddenly become the financial responsibility of that student's home district. That means that the student's home district has to send the federal and state funding for that student to the new virtual charter school and cut them an additional check from local funds.

So if a district provides $4,000 per student in local funds and 10 home-school students now enroll in a virtual charter school, then the district would have to cut a check for $40,000 to the virtual charter. This $40,000 is an expense that the district did not have the year before because these students were not part of the school district.

What Can States Do?

To help traditional schools and even some brick-and-mortar charter schools adapt to this sense of unpredictability, a state could establish a cap on the growth in virtual schools or could further adjust their funding formulas to take into account the loss of students to virtual schools.

In addition, states could change their school funding formulas to cover the cost of students who were not enrolled in the district in the prior year (i.e. home-school or private-school students) for the first year that they are enrolled in the virtual school program. These changes would help districts to better predict the financial changes brought about by virtual charter schools.

Funding Issue 3: Student Counts for Funding

Forty-nine of the 50 states provide funding to both traditional school districts and brick-and-mortar charter schools based on the number of students enrolled or attending their schools. In addition, these states have rules about the minimum number of days/hours that a student must attend school to qualify for state funding. This type of funding system is often referred to as one based on a student's seat time.

Because virtual school students often learn at their own pace in their own homes, their school attendance can't be measured by seat time. This means that virtual school enrollment must be measured in a different way for state funding. Many states use student course enrollment as their measure for funding.

However, the problem with using enrollment numbers is that a large number of students do not complete the courses that they are enrolled in. And in some cases, these students return to traditional brick-and-mortar schools, which means the state may be paying twice for their enrollment.

State Solutions

Because of the difficulty with using course enrollment alone, some states have moved to using either a combination of counting course enrollment and course completion or simply using course completion alone.

To ensure that a state is not funding students who do not complete virtual courses, more states might want to look at systems similar to the one being used in **Florida**. Florida funds virtual charter schools based on the number of completed classes. In addition if the class has an end-of-course assessment, the student must pass the exam for the school to receive funding.[4]

Funding Issue 4: Costs of Providing Educational Services

There is general agreement that the costs of delivering a quality education at a traditional school and at a brick-and-mortar charter school are roughly equivalent. There is also consensus around the belief that the cost of delivering an education through a virtual school is less than that of a brick-and-mortar school. However, there are no studies that can pinpoint the exact cost difference between virtual and brick-and-mortar schools.[5]

We do know that virtual schools do not have the same expenses that brick-and-mortar schools have — including the costs for student travel, facilities and building maintenance. Data from the National Center for Education Statistics shows that, on average, schools spend 10 percent of their budgets on facilities, 9.4 percent on maintenance and operation, and 4.4 percent on transportation. Using these numbers, we can make a general estimate that virtual schools should cost approximately 23.8 percent less to deliver a quality education than brick-and-mortar schools.

One reason that some states are reluctant to "fully fund" or "over fund" virtual charter schools is due to the involvement of private management companies. While private management companies are involved with traditional schools and brick-and-mortar charter schools, their overall involvement tends to be very small. However, private companies dominate the management of virtual charter schools. In the 2011-12 school year, it was estimated that 66.7 percent of virtual charter schools were managed by private companies.[6]

Conclusion

The advent of virtual charter schools has changed the way we think about educating kids. We now need to rethink the way that we fund public schools to include the unique features of these schools. States would be wise to review their school funding systems to ensure that it works just as well for virtual charter schools as it does for traditional brick-and-mortar schools.

State Solutions

Some states have adjusted their school funding formulas to take into account the reduced cost of educating students at a virtual charter school. In fiscal year 2013-14, the state of **Georgia** funded students enrolled in a virtual charter school at a rate of $4,334 and students in traditional brick-and-mortar schools at a rate of $7,104. This means that Georgia only supplies virtual schools with 61 percent of the funding that they supply brick-and-mortar charters.[7]

Other states have taken the approach of funding virtual charters at a lower rate:

- In **Pennsylvania**, school districts are required to pay an amount to a cyber charter school for each resident student who attends. The amount that the district is required to pay is equal to their total funding per-pupil, minus the cost of transportation, adult education and debt service.[8]
- The state of **Colorado** guarantees in its school funding formula that each district will receive total program funding from both state and local sources of $7,468 per traditional student and $7,180 per online student. This means that the funding guarantee for online students is $288, or 3.9 percent, less than it is for a traditional student.[9]
- In **Ohio's** school funding formula, cyber charters (or e-schools) receive a base-funding amount that is equal to traditional schools. However, e-schools are not entitled to receive funding for several different programs, including: at-risk students, English language learners, and career and technical learning.[10]

ECS Resources

The ECS State Policy Tracking Database includes a section on cyber charters.
http://www.ecs.org/ecs/ecscat.nsf/WebTopicView?OpenView&count=-1&RestrictToCategory=Choice+of+Schools--Charter+Schools--Cyber+Charters

Other Resources

The National Association of Charter School Authorizers has written an excellent primer on the issue of virtual charter schools:
http://www.qualitycharters.org/assets/files/images/stories/publications/Issue_Briefs/NACSA_Cyber_Series_EvergreenIssueBrief.pdf?q=images/stories/publications/Issue_Briefs/NACSA_Cyber_Series_EvergreenIssueBrief.pdf

The Evergreen Education Group annually produces a paper on the current status of online and virtual learning in states – this is their 2013 report:
http://kpk12.com/cms/wp-content/uploads/EEG_KP2013-lr.pdf

The National Alliance for Public Charter Schools produces an annual report on charter school laws in the 50 states – this is their 2014 paper:
http://www.publiccharters.org/wp-content/uploads/2014/01/StateRankings2014.pdf

Endnotes

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2 Todd Ziebarth, National Alliance for Public Charter Schools, *Measuring Up to the Model: A Ranking of State Charter School Laws*, January 2014, http://www.publiccharters.org/wp-content/uploads/2014/01/StateRankings2014.pdf.

3 Pennsylvania Department of Education, *Pennsylvania Charter School Enrollment 2012-13*, http://www.portal.state.pa.us/portal/server.pt/community/annual_reports_and_statistics/7357.

4 Foundation for Excellence in Education, *Completion vs. Seat Time Funding – Florida Virtual School*, http://static.excelined.org/wp-content/uploads/Completion-vs.-Seat-Time-Funding-Virtual-Instruction-Program-Virtual-Charter-School-s.-1011.611c1.b.III-IV-V-F.S..pdf.

5 Michael Barbour, "Are Virtual Schools More Cost-Effective Compared to Traditional, Brick-and-Mortar Schools?" *Technology in Schools: Debating Issues in American Education*, 2012. (pages 84-90), http://www.academia.edu/2426552/Barbour_M._K._2012_._Virtual_schools_are_more_cost-effective_compared_to_traditional_brick-and-mortar_schools_In_K._P._Brady_Ed._Technology_in_Schools_Debating_Issues_in_American_Education_pp._84-90_._Thousand_Oaks_CA_Sage.

6 Gary Miron, Brian Horviz and Charisse Gulosino, *Virtual Schools in the U.S. 2013: Politics, Performance, Policy and Research Evidence*, (Boulder, CO: National Education Policy Center, May 2013, page 5), http://nepc.colorado.edu/publication/virtual-schools-annual-2013.

7 Georgia Department of Education, State Charter Schools Commission, http://scsc.georgia.gov/funding.

8 Pennsylvania House of Representatives, Fiscal Note for House Bill 618, http://www.legis.state.pa.us/WU01/LI/BI/FN/2013/0/HB0618P2371.pdf.

9 Colorado Department of Education, *Understanding Colorado School Finance and Categorical Program Funding*, 2013, http://www.cde.state.co.us/sites/default/files/FY2013-14%20Brochure.pdf.

10 Ohio Legislative Service Commission, *School Funding Complete Resource*, http://www.lsc.state.oh.us/schoolfunding/edufeb2011.pdf.

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