STATE OF NEW MEXICO
LEGISLATIVE EDUCATION STUDY COMMITTEE

REPRESENTATIVES
Mimi Stewart, Vice Chair
Nora Espinoza
Jimmie C. Hall
Rick Miera
Dennis J. Roch
Sheryl M. Williams Stapleton

ADVISORY
Alonzo Baldonado
Nathan "Nate" Cote
George Dodge, Jr.
David M. Gallegos
Stephanie Garcia Richard
Timothy D. Lewis
Tomás E. Salazar
James E. Smith
Christine Trujillo
Bob Wooley

State Capitol North, 325 Don Gaspar, Suite 200
Santa Fe, New Mexico 87501
Phone: (505) 986-4591 Fax: (505) 986-4338
http://www.nmlegis.gov/lcs/lesc/lescdefault.aspx

SENATORS
John M. Sapien, Chair
Craig W. Brandt
Gay G. Kernan
Howie C. Morales

ADVISORY
Jacob R. Candelaria
Lee S. Cotter
Daniel A. Ivey-Soto
Linda M. Lopez
John Pinto
William P. Soules
Pat Woods

Frances Ramírez-Maestas, Director

August 27, 2014

MEMORANDUM

TO: Legislative Education Study Committee

FR: Kevin Force

RE: STAFF BRIEF: CYBER/VIRTUAL SCHOOL FUNDING: COMPARISON OF OTHER STATE MODELS

The Education Commission of the States (ECS) recently published a brief that reviews funding policy for fully virtual charter schools among the several states[1]. Noting that a few states have created funding formulae specific to fully online schools that may fund those schools at a slightly lesser level than traditional schools, the brief identified four primary areas of concern that policymakers should consider when devising such funding plans:

1. Student enrollment areas: Unlike traditional schools, virtual charter schools, where the curriculum is delivered entirely online, are not subject to natural or political geographic boundaries. A traditional school's pool of potential students is limited to the school district in which it resides, whereas cyber-schools, by virtue of their online delivery system, may draw their students from across an entire state.

2. Size of schools: Closely related to the issue of enrollment area is that of school size. As online schools may draw their students from a relatively unlimited geographic area, they are also unconstrained by the physical limitations naturally imposed by a brick-and-mortar school's physical size. There is no effective limit to the size of the student body, as virtual schools need not house their students within a necessarily finite space. For example, the Pennsylvania Cyber Charter School enrolled more than 10,000 students for

[1] Please see: http://www.ecs.org/clearinghouse/01/11/11/11111.pdf.

school year 2012-2013, three times more than the average Pennsylvania school *district*. Exacerbating this issue are two related potential problems:

- A loss of predictability for traditional school districts: While the opening of a new brick-and-mortar charter school, or the expansion of an existing one, within a district may at least put officials on notice that some of their students may opt to attend that charter over the traditional pubic school, any such potential consequences of opening a virtual charter are impossible to predict. When a school can draw pupils from across an entire state, it becomes difficult to plan for changing attendance rates and the accompanying potential losses to funding. This issue may become particularly burdensome for very rural districts, which may already have lesser resources than districts in the more heavily populated areas of a jurisdiction.
- The potential impact of private and home-school students attending virtual charter schools: In some jurisdictions, when a home-schooled or private school student transfers to a public virtual charter school, the district in which that student resides becomes their home district, and must assume financial responsibility for that student, with federal, state, and (potentially especially burdensome) even local funding for that student being transferred to the virtual school, an entirely unanticipated additional expense.

3. Student-counts for funding: Most states continue to base funding for virtual charter schools on the same factor that they do traditional schools: seat time. While the particular count day on which student attendance is based, or the number of school days or hours a state requires under its compulsory attendance laws may differ, the base factor is still the physical attendance of students in school. Clearly, in online schools, physical attendance is not only not required, it is seldom even considered, given the distance in time or space between teacher and pupil that is one of the hallmarks of online education.

   In response to this fundamental difference, some states have begun funding virtual charter schools based on course enrollment; yet even this approach fails to address the problem of students enrolling in, but failing to complete, virtual courses. Depending on the jurisdiction, if a student fails to complete a course at an online school, and then returns to traditional public school, many current funding schemes would result in a state effectively paying twice for that student: first for the uncompleted program, and then for the traditional school. A more practical and effective approach may be to fund virtual schools based on course *completion*. Florida (see table, below) funds virtual charters based on course completion, and even requires a student to pass an end-of-course exam before awarding funding, if one is required for the class.

4. Costs of providing educational services: While many agree that the cost of delivering an education through an entirely online school is less than that of traditional schools, thus far there is little research indicating the exact cost difference between the two. Expenses that virtual schools frequently lack, in comparison with traditional schools, include student travel and facility maintenance. The National Center for Educational Statistics indicates that traditional schools may spend as much as 10 percent of their budgets on facilities, 9.4 percent on maintenance and operations, and 4.4 percent on transportation[2], suggesting

[2] Please see: http://nces.ed.gov/pubs2011/2011033.pdf.

that education through entirely online charter schools may cost nearly 25 percent less than traditional schools. These figures, however, do not consider those costs that may be unique to fully online schools, such as the expense of individually providing laboratory or computer equipment to their students. ECS also notes that some states are hesitant to fund virtual schools at the same level as traditional public schools, due in some part to the pervasive presence of private, for-profit management companies in online charter schools[3]. For example, according to *Education Week*, for the second consecutive year, Pennsylvania declined to authorize any new virtual charter schools, at least in part because five of their six recent applicants were too closely tied to for-profit management companies[4].

In addition to those states' funding schemes outlined in the table, ECS notes that:

- Pennsylvania funds online charters at the same per-pupil funding level as traditional schools, less costs for factors like transportation, adult education and debt services; moreover, current legislation proposes to add pension contributions and food service to those factors that may be deducted from base cyber-charter school funding[5];
- Ohio's formula awards a base funding equal to that of traditional schools, but does not fund cyber-schools for certain programs, such as at-risk students, English language learners, career and technical training, and even poverty-based assistance[6]; and
- Georgia funds students enrolled in fully online schools at 61 percent less than those in traditional brick-and-mortar schools.

The table below, excerpted from the virtual charter school comparison table presented to the committee in July, includes the statutory funding language for the three reviewed states. (Specific language that addresses funding differences between traditional schools and fully virtual schools is emphasized.)

[3] According to the National Education Policy Center, fully two-thirds of all virtual charter schools were managed by private companies in school year 2011-2012.

[4] Please see: Pa. Rejects Cyber Charter Applicants, Citing For-Profits' Role, Herold, Education Week, January 29, 2014, at: http://blogs.edweek.org/edweek/DigitalEducation/2014/01/pa_rejects_cyber_charter_applicants.html?r=1222593649&preview=1.

[5] Please see Pennsylvania House of Representatives, Fiscal Note for House Bill 618, 2013-214, at: http://www.legis.state.pa.us/cfdocs/billInfo/billInfo.cfm?sYear=2013&sInd=0&body=H&type=B&bn=0618.

[6] Please see *School Funding Complete Resource*, Ohio Legislative Service Commission, February 2011, p. 36, at: http://www.lsc.state.oh.us/schoolfunding/edufeb2011.pdf.

COMPARISON OF ONLINE VERSUS TRADITIONAL SCHOOL FUNDING		
COLORADO	**FLORIDA**	**ARIZONA**
Colorado, based on formula referenced in the statutory language below, funds fully virtual charter schools at about 3.9 percent less than traditional schools.	Florida bases funding for online schools on course completion including, where applicable, successful completion of end-of-course exams.	Arizona funds full-time online students at 95 percent of the traditional equivalent, and part-time students at 85 percent.
A school district that is providing a single-district online program or online school, or a school district in which a district charter school is providing a single-district online program or online school, shall include each student, as of the pupil enrollment count day of the applicable budget year, in the school district's pupil enrollment for the applicable budget year and shall receive the school district's per-pupil funding for each student enrolled in the single-district program or school. An institute charter school that is providing a single-district online program or online school shall include each student who is enrolled in the program or school, as of the pupil enrollment count day of the applicable budget year, in the institute charter school's pupil enrollment for the applicable budget year and shall receive the per-pupil funding of the institute charter school's accounting district for each student enrolled in the single-district program or online school. ***A school district that is providing a multi-district online school, or a school district in which a district charter school is providing a multi-district online school, shall include each student who is enrolled in the multi-district online school, as of the pupil enrollment count day of the applicable budget year, in the school district's online pupil enrollment for the applicable budget year and shall receive online funding, as specified in section 22-54-104 (4.5).***	Students enrolled in virtual instruction are funded through the Florida Education Finance Program under the General Appropriations Act. (But this money may not be provided for the purpose of fulfilling class size requirements in §§ 1003.03 and 1011.685.) ***Beginning in the 2016-2017 fiscal year, the reported full-time equivalent students and associated funding of students enrolled in courses requiring passage of an end-of-course assessment shall be adjusted after the student completes the end-of-course assessment (although no adjustment shall be made for a student who enrolls in a segmented remedial course delivered online).*** The school district providing virtual instruction shall report full-time equivalent students for a virtual charter school to the department in a manner prescribed by the department, and funding shall be provided through the Florida Education Finance Program. *1002-45(7) Fla. Stat.* Each virtual charter may enter into an agreement with a school district to allow the participation of the virtual charter school's students in the school district's virtual instruction program. The agreement must indicate a process for reporting of student enrollment and the transfer of funds required by 1002-45(7)(f). *1002-45(1)(d)(3) Fla. Stat.*	***A pupil who is enrolled full-time in Arizona online instruction shall be funded for online instruction at 95 percent of the base support level that would be calculated for that pupil if that pupil were enrolled as a full-time student in a school district or charter school that does not participate in Arizona online instruction.*** Additional assistance, capital outlay revenue limit and soft capital allocation limit shall be calculated in the same manner they would be calculated if the student were enrolled in a district or charter school that does not participate in Arizona online instruction. ***A pupil who is enrolled part-time in Arizona online instruction shall be funded for online instruction at 85 percent of the base support level that would be calculated for that pupil if that pupil were enrolled as a part-time student in a school district or charter school that does not participate in Arizona online instruction.*** Additional assistance, capital outlay revenue limit and soft capital allocation limit shall be calculated in the same manner they would be calculated if the student were enrolled in a district or charter school that does not participate in Arizona online instruction. *ARS 15-808(F)*

COMPARISON OF ONLINE VERSUS TRADITIONAL SCHOOL FUNDING		
COLORADO	**FLORIDA**	**ARIZONA**
An institute charter school that is providing a multi-district online school shall include each student who is enrolled in the multi-district online school, as of the pupil enrollment count day of the applicable budget year, in the institute charter school's online enrollment for the applicable budget year and shall receive online funding, as specified in section 22-54-104 (4.5). The general assembly hereby finds and declares that, for purposes of section 17 of article IX of the state constitution, providing funding to the online division for online education is a permissible use of the moneys in the state education fund because they are being used for accountable education reform, for accountable programs to meet state academic standards, for class-size reduction, for expanding technology education, and for accountability reporting as authorized by section 17 (4) (b) of article IX of the state constitution. *CRS 22-30.7-107*	Each school district shall provide to the department by October 1, a copy of each contract and the amounts paid per unweighted full-time equivalent student for services procured for virtual instruction. Each school district shall expend the difference in funds provided for a student participating in the school district virtual instruction program and the price paid for contracted services procured for the district's local instructional improvement system or other technological tools that are required to access electronic and digital instructional materials. At the end of each fiscal year, but no later than September 1, report to the department an itemized list of the technological tools purchased with these funds.*1002-45(1)(e) Fla. Stat.*	