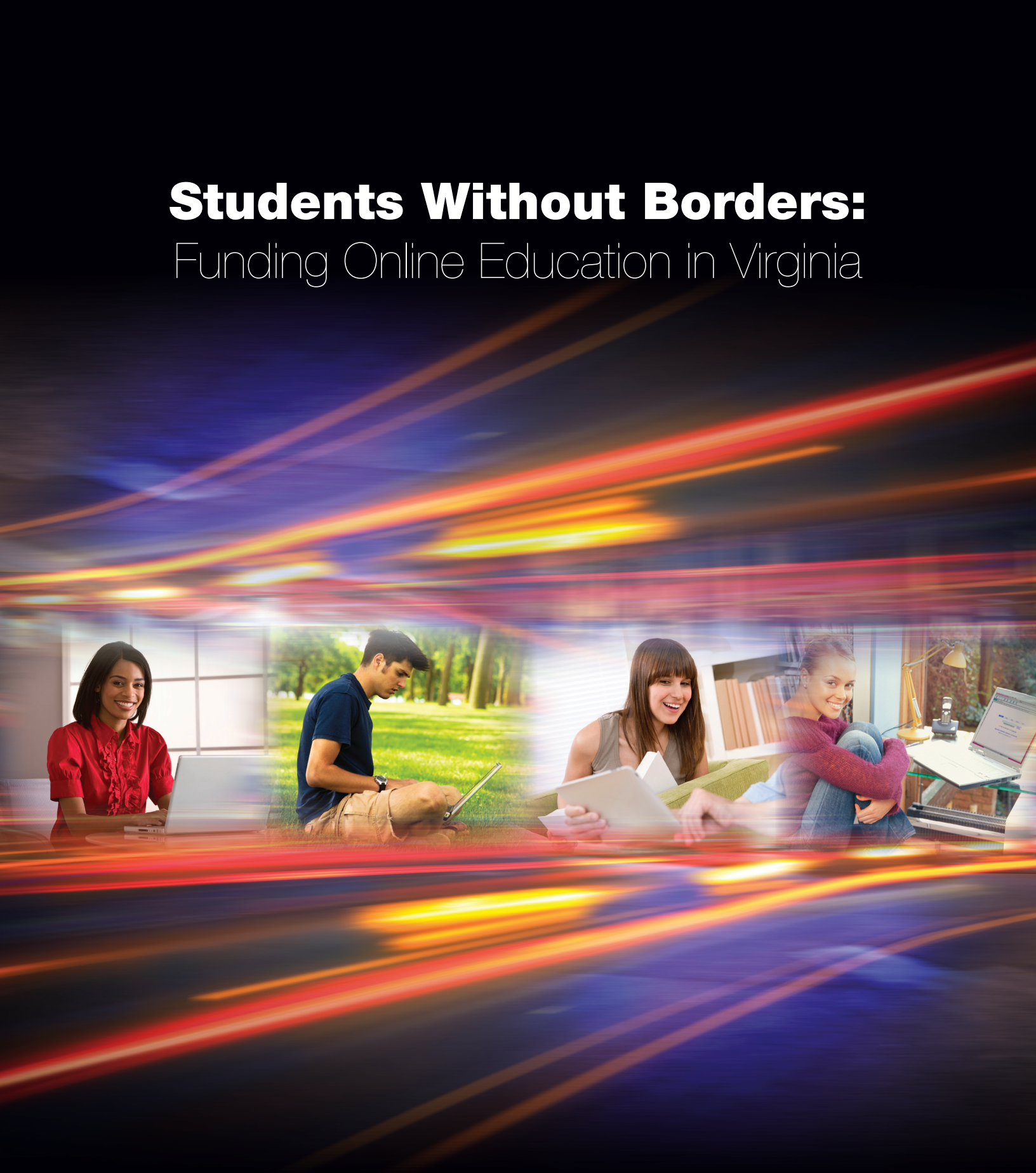
Students Without Borders:
Funding Online Education in Virginia



By Christian N. Braunlich
Vice President | Thomas Jefferson Institute for Public Policy | November 2011

Thomas Jefferson Institute for Public Policy

The Thomas Jefferson Institute for Public Policy is a non-partisan research and education organization devoted to improving the lives of the people in Virginia. The Institute was organized in 1996, and was the only state and local government focused public policy foundation in Virginia based on a philosophy of limited government, free enterprise and individual responsibility. It is a "solutions tank" seeking better ways to accomplish the policies and programs currently being undertaken by state and local government – always based on the Institute's underlying philosophy. The first study was published in February 1997.

The work of the Thomas Jefferson Institute for Public Policy is geared toward educating our political, business and community leadership about the issues facing our society here in Virginia. The Institute offers suggested solutions to these problems in a non-partisan manner.

The Thomas Jefferson Institute is a fully approved foundation by the Internal Revenue Service. It is designated a 501 (c) 3 organization and contributions are tax-deductible under the law. Individuals, corporations, associations and foundations are invited to contribute to the Thomas Jefferson Institute and participate in our programs.

For more information on the programs and publications of the Thomas Jefferson Institute, please contact:

Thomas Jefferson Institute for Public Policy
9035 Golden Sunset Lane
Springfield, Virginia 22153
703/440-9447
email: info@thomasjeffersoninst.org
website: www.thomasjeffersoninst.org

This study, *Students Without Borders: Funding Online Education in Virginia*, is published by the Thomas Jefferson Institute for Public Policy. This study does not necessarily reflect the views of the Thomas Jefferson Institute or its Board of Directors. Nothing in this study should be construed as an attempt to hinder or aid any legislation.

Foreword

It's been said that more than half of the world's internet traffic flows through the Commonwealth of Virginia.

So we should not be surprised that the Commonwealth would turn to full-time online instruction as a means of educating its students in the 21st century.

This issue is an international one, because the international educational marketplace is clearly responding: In Mexico, every new teacher is provided a laptop. In China; 100 percent of the K-12 academic curriculum has been digitized, and South Korea will replace textbooks with digital products within four years. In Turkey, 15 million students are taking online courses and 100 percent of secondary schools in Singapore use online learning. The European Union uses an online International Baccalaureate program in more than 26 countries.

The bi-partisan Digital Learning Council, co-chaired by former Governors Jeb Bush (R-FL) and Bob Wise (D-WV) recently released *Digital Learning Now!*, offering 72 metrics against which to judge Virginia's virtual school law. While the Old Dominion scores well on a high number of those benchmarks, our funding issues remain problematic – and this paper attempts to address the funding questions raised in *Digital Learning Now!*

Virginia students need equal access to a full-time online education if they are going to compete in the 21st century. Full-time online learning offers individualized education plans, the ability for the student to proceed at his or her own pace, an educational solution that responds to the needs of certain student cohorts, and a public school choice option that any parent can take advantage of.

But the current educational funding model in Virginia isn't designed for students that can reside in one county but be educated in a school hundreds of miles away. The current structure assumes that a student living in one school division is educated in that district. In short, education funding tends to stop at each school division's border – and that's not a good system for educating "students without borders."

If Virginia is to become a "New Dominion," offering 21st century educational opportunities to its students, then it will need to turn to online instruction that is effective and less expensive than current "old school" learning.

Michael W. Thompson
Chairman and President
Thomas Jefferson Institute for Public Policy
November 2011

Executive Summary

In 2010, Virginia became the 28th state to create a formal policy for the establishment and funding of full-time, multi-district virtual schools – online education through which students are able to work full-time with their teachers and curriculum over the Internet, rather than in a traditional classroom.

Most studies suggest that providing education in this way costs about 65 percent of what it costs in a typical bricks and mortar classroom, while still providing a program that is investing in professional development, research, innovation, quality assurance and planning for growth. But because Virginia funds online schools using an outdated model based on funding bricks and mortar schools educating students attending the school closest to where they live – one that did not anticipate a digital world in which students could live anywhere in the state – online education is unlikely to expand in the Commonwealth unless changes are made.

Most states with full-time, multi-district virtual schools either provide state funding that is higher than Virginia and is sufficient to sustain online programs, or that is combined with local funding and the combined level meets the funding need. While Virginia, on average, provides about $4,000 per student for virtual schools, funding levels in other states rise as high as $8,100 per child.

One possible funding solution would recognize that online students are "students without borders" and should be funded based on state-wide averages. Students would be funded based on the average state-wide Standards of Quality funding ($4,083 in 2012). The school division in which a student resides would be required to contribute the average local SOQ per pupil funding ($2,559 in 2012) and send those funds to the school division actually educating the child in their virtual school. This local funding represents a savings for most school divisions since it is less than is *actually* spent in 118 of Virginia's 134 school divisions. And this savings is only in *operating* costs. For school divisions under pressure to build more physical space, online students have the potential to save *capital* budgets over time.

We also propose a new accountability system that would fully fund online schools only after a student had demonstrated subject mastery, thus ensuring that local school funds are held accountable and local taxpayers get the best results for their dollars.

A new generation of students will be "students without borders" … able to live anywhere and learn from anywhere. Policy-makers must recognize that old funding models are ineffective, raise overall costs, and hinder the ability of Virginia's students to learn in a world of online education.

How Much Does Online Learning Cost?

Who uses a virtual school? While not for everyone, a variety of students typically use a virtual school because it fits their needs and schedule better. These include, but are not limited to military families who move frequently; students on homebound instruction with medical needs; students with special education needs, such as the autism spectrum or ADHD; students with gifted education needs, who need to be challenged and move at their own pace; students who need credit recovery to graduate; competitive athletes with conflicts in traditional school day hours; and any student who is dissatisfied with their current traditional public school as a result of overcrowding, bullying, lack of rigor, etc.

In 2010, Virginia became the 28th state to create a formal policy for the establishment and funding of full-time, multi-district virtual schools – online education through which students are able to work full-time with their teachers and curriculum over the Internet, rather than in a traditional classroom.

But in 2011, a Senate budget amendment attempted to revise the funding formula, reducing available state funding for educating a student to as little as $2,000, depending upon the student's residence. The amendment would have set up dramatic inequities. Rural school divisions would find it difficult to compete because they would not get enough funding from students in wealthier school divisions. Meanwhile, stronger, better-funded areas like Fairfax County would be favored and ultimately would dominate the state's online programs.

While the budget amendment was successfully vetoed by Governor Bob McDonnell and sustained by the General Assembly, the challenges of successfully funding online learning remained. Unless the General Assembly takes a hard look at an appropriate and effective way to fund full-time online virtual schools, it is likely that a similar amendment may be introduced in the future. If a solution is not found, the problem will endure … and the students who need and use online learning will suffer."

There is no time to waste.

Online learning tears down the wall existing between school divisions, making more and better options available for all Virginia students. Because a child need not be physically present in a physical classroom, he or she can take classes anytime and anywhere.

But this new innovation depends upon equitable funding, and the Senate amendment raises the question: How much does it cost to educate in a virtual school? How can Virginia best fund this 21st century innovation in education? And if state funding is inadequate, how does good public policy ensure the growth of a thriving online educational system?

What Costs Exist in Online Education?

There should be no doubt that costs for full-time virtual schools are less than that of a full-time bricks and mortar school. An October 2006 study done by Augenblick, Palaich and Associates and funded by the Bellsouth Foundation suggested that costs for an online K-12 education program should range from $7,200 to $8,300 per child. In 2010, the International Association for K-12 Online Learning (iNACOL), a membership group representing 3700 members in more than 50 countries, estimated the average funding for virtual charter schools at $6,500 per student, compared with a national average of $12,000 per student in a bricks and mortar K-12 school. A 2010 Wisconsin Joint Legislative Audit found that per pupil virtual charter school expenditures ranged from $3,687 to $28,581 – and that virtual school costs in the $6,000 range were reasonable and most effective.

But those looking merely to cut costs will also find themselves cutting educational quality. The Augenblick, Palaich report noted that virtual schools might operate for as little as $3,650 per student, but would be limited to "a program that is large, not growing, and not investing in significant professional development for teachers and similar quality measures. Funding at the lowest level would allow a program to operate day-to-day but would not allow the program to invest in research, development, innovation, quality assurance, and planning for growth."

"Learning on the Cheap?"

Indeed, the assumption that online education is "learning on the cheap" is a myth. Real costs include highly qualified teachers (with special training in online instruction), engaging and interactive online curriculum development and licensing, computers, course delivery and data systems, plus special services and physical materials (books). The Augenblick, Palaich report estimated start-up costs for a virtual school at $1.6 million, and even if a school division contracts the school to a private provider, these costs must be amortized over the life of the school.

The same study identified five broad categories of costs for online programs:

- **Management:** includes administrative personnel, travel, supplies, office furniture and equipment, facilities, insurance, legal, postage, marketing, public relations, recruitment, and strategic planning.
- **Instruction:** includes instructional personnel, professional development, travel, instructional supplies and materials, assessment/test preparation, contracted services, and software licensing.
- **Course Development:** includes costs associated with developing or purchasing new courses and maintaining or redoing existing courses.
- **Technology Set Up:** includes computers and office set-ups for all staff members, computers and connectivity for students, the Learning Management and Student Information Systems, and networking hardware, software, and connectivity.
- **Technology Personnel:** includes all non-management personnel dedicated to technology, software licenses for all non-instructional staff, and contracted services.

iNACOL breaks down a $6,500 per student expenditure like this:

Teachers: **26%**

Technology: **24%**

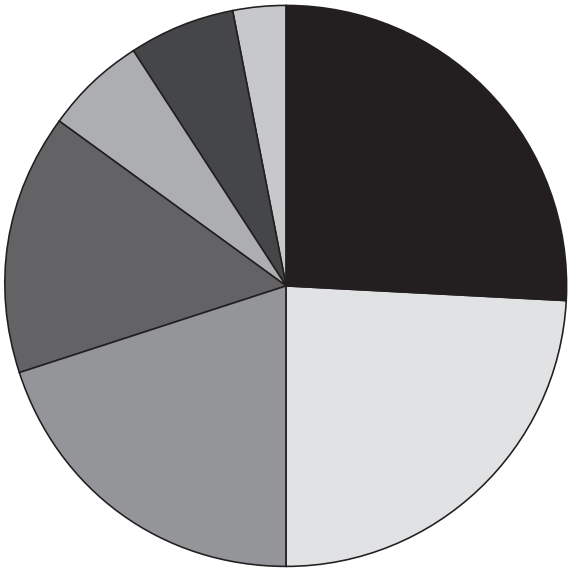
Curriculum: **20%**

Administration: **15%**

Board/Sponsor: **6%**

Community Outreach: **6%**

Facility: **3%**



Cost savings to the school district come from the ability to have a larger pupil-teacher ratio, and savings in such areas as buildings and grounds maintenance, security, transportation, energy, athletics, nursing services and a full-scale music program.

Virtual schools also appear to obtain greater economies of scale. While per pupil costs remain relatively static for traditional brick and mortar schools, a 2009-2010 Wisconsin Joint Legislative Audit demonstrated that per pupil costs decreased notably as the size of the school grew. For example, the 926 pupil Wisconsin Virtual Academy (operated by K12 Inc.) cost $5,466 per pupil, while the much smaller 18 pupil Janesville Virtual Academy (operated by the school district) cost $17,453 per pupil.

Online learning is not merely a matter of "putting a kid in front of a computer." A full-time public school virtual program must continue to provide many of the same resources a traditional bricks and mortar school provide.

While online schools are unquestionably less expensive than a traditional school – operating at a third or more less expensively – they are not likely to be successful with students if funded for only a few thousand dollars per pupil.

Funding Practices in Other States

Nearly all states with full-time, multi-district virtual schools provide greater funding than the average of about $4,000 in state funding currently available from Virginia.

By and large, this is because of one of two reasons: Either the state-only funding is higher than in Virginia and is sufficient to sustain online programs, or state funding is combined with local funding and the combined level meets the funding need.

It's important again to distinguish between state-operated supplemental programs and full-time virtual schools. Supplemental programs – in which a student may take a course or two not offered in their own school division – are typically funded as a line-item in the budget. As a result, they often have limited availability. Perhaps more importantly, it means taxpayers pay twice for the program: Once through the school division's funding and second as a line-item in the state budget.

For example, Florida uses a per-student operational funding formula called the Florida Education Finance Program (FEFP). That formula establishes a pool of money that is composed of state General Revenue and the "Required Local Effort" property tax millage that is stipulated each year in the appropriations bill. Districts have no realistic option but to comply with the required millage and they are also prohibited, with few minor exceptions, from raising extra funds to enhance their own local budgets. The definition of "state funding" in Florida typically includes locally-raised tax revenues.

Usually, the primary funding source for virtual schools is based on a public education funding formula. Most virtual schools outside Virginia are charter schools (independent public schools operating free from certain regulatory restrictions in return for greater accountability for student outcomes). And most online schools receive the traditional per-pupil allotments that would go to the school were it a bricks and mortar charter school, often adjusted downward for expenses (i.e., athletics, band and chorus, facilities) that online schools do not have.

Some states provide a standard funding amount, but also allow local school divisions or charter schools to negotiate a lower fee with online educational providers. In at least one state, however, funding was set at such a low level (less than $3500) that no online providers were willing to provide services. While this figure was later increased, funding was the subject of a court suit and it remained an uncertainty if the schools would ever open.

Some states impose additional restrictions beyond funding. Some permit only district programs offering full-time courses only to students within their own districts. Still other states offer multi-district programs but limit them to one or two charters, cap the enrollment, or have only small pilot programs.

Those states with broad programs offering full-time online education customarily fund those programs in the same manner as traditional students in a face-to-face, bricks and mortar setting. A sampling –

State	Description	Average Per-pupil Funding
Alaska	Because of the state's unique geography, Alaska has historically offered correspondence courses to students working at home. Today about 24 charter and correspondence programs offer online learning and districts receive 80 percent of the standard per pupil funding.	$4,600
Arizona	Online schools receive funding at 95 percent of the normal base support level for full-time students and 85 percent of the normal base support level for part-time students. The funding follows the student, and may be split between an online school and a charter or traditional public school based on attendance data.	$5,600
Arkansas	Arkansas has only two virtual schools – the Arkansas Virtual High School (AVHS) and a full-time statewide charter school, the Arkansas Virtual Academy (AVA). AVHS is funded directly through a line item with the Arkansas Department of Education. AVA is limited by law to 500 students and receives the same state per pupil funding as a traditional school (but not the local share)	$5,905
California	California's statewide virtual school is operated by the University of California Santa Cruz and funded through the state academic program. The more than two dozen virtual charter schools serve more than 13,000 students but may not operate statewide and may only serve students in their own and contiguous counties.	$6,340
Colorado	The state uses a funding formula that sets a minimum level of funding and is adjusted upward based on factors for traditional brick and mortar schools. For most online students, this means that state funding remains at the minimum.	$6,340
Florida	School districts are required to provide full-time online learning options and are funded at the same rate as students educated in a brick and mortar school. Students may take courses through the Florida Virtual School (FLVS), district Virtual Instruction programs, or district franchises of FLVS. Schools only receive funding upon the student's successful course completion. Figure is for FLVS.	$5,000
Georgia	Georgia virtual schools are now funded only with Quality Basic Education (QBE) money from the state, and are only able to offer four basic courses – math, science, language arts and social studies.	$3,400
Hawaii	Hawaii offers several statewide online programs from a variety of partners as well as the official state virtual school, Hawaii Virtual Learning Network's E-School. Hawaii has only one statewide school district.	$7,590

Idaho	Online charter schools are funded based on the standard average daily attendance funding level.	$4,360
Kansas	Kansas online students are funded at a rate of 105 percent of the base rate in the state. There is additional funding provided for students enrolled in Advanced Placement courses and for students who are non-proficient and in an approved at-risk program.	$4,000
Minnesota	Funding for online students taking courses in their district of residence is the same as if they were taking courses in physical classrooms. If taking courses from a virtual school outside their district of residence, basic funding is about 88 percent, with additional weighting based on grade level. There are 24 online schools, not including single-district programs.	$6,000
Nevada	Funding follows the student from the district in which the student resides to the virtual charter school program.	$6,730
Ohio	Online charter schools (called eCommunity schools) are funded at the same formula as traditional schools.	$6,200
Pennsylvania	Online schools receive about 72 percent of the standard funding in the student's resident district. Online charters must invoice the home district of a student directly, which the district is required to pay.	$8,100
South Carolina	Online charter schools receive a base funding of approximately $1,788, virtual school funding of $1,700, plus additional federal and categorical funding.	$4,490
Texas	Online schools receive a traditional per-pupil state funding level upon successful completion of each course by the student. District online charter schools, which only-in district students may attend, receive both state and local funding. Open-enrollment charters receive only state funding.	$6,700
Washington	Schools receive the same per pupil funding for online students as for traditional face-to-face students	$4,800
Wisconsin	Online students enrolling in a nonresident district are financed through payments required from the district of residence to the district that charters the virtual school.	$6,320
Wyoming	Funding is provided only when the resident district and nonresident district provider establishes a funding agreement through a Memorandum of Understanding.	$7,600

Case Study: Georgia: State Funding Reverses Course … Twice.

Perhaps the most dramatic example of inadequate funding for virtual schools has come from Georgia. Although the Peach State operates online programs offering individual courses (i.e., the Georgia Virtual School [GAVS] and several suburban Atlanta school districts) state law permits charter schools to operate online programming.

The Georgia Cyber Academy (GCA) is a K-8 online program of the Odyssey Charter School, and was the first to be approved by the State Board of Education as a "state chartered special school." The school was limited to 5,000 students in 2009-2010, a figure they hit without a problem. In August 2010, they received permission to expand their 2010-11 cap of 6,000 students by 11 percent in order to offer online services for the first time to ninth graders. More than 15,000 students applied for the 660 ninth grade slots.

However, when the newly-created Georgia Charter Schools Commission took responsibility for authorizing cyber charter schools it was empowered to independently determine the funding for each online school they authorized, an authority that would also apply to the Georgia Cyber Academy.

In June 2010, the Commission approved two such schools: Kaplan Academy of Georgia and Provost Academy Georgia. Provost planned to enroll 800 high school students and Kaplan was planning for 460 students. But the Commission set funding levels at $3,200 per pupil. As a direct result of the low funding, both schools announced they could not afford to open. This left Georgia's high school students without any full-time online options.

For the next six months, the state Charter School Commission held hearings on the subject of online education, bringing to the state expert witnesses on best practices, actual costs and standard practices throughout the country. The Commission established that, nationally, the per-pupil operating costs of cyber schools were about 65 percent of a traditional brick and mortar school. With Georgia's per-pupil costs at about $8,800 per child, the Commission established a per pupil funding level of $5,800.

But with the "state share" of Georgia's education funding at about $4,000 where would the additional revenues come from? A part of it would come from reducing the level of state aid for the residential school district of each child. Each time a student chose to attend an online school, his or her home school district would lose the state funding it would have received. In addition, the state reduces the remainder of the district's state aid by about half of what the locality would have spent had that child stayed in their school system. These funds are redirected to the online school in which the child is educated.

Georgia was able to move forward because the Commission was willing to –

- Recognize that, while online learning is less expensive than traditional bricks and mortar, it is not a way to educate "on the cheap;"
- Adapt a new funding mechanism to reflect the differences between open-enrollment virtual education and in-classroom education;
- Break down barriers in funding; and
- Collect and review nationwide data and best practices and implement a funding mechanism that would ensure the ability of virtual schools to operate.

Pulled up from being a "black hole" of online education, Georgia now appeared to be on track to becoming a potential leader. Two online charters were approved, and even more were looking at the option.

But in May 2011, the Georgia Supreme Court handed down a decision that again put online schools into an authorization and funding limbo. Several school districts had sued, arguing that the existence of an independent Charter School Commission violated the Georgia Constitution which declares "Authority is granted to county and area boards of education to establish and maintain public schools within their limits," and put local schools and school systems "under the management and control" of local Boards of Education. As a result, the Georgia Supreme Court agreed, ruling the Charter School Commission a violation of the Georgia state constitution.

While the issue at hand had little to do with online learning directly, it dealt a blow to the establishment of charter schools authorized and funded through the Charter School Commission. Today, virtual schools are funded at Quality Basic Education money from the state only, at a level of $3,400 per student, supporting only four basic courses (math, science, language arts and social studies) – a level at which they are in danger of once again going out of business in the Peach State.

Case Study: Pennsylvania: Local School Districts "Held Harmless"

Pennsylvania has no state virtual school. Instead, students seeking online opportunities do so through cyber charters approved by the Pennsylvania Department of Education, or through school district-operated schools.

Online charters are authorized by the Pennsylvania Department of Education. Pennsylvania law requires that the residential district of a student forward per-pupil funding – including local funding -- to the cyber charter school the student attends, after being invoiced by the cyber charter school. The amount paid is based on the per-pupil costs of the school district of residence and is recomputed for cyber schools, excluding expenditures such as adult education programs, transportation, facilities acquisition and construction and debt payments.

The result is that cyber schools receive about 80 percent of the cost for a student in a brick and mortar school. And while local school systems must transfer a portion of their local funding, they not only may retain 20 percent of their ordinary per pupil funding but also receive an additional benefit: School districts receive additional funding from the state equal to approximately 30 percent of the costs of cyber school students. Local school systems thus retain about 50 percent of their per-pupil funding for children they no longer educate.

Case Study: Texas: State Funding Finances Online Learning

Full-time virtual schools in Texas are operated in one of two ways: As public school district schools (in which case they serve only students within the school district in which they operate), or open enrollment virtual charter schools (in which case they may be approved to operate in multiple districts, but only receive the state share of funding).

Open enrollment charter schools apply to the Texas Education Agency to be able to serve students in multiple districts and must meet eligibility requirements. Open enrollment virtual charter schools serve students in about 40 percent of the school districts in Texas. Students in grades 3-8 who participate in such a full-time virtual program generate funding from Foundation School Program (FSP) funds, and funding is equivalent to state funding for a student enrolled in a full-time traditional bricks and mortar school. The virtual charter school does not receive funding for a student until that student has been in the school for at least 40 days. The state provides approximately half of the funds at the end of the first semester and the remainder based upon successful program completion.

Not only is funding denied for students who do not pass the Texas Assessment of Knowledge and Skills (TAKS), the Texas equivalent of Virginia's Standards of Learning exams, but schools that do not achieve an acceptable pass rate may have funds withdrawn from them.

State funding alone in Texas is sufficient to educate a student online. Virtual open enrollment schools serving children in grades 3-8 receive approximately $6,700 per pupil.

Utilizing course completion serves as a substitute for "seat-time" requirements for students in brick and mortar schools since online students have the capability of "attending class" any time of day or night instead of just during a seven hour school day. In addition, measuring the academic output of successful completion, rather than a numerical input of hours spent in class, is a far better way to ensure continued educational improvement and subject mastery.

Case Study: Wisconsin: Local Funding Follows the Child

Perhaps the most comprehensive legislative examination of virtual school funding and expenses was conducted by the Wisconsin Joint Legislative Audit Committee in 2009-10. Using 2007-08 data, the committee examined 15 virtual charter schools operating in 11 school districts. Just as envisioned by Virginia's law, most of Wisconsin's virtual charter schools are operated by outside contractors approved by the state, including Connections Academy, LLC, KC Distance Learning, Inc., K12, Inc., Insight Schools, Inc., and others.

In Wisconsin, students attending public schools through open enrollment are counted in the membership of the school districts in which they reside, rather than in the school district operating the virtual school they attend.

Ninety-one percent of the 3,000 Wisconsin students attending virtual charters attended through open enrollment. As in Pennsylvania, open enrollment requires a payment (in this case, a flat amount determined by the Department of Public Instruction) from the district of a student's residence to the district that chartered the virtual school – an amount that came to $6,007 in 2007-08.

And like Florida, local school districts are limited in the annual amount of revenue they may raise from a combination of state aid and local property taxes

Virtual School Funding in Virginia:
Creating a 21st Century Solution

The challenge of virtual school funding in Virginia is not unlike those in other states.

K-12 education has largely been a local affair over the years. Virginia's constitution leaves supervision of public schools in the hands of local School Boards, and that exclusive authority to manage buildings, personnel and curriculum has been upheld over the course of dozens of court cases.

State-wide, an average 49% of K-12 education funds actually spent is raised by localities. There is no cap on the amount of money that may be raised and spent locally and some jurisdictions raise and spend more than $16,000 per child for education. Taxpayers in those localities are naturally protective of the funds raised in their areas and want to ensure that they are spent not only on students residing within their school division but also want to ensure accountability over how those funds are spent.

Meanwhile, state basic funding can be as little as $1,600 per child – or as much as $7,000 per student. This is because, before state funding is distributed to local school divisions, it is run through a formula called the "Local Composite Index" – a rough effort at estimating the relative wealth of a school division. The wealthier a community, the less it receives in state funding.

But when speaking of education funding, there are two figures to keep in mind: The *required* funding for "Standards of Quality" and the amount *actually spent* on education in a local school division. SOQ funding is the floor of funding – the amount the state and localities are *required* to spend on education. In reality, nearly every school division spends more – sometimes substantially more – and these funds come from their local taxpayers.

Thus, K-12 education in Virginia is built around a community-based system more than a century old: Funds raised locally are spent locally. Students within a school division attend school within that school division. And localities may spend as much as they like on behalf of students in their communities.

Those who developed Virginia's K-12 education system certainly did not envision a system without borders, in which a student living in the Shenandoah Valley could attend a school based in Tidewater – or vice versa – that can provide the education best suited to a student's individualized needs and learning styles.

But in a cyber age, that is precisely the opportunity 21st century students have – and precisely the opportunity that Virginia students will be denied if the Commonwealth's leaders are unable to develop a new system for funding a new way of learning.

The Current State Funding System

The current formula encourages the formation of online schools accepting students from throughout the Commonwealth at a number of school divisions around the state – those receiving more than $4,500 in state funding. But it similarly discourages online schools at school divisions receiving limited state funding, where the costs of operating such a school would be borne largely by local taxpayers.

For example, the system has been beneficial for school divisions such as Carroll County Public Schools. There, the state "share" of required per-student spending is sufficient to underwrite the cost of online education.

But Virginia's formula requires a "local match" in funding. While Carroll County, like nearly all school divisions, exceeds the requirement, at some point an influx of students would result in local taxpayers being required to contribute more to school operations, including funding the education of students not residing within the county boundaries. Carroll County cannot accept much more than it's planned 400 student population without triggering additional revenues raised by local taxpayers.

As a result, even school divisions receiving significant state funds have a functional "cap" on the number of students they will likely accept – accept too many and the virtual school becomes a fiscal responsibility for local taxpayers now educating students outside their borders.

Solving the Funding Conundrum

Online learning represents an exciting new way for students to learn. But its success also demands a new way of looking at funding in the state for students who choose digital learning in the digital age.

In looking at a solution to the virtual school funding conundrum, it's important to note the actual state and local funding for, as an example, Fiscal Year 2012:

Average State SOQ Per Pupil Funding (including state sales tax	$4,083
Average Local SOQ Per Pupil Funding	$2,559
Total Average SOQ Per Pupil Funding	$6,642

The **actual** average per pupil spending, of course, is much more. In FY 2010, for example, the average **actual** per pupil expense (minus federal funds) was $9822. That larger **actual** spending is the result of decisions by localities to spend more than they are required – but plays an important role in solving the virtual school funding question.

Here's one possible mechanism:

Any new funding mechanism must take three issues into account -- state funding, local funding, and accountability -- and blend them in a way that makes all the components work together for the benefit of students, parents, taxpayers and school divisions. All three components need

to present – state funding, local funding and accountability – without which, the funding mechanism will likely fail.

Students Without Borders: Because a virtual school student can reside anywhere in the state even as he or she is being educated anywhere in the state, the old model of a variable state funding "share" based on where a student resides is no longer valid. The changing paradigm for virtual school students should be to treat them as "students without borders" rather than students from a particular school division. Funding virtual school students with dollars that equal the *average* state-wide share of SOQ funding puts all school divisions on a level playing field and eliminates picking "winners and losers" among school divisions based on the Local Composite Index. Now, every school division – rich or poor – will have an equal opportunity to create a robust online program.

The Residential Responsibility: But the locality in which a student resides continues to bear responsibility to educate a child living within that community: That child's parents continue to pay taxes to the community and the benefits of well-educated students eventually accrue to the community in which that child resides.

As in Florida, Pennsylvania, Wisconsin, Nevada and a host of other states, the school division in which a student resides should be responsible for transferring the local share of funding to the school division that is actually educating the child. In this case, because a virtual school student is treated as a "student without borders," the transfer should equal the average state-wide local SOQ per pupil funding. Because the average required local SOQ funding is typically far less than the amount *actually* spent by local school divisions, the cost to the residential school division of having a student enroll in another school division will be less than the amount they *actually* spend currently.

In 2010, in fact, only 16 of 134 school divisions spent less than the *average* state-wide local required SOQ funding. These school divisions should be "held harmless" so that they are not required to spend more than they are currently spending, since the amount they actually spend is only slightly less than the average state-wide local required SOQ funding.

A New Form of Accountability: To ensure that local school division funds achieve good outcomes, all or part of the local share should be transferred to the virtual school *only* after the student has successfully completed the course as demonstrated through passage of Standards of Learning tests. Virtual schools would still receive state funding on the same basis as traditional bricks and mortar schools (and thus be able to pay salaries and immediate costs), but shifting local funds only after successful course completion would ensure that local tax dollars spent outside the local school division – without any of the typical political accountability systems in place – would be held accountable for quality outcomes. In essence: If the student doesn't pass, the local government doesn't have to pay.

Details for this provision in any legislative proposal must be worked out carefully: Delay too much funding for too long and online schools may be left without the funds to survive; fail to build in a "pay for mastery" concept and local school divisions (and taxpayers) will strongly argue that they have no controls.

What Would It Mean In Real Dollars: Using estimates for FY 2012, if virtual schools were to receive the *average* state and local SOQ funding, they would receive in excess of $6,600 per child. This figure is about 60 percent of the state-wide average *actual* education spending of about $11,020 per child – slightly less than the percentage most national research seems to indicate online education costs when compared with bricks and mortar schools. In addition, while that figure would actually save local school divisions money, it is large enough to build a robust virtual school program in Virginia, putting the Commonwealth into the forefront of digital learning in America.

CONCLUSION

We live in an age with fewer and fewer barriers. Online learning tears down the political barriers existing between school divisions, providing new options for Virginia's students to learn. These students might be from military families, students on homebound instruction with medical needs, students with special education or gifted needs, or any of a variety of students who would use a virtual school because it fits their requirements and schedule better. And in the 21st century, we can deliver an education that ensures they take their place as productive citizens in the new economy.

A new generation of students will be "students without borders" … able to live anywhere and learn from anywhere and, in the process, lowering the costs of education which once could be delivered only in expensive bricks and mortars buildings.

But for this next generation of Virginia students to enter the world of digital learning and remain competitive in the international community demands a new way of thinking about funding. Policy-makers must recognize that old funding models are ineffective, raise overall costs, and damage the ability of the Commonwealth's students to learn in a world of online education.

About the Author

Chris Braunlich is vice president of the Thomas Jefferson Institute for Public Policy, Virginia's premier non-partisan public policy foundation. He is currently a member of the Virginia State Board of Education, and served eight years on the Fairfax County School Board, the nation's 12th largest school system, where he was a strong advocate of educational accountability and research-based reading programs.

Mr. Braunlich has served as Chief of Staff to Congressman John LeBoutillier, Assistant Vice President of Public Affairs for the National Association of Manufacturers, president of the Alexis de Tocqueville Institution, and vice president of the Center for Education Reform. He most recently served on the Education Transition working group for Virginia Governor-elect Bob McDonnell. His articles have appeared in dozens of publications, including *The Washington Post*, *The Baltimore Sun, The DC Examiner, The Washington Times,* and *The Fredericksburg Free Lance-Star.*

The views expressed in this paper are his own and do not necessarily represent the views of the Virginia Board of Education or the Board of Directors of the Thomas Jefferson Institute.

Mr. Braunlich may be reached by email at c.Braunlich@att.net.

Thomas Jefferson Institute for Public Policy
Board of Directors

"… a wise and frugal government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government, and this is necessary to close the circle of our felicities."

Thomas Jefferson

1801

Thomas Jefferson Institute for Public Policy
9035 Golden Sunset Lane
Springfield, Virginia 22153
703.440.9447
info@thomasjeffersoninst.org
www.thomasjeffersoninst.org