



## **FULL-TIME VIRTUAL CHARTER SCHOOL PERFORMANCE-BASED FUNDING: AN APPROACH FOR NEW MEXICO**

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**To:** Members of the Legislative Education Study Committee

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The purpose of this document is to provide a brief overview of what other states are doing regarding performance-based funding for full-time virtual charter schools and to offer recommendations for a performance-based funding approach to full-time virtual charter schools in New Mexico.

### **What State Are Doing**

Currently, four states fund full-time online schools with performance-based funding. According to a 2015 study by iNacol, a non-profit organization focused on transformative learning, Florida, Minnesota, New Hampshire, and Utah currently take this approach (Patrick 2015).<sup>i</sup>

**Utah** provides half of the per-pupil payment up front and the balance upon course credit earned. The balance can be paid in the following school year if that is when the course credit is earned (Patrick, p. 15).

**Minnesota** also funds based upon successful course completion. 88% of per course funding goes to the provider and 12% goes to the enrolling district or charter school (Patrick, p. 5).

In **New Hampshire**, the Virtual Learning Academy Charter School (VLACS) is funded through a formula based on successful course completion as determined by competency metrics for each course. VLACS is developing smaller, in-course competency milestones to generate smaller funding units prior to course completion (Pazhouh, 2015, p. 12). New Hampshire also allows for partial payment and persistence. For instance, if a student completed 90% of the course, the school could be funded at 90% of the full per-pupil amount in that school year. If the student completes the course the following year, the student could earn the school the remaining 10% of the full per-pupil amount.

In **Florida**, every online course is funded entirely upon successful completion of the course. (Patrick, p. 5) Florida defines successful completion as obtaining a passing grade on an end-of-

course (EOC) exam when it is available or a passing grade in the course when an EOC exam isn't available.

Table 1 below shows the standard that triggers funding, who determines whether a student meets that standard, and whether partial payments are allowed in each state (Pazhouh, p. 12).

**Table 1**

State	Standard	Who determines Successful completion	Partial Payments
Florida	Pass end-of-course exam	State	o
Minnesota	Course completions	State	No
New Hampshire	Competencies mastered	Teacher	Yes
Utah	Credit registration/credit earned	State Board of Education	Yes

A 2011 Fordham study found that the average cost of a full-time online school is \$6,400, with a range between \$5,100 and \$7,700. For comparison, the study identified an average cost for a traditional brick-and-mortar school at \$10,000 (excluding central administrative costs). (Battaglino, 2012)

States, however, vary widely in how much funding they provide full-time virtual charter schools as compared to brick-and-mortar charter schools. Some states, such as Michigan, fund full-time virtual charter school students at the same amount that brick-and-mortar charter school students receive (roughly \$7,600). Other states, like Indiana, provide close to the amount that brick-and-mortar charter school students receive (roughly \$6,300 vs. \$7,000).

Still other states fund full-time virtual charter school students at a significantly lower amount than brick-and-mortar charter schools. In South Carolina, all charter schools receive a base amount of per-pupil funding plus an additional per-pupil allotment (to partially make up for the local tax dollars they don't receive). However, full-time virtual charter schools receive a little more than half of what brick-and-mortar charter schools receive. The additional dollars equate to \$1,900 per full-time virtual charter school student versus \$3,600 per brick-and-mortar charter school student.

No matter the amount of funding a state provides full-time virtual charter schools as compared to brick-and-mortar charter schools, the funding systems for full-time virtual charter schools often create the wrong incentives for authorizers and operators. In New Mexico, the only source of authorizer revenue is from student enrollment numbers, which could possibly incentivize authorizers to either authorize statewide virtual charter schools or keep large, poorly performing full-time virtual charter schools open.

In New Mexico, full-time virtual charter schools are operated by two out of state for-profit entities. Again, since full-time virtual charter schools receive funding based on prior student

enrollment, there could be an incentive for these schools to enroll as many students as possible to maximize SEG funding. However, according to a 2015 virtual charter school study by the Center for Research on Education Outcomes (CREDO), a bipartisan research think tank, full-time virtual charter schools see a higher-than-average student mobility rates (Woodworth, et al, pg. 15). In New Mexico, according to both CREDO and a joint report on financial responsibility, governance and student outcomes in virtual charter schools that the LFC and LESC published in December 2017, fewer than 15% of the students in the state’s two largest full-time virtual charter schools remained enrolled at the same school three years later. Thus, for-profit operators of full-time virtual charter schools may often continue to receive millions in taxpayer dollars for students who have left or will soon leave for another school.

### **Recommendations for a Potential Performance-Based Funding Approach to Full-Time Virtual Charter Schools in New Mexico**

The National Alliance for Public Charter Schools supports performance-based funding for full-time virtual charter schools. However, to be clear, we do not support this approach for brick-and-mortar charter schools or for charter schools that use a hybrid approach, which combines face-to-face classroom instruction in a brick and mortar school with online learning and activities.

iNacol argues that policy makers should strive for three goals when considering performance-based funding for full-time online schools: clear principles, adequate levels of funding, and protecting rigor in defining student success. (Patrick, p. 13) With these principles in mind, the National Alliance recommends a funding model that protects students and taxpayers while providing adequate funding to online providers.

**STEP 1.** Determine actual per-pupil amount necessary for full-time virtual charter schools to deliver curriculum.

**STEP 2.** Provide half of this amount at the beginning of the school year to provide base funding.

**STEP 3.** Pay the remainder of this amount at the end of the school year based on successful completion, which should be defined in different ways for different grade levels. For grades K-8, we recommend course credit or course completion with a passing grade. For grades 9-12, we recommend using end of course assessments when present and course credit when an end of course assessment is not present.

One potential refinement is to divide the total amount per student by the percentage of actual credits earned against credits taken. For instance, if a student completes 80% of courses started, he or she would generate 80% of the potential funding.

Another policy consideration is to provide the state with the ability to “claw back” dollars paid to schools. If the state shifts to providing half of the per-pupil amount at the beginning of the

school year, it will need to ensure that it has the ability to retrieve funds for students who leave the school before the first half of the year.

### **Example of Recommendations in Practice**

STEP 1. The cost of providing a full-time virtual charter school education is determined to be \$6,400 (Battaglino, pg. 4).

STEP 2. \$3,200 is paid at the beginning of the school year.

STEP 3. \$3,200 is paid for successful completion of all courses at end of the school year.

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### **Sources**

Battaglino, T., Haldeman, M. & Laurans, E. *The Costs of Online Learning* (Washington, DC: Thomas B. Fordham Institute, 2012), 4 and 6.

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