

Making the Critical Transition to Stable Funding for State Virtual Schools

SREB

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Enrollment in state virtual schools in the SREB region has increased sevenfold since 2005 and is fast approaching a quarter-million students, according to state data submitted to SREB's annual *Report on State Virtual Schools*. To meet the immediate and long-term academic goals of these rapidly growing schools, SREB states should recognize that they need to provide **reliable and sustainable funding**.

Currently funded in most SREB states by annual legislative allotment, state-sponsored virtual schools provide an expanding range of high-quality, Web-based courses to public middle grades and high school students. Course completion rates are consistently high. Accountability reports show that state virtual schools provide many academic courses that students need and cannot find in their local public schools — including a rising number of credit-recovery courses that students need to graduate from high school.

From both equity-of-access to quality education and cost-savings perspectives, funding state virtual schools makes sense. These schools do not duplicate effort, and states can hold them accountable for the courses they teach and the students they serve. Most traditional public schools would not be able to equal the quality and range of courses provided by virtual schools for the same cost. But as state virtual schools have developed, and questions about their effectiveness have receded, their funding models generally have not kept pace with their growth.

With the early years of implementation now past, it is critical to long-term state educational improvement that the budgets of state virtual schools be **established as an integral part of the budgets of public education**. State virtual schools need stable funding because they have the same fundamental needs as traditional schools. They need to be able to design ongoing learning environments for students, and to do so they need budgets that have the same constancy as traditional school budgets. Just like traditional schools, virtual schools incur their largest costs for teachers and instructional support for students. Just as traditional schools need stable funding to support extensive physical facilities and related services such as transportation and meals, virtual schools need stable funding for technology and technology infrastructure.

How states allocate resources for the two kinds of schools is still generally quite different, however. Currently, most traditional, public K-12 schools are funded through basic allocation formulas. This “formula funding” generally identifies how much support a school needs to educate each full-time student. During the academic year, states provide funding for the schools based on the formula and on the level of student attendance.

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In contrast, most SREB states fund their state virtual school through an annual, legislative lump-sum allotment to cover the costs of operation, and several state virtual schools also receive a significant portion of their funding from the schools where their students are enrolled. If a state continues this funding approach indefinitely, however, the unintended consequence is that it caps the number of students who have access to online courses. If a state does not allow for growth and anticipate funding for new teachers and instructional support, the state virtual school cannot plan additional courses and serve more students. In addition, state virtual schools need flexible annual funding to help them accommodate changes in student academic needs.

States that provide a legislative allotment also engage in what some refer to as “double funding.” Here’s how: Each state has a basic formula for funding the traditional schools that enroll all public school students. If a student from such a school also takes one or more courses from the state virtual school, the state pays for the student twice — through the formula to the traditional school for the student’s general enrollment and to the virtual school for the student’s online course enrollment. While this is a concern for some policy-makers, the many benefits of using technology to address equity of access to certain rigorous courses can make these dollars well spent. In fact, “double funding” has been a relatively minor part of the overall education budget.

Legislative allotments are intended to fund most aspects of the operation of a state virtual school. These costs include personnel to administer and manage the program, teachers, course development or acquisition, technology necessary to provide the courses and other resources. (See the Appendix for more information on cost elements.) Since most state virtual schools are part of their respective state department of education, there may be some cost savings since the virtual school can use department resources. However, given that state departments of education do not provide direct instruction to students as state virtual schools do, they may not be able to provide extensive support, and often some aspects of funding that are important to a school are overlooked.

Georgia’s virtual school, which was launched in 2005, is a good example of a virtual school that receives its budget allocation through legislative allotment each year. Under the governance of the Georgia Department of Education, the Georgia Virtual School (GVS) receives a predetermined number of segments of instruction (Segment = .5 unit course). GVS was funded to serve 2,000 segments of instruction the first year and 4,000 segments in the second and third years. The funding for the third year did not change significantly even though growth in student participation from the first to second year nearly doubled. Because of the funding limitation, students were turned away or placed on a wait-list. Without additional funds beyond the legislative allotment, GVS was not able to hire teachers to provide online courses, and the additional student interest could not be accommodated.

A break from legislative allotment — the Florida approach

Florida Virtual School (FLVS), created by an act of the Florida Legislature in 2000 to provide online and distance learning education to students statewide, has a funding model that other SREB states should consider. It is unlike the funding of any other SREB state virtual school. In fiscal year 2002-2003, the Legislature funded FLVS through a line-item appropriation, but that funding model was changed substantially in 2003 and subsequently modified to reflect the formula funding model for Florida school districts.

The base funding formula in Florida is the same for all school districts:

FTE × program weights × district cost differential × base student allocation.

The only significant difference is how the FTE (full-time equivalent) formula is defined. Unlike traditional schools, the funding for FLVS is performance-based. Traditional schools receive FTE funding based on “seat time” or 900 hours of instruction. An FLVS FTE is based on *successful completion* of semester-long instruction. (FTE means different things in each state: For example, what percentage of the FTE should go to the local school of a student also enrolled in a virtual school will depend, in part, on the extent the school provides resources and support for students. But the broad concept of using the FTE model to fund a state virtual school is sound.)

This basic formula accounts for approximately 61 percent of the funds allocated to school districts for operational expenses. The remaining 39 percent of funds are distributed by various formulas for various purposes. FLVS receives some of the formula funds that traditional schools receive, where appropriate. For instance, FLVS receives the instructional materials allocation but does not receive transportation funds or Safe Schools funding. FLVS is allowed to use the instructional materials allocation to pay for course development, designed either by staff or outsourced consultants.

Florida Virtual School also receives additional formula funds to recognize that there are resources expended to educate students. These funding areas are consistent with support for traditional schools and include:

Lab School Discretionary Funding	Discretionary Lottery
Discretionary Mileage Adjustment	Instructional Materials
Reading Allocation	Class-Size Reduction

Leaders in other states should consider whether Florida’s approach will meet their needs effectively.

A modified version of the Florida FTE formula approach — in which a portion of the FTE would go to the state virtual school — may be appropriate. However, during a transitional period, the local school should perhaps not lose any of its traditional, state FTE formula funding. Given that schools are funded through state FTE formulas, state funding of students taking online courses from a state virtual school also should be based on FTE. If the perception by local schools of being financially penalized for having their students enroll in the state virtual school can be alleviated, they would more likely support their students' enrollment in online courses.

There are important issues to address in considering how to determine the percentage of FTE funding that should be allotted to the state virtual school. The first priority for these funds should be to cover the cost of employment of online teachers and the development and use of online courses provided by the state virtual school. FTE alone may not be adequate to support the state virtual school fully, since FTE formulas differ significantly from state to state.

One option states should consider is to provide funding directly to the state virtual school for operational functions, including administration, management, assessment, evaluation and technical support. This could be budgeted directly to the state virtual school or through the state department of education, in which many of the state virtual schools are housed. Local schools' costs for their students to take courses from the state virtual school also need to be considered, since they provide facilities, technology and personnel support for the online students in their schools.

The most important reason for a state to move to this transition option is the need for sustainable and reliable funding for the state virtual school. By designating state payment of a portion of an FTE for each online course a student takes, the state establishes a means for the state virtual school to adapt to increased student enrollments and to unforeseen academic course needs, such as credit recovery.

As the state virtual school becomes fully established, is accepted as a key provider of quality instruction and therefore constitutes an essential component of the state education system, the funding should move to a stable formula funding basis. This transition may occur over time, and the state may want to establish incentives to encourage schools to continue to use the state virtual school to help them meet their students' academic course needs. These incentives could be linked to high school graduation, dropout prevention or expanding Advanced Placement or career/technical education for their students. Not until state FTE formula funding **follows the student** will the issue of "double funding" be addressed. While important, the costs associated with "double funding" should be acceptable, given the importance of meeting state academic and economic goals.

Summary

SREB state virtual schools are growing — and so should their funding. Since 2005, when SREB first gathered data on the number of middle grades and high school students in SREB state virtual schools, enrollment has gone up sevenfold. For many of these students, access to these courses would not have been possible without their state virtual school. For others — such as a student in Maryland who said that it was only because of the Maryland Virtual School that she was going to graduate on time — credit recovery is a critical achievement.

To sustain and grow a state virtual school to meet and adjust to the academic needs of students across a state, legislative allotment may no longer be sufficient. Reliable and sustainable funding should be provided. As state virtual schools expand, few models exist that states can use to fund and support their important work adequately. State leaders need to consider alternatives to legislative allotment as state virtual schools mature.

SREB states lead the nation in the creation of state virtual schools. The total number of middle grades and high school students enrolled in state virtual schools throughout the region has increased steadily each year. This is promising progress, but there is much more work ahead to maximize the potential of state virtual schools to meet student academic needs and improve education. The danger is that state virtual schools could be just one more educational fad that fails. This could happen unless states fully establish their state virtual schools through policy and regulation — especially funding policies. Now state leaders and policymakers need to move the agenda forward — to use what we have learned to help reform education to meet state education and economic goals in the 21st century.

For More Information on Cost Elements of State Virtual Schools

- The SREB publication *Cost Guidelines for State Virtual Schools*, available at www.sreb.org, provides specific information about many cost elements for state virtual schools.
- General information about funding sources for each state virtual school in the SREB region is provided in the SREB publication *State Virtual Schools — Successes and Growing Pains*, also available on the Web site.

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