Illinois State Charter School Commission

160 North LaSalle Street Suite 601 • Chicago, Illinois 60601

DATE: February 21, 2014

M E M O R A N D U M

TO: The Honorable Pat Quinn, Governor
The Honorable John J. Cullerton, Senate President
The Honorable Christine Radogno, Senate Minority Leader
The Honorable Michael J. Madigan, Speaker of the House
The Honorable Jim Durkin, House Majority Leader

FROM: Greg Richmond, Chairman of the State Charter School Commission

SUBJECT: Virtual Schooling Report and Recommendations

On behalf of the Illinois State Charter School Commission, the attached Report and Recommendations Regarding Virtual Schooling in Illinois is hereby submitted in compliance with Public Act 98-0016, signed into law by the Governor on May 24, 2013, which imposed a moratorium on virtual charter schools in Illinois and required the Commission to "submit to the General Assembly a report…and policy recommendations for virtual-schooling" on or before March 1, 2014.

Public Act 98-0016 provided that the Illinois State Charter School Commission take on this duty. Accordingly, if you have any questions or concerns regarding this Report and Recommendations, please contact Jeanne Nowaczewski, Executive Director of the Illinois State Charter School Commission at 312-814-1258 or Jeanne.Nowaczewski@illinois.gov.

Enclosures

cc: Senator William Delgado, Chair, Senate Education Committee
Representative Linda Chapa LaVia, Chair, House Elementary and Secondary Education Committee
Senator Dave Luechtefeld, Minority Spokesperson, Senate Education Committee
Representative Sandra Pihos, Minority Spokesperson, House Elementary and Secondary Education Committee
Tim Anderson, Secretary of the Senate
Tim Mapes, Clerk of the House
Dr. Christopher Koch, Superintendent, Illinois State Board of Education
Nicki Bazer, General Counsel, Illinois State Board of Education
Legislative Research Unit
State Government Report Center
Members of the Illinois State Charter School Commission

Final Report of the Illinois Charter School Commission Report on Virtual Schools
Approved on February 18, 2013

Executive Summary

In May 2013 the Illinois General Assembly placed a moratorium on the creation of virtual schools in Illinois and called for the State Charter School Commission to prepare a report and recommendations addressing the performance, costs and oversight of virtual schooling.

The Commission conducted research and convened an advisory committee made up of people with expertise and interest in virtual schooling to inform the Commission's deliberations (see Appendix C for a list of members). The Commission defined virtual schools as any school that uses an online instructional model with students spending fewer than 5 hours per week in a school building and limited its recommendations to virtual charter schools.

On February 18th, the Commission approved this report and the following recommendations:

1. Existence

Because some students could benefit, Illinois should allow virtual charter schools to exist and should work to ensure that all Illinois children for whom a virtual school is appropriate have access to a virtual school, regardless of where they reside.

However, state policies must first be amended to reflect an appropriate oversight structure, and Illinois' moratorium should be extended until December 31, 2016 to allow development of such a structure (see recommendation 7).

2. Significant Modifications to Charter Law

In order to address the unique characteristics and needs of virtual charter schools and their students, existing laws and administrative rules should be modified to require any authorizer of a virtual school to:

- solicit proposals for virtual schools (as explained in recommendation 6),
- determine pricing through a competitive process,
- base payment on student success and evidence of student engagement,
- hold schools accountable based on both state tests and other measures appropriate for virtual schools,
- require schools to establish legally permissible criteria and processes for enrollment based on the existence of supports needed for student success, and
- require schools to demonstrate the capacity to deliver services to students with special needs and students who are English Language Learners.

3. Capacity to Develop New Rules and Processes

Because the development of the rules and processes needed to implement these recommendations will require capacity and resources that do not currently exist within the State Board of Education or State Charter School Commission, the General Assembly must appropriate resources to enable these rules and processes to be developed and implemented.

4. Approvals by State or Districts
Any local school district or group of local school districts should be able to authorize a virtual school consistent with the new laws and rules, but should not be required to consider unsolicited applications for virtual schools.

The state authorizer of statewide virtual charter schools should be the State Charter School Commission.

So long as two routes to authorization exist, as provided for in this recommendation and in recommendations 2 and 6, a decision to approve or deny a virtual charter school proposal by the state or by a local district should not be subject to administrative appeal.

5. Funding
A state-authorized virtual charter school should be fully funded by the state through the General State Aid formula.

A virtual charter school authorized by a local district should be funded by the authorizing district(s).

For each virtual charter school (whether authorized by the state or a district) per pupil payment amounts should be determined as proposed and approved in the virtual charter school application, without regard to districts' per capita tuition charges. In no case would the per pupil payment to a state-authorized virtual charter school exceed the state foundation level.

Payments to the virtual school should be based primarily upon a student's successful course or program completion and evidence of engagement, not only on enrollment.

6. Requests for Proposals
Following the approval of laws and rules addressing virtual schools by the State Board of Education, the State Charter School Commission, should issue a request for proposals for a statewide virtual charter school, award a charter to school(s) that meet the requirements, and closely monitor the operation and performance of such schools.

7. Moratorium Extension
Illinois' current moratorium on virtual charter schools expires on April 1, 2014. The General Assembly should pass new legislation that incorporates the Commission's recommendations and extends the moratorium. The moratorium should expire on December 31, 2016 or when the State Board of Education certifies that new rules have been put in place to implement the new virtual school law, whichever is sooner. If the State Board of Education fails to so certify by December 31, 2016, the moratorium shall expire, the provisions of the new virtual school law shall have no effect, and new virtual charter school proposals shall be permitted under the terms of the current law.

8. Data and Report
The new law permitting virtual schools should provide for funds for the ongoing collection of data on virtual school performance and shall require an independent study of virtual school costs and performance be provided to the General Assembly seven years after the law's effective date.

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Introduction

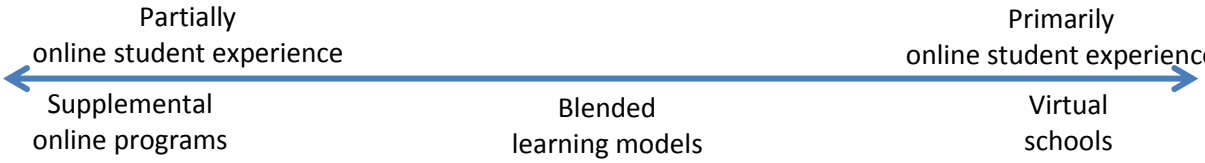
In May 2013 the Illinois General Assembly amended the charter school law (105 ILCS 5/27A-5). The amendment placed a moratorium on the creation of virtual schools in Illinois through April 1, 2014, and called for the State Charter School Commission to "submit to the General Assembly a report on the effect of virtual schooling, including without limitation the effect on student performance, the costs associated with virtual schooling, and issues with oversight" and including to make policy recommendations for virtual-schooling.

The Commission appointed an advisory group made up of people with an expertise and interest in virtual schooling to inform the Commission's deliberations. A list of members of the advisory group is included as Appendix C. The advisory group met 3 times to inform and clarify the choices and options for consideration by the Commission. Members were invited to submit written comments on the initial draft of the report and recommendations. At its February 18, 2014 meeting, the Commission reviewed the report and approved the recommendations in Section IV of this document.

The legislation defined "virtual-schooling" as "the teaching of courses through online methods with online instructors, rather than the instructor and student being at the same physical location," and noted that virtual schooling "includes without limitation instruction provided by full-time, online virtual schools."

Virtual or on-line learning describes a continuum of instructional models that include: 1) programs that supplement traditional brick and mortar school-based instruction with online instruction, 2) programs that blend traditional brick-and-mortar school-based instruction with online instruction that includes some element of student control over time, place, path, and/or pace, and 3) full time virtual (or online) schools where students take all, or most, of their courses online.[i]

On-line learning continuum



Many students enroll in individual online courses to supplement or serve as part of a full-time course or program in a traditional school, e.g., advanced placement courses in schools without a qualified instructor. Although students often cannot enroll in a course without the approval of their home school or district, they may access the course at home or in designated spaces within the school building.

Increasing numbers of brick and mortar schools are providing a blended learning model by offering a combination of online and face-to-face instruction mixed throughout the school day. The actual amount of time spent in online learning depends on the student and the model—it ranges from very little to most of their time.

Full-time virtual schools teach courses through online methods with online instructors, rather than the instructor and student being at the same physical location. Students may receive some instruction and support at drop-in centers or other physical locations, but generally do not attend classes with other students in physical school buildings. Virtual schools often serve students from multiple districts and

reaching across an entire state. Some virtual schools are organized as charter schools, but some states and districts offer their own virtual programs.

This report and the recommendations contained herein are limited to Illinois virtual charter schools--that is, any charter school that uses an online instructional model with students spending fewer than 5 hours per week in a school The report will not address online instructional models where students spend more than 5 hours per week in a school building.

I. Who attends virtual schools?

The first virtual schools in the country opened in 1996-97 and the first fully-online charter schools opened in 1998. In 2013 approximately 310,000 students were enrolled in full-time, multi-district state virtual schools in grades K-12. Thirty states plus the District of Columbia offer virtual school options for students. Arizona, California, Ohio and Pennsylvania each have more than 30,000 students enrolled in virtual schools.

In the Midwest, Indiana, Michigan, Minnesota and Wisconsin each have more than 6,000 students enrolled in virtual schools. Indiana has four virtual schools, Michigan has seven virtual schools, and Minnesota and Wisconsin each have more than 20 virtual schools.[ii]

Virtual school advocates and operators argue that they provide a unique solution for challenges facing several types of students for whom regular public schools are either not working or not appropriate:

- Students who are not comfortable in the local school environment, e.g., students who were bullied at their regular school, students whose parents believe that the school culture conflicts with their religious or cultural beliefs;
- Students whose learning is accelerated beyond the offerings of their school;
- Students who are behind or under-credited and seeking to "catch-up;"
- Home or hospital-bound students who cannot go to school because of a medical issue;
- Students working to develop special talents for whom the regular school day does not work, e.g., actors, athletes; and
- Students whose parents have the desire and capacity to support their child's learning at home.

Advocates and operators of virtual schools also argue that they offer opportunities for personalization not usually found in traditional classrooms, and that parents and students looking for ways to accelerate learning seek them out.

Although the above list probably describes the types of students who benefit from virtual schools, this study did not find any data describing the relative size of each of the groups.

Based on 2010-11 enrollment data, virtual schools enroll a substantially smaller percentage of minority students than other public schools. While this can be explained in part by the demographics of the states with the largest number of virtual schools, more recent data indicate that the percentage of minority student enrollment is increasing as access to virtual schools increases.[iii]

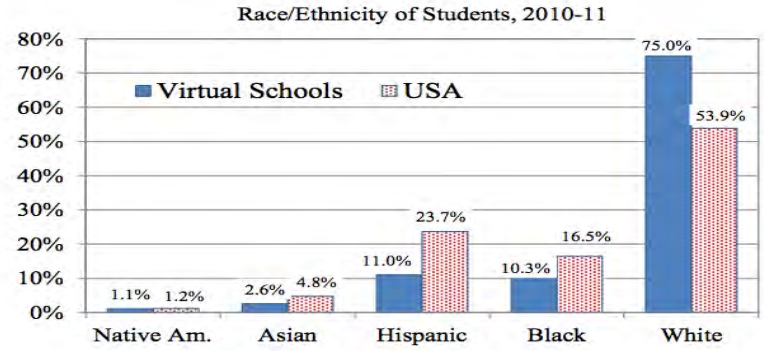


Figure 1.2. Race/Ethnicity of Students in Virtual Schools Compared with National Averages, 2010-11

Virtual schools enroll a lower percentage of students qualifying for free and reduced lunch; 35% of virtual school students compared to 45% of all students nationally. [iv]

Only 7.2% of virtual school students are in special education compared to 13.1% nationally, and only 0.1% of virtual school students are English language learners compared to 9.6% in the national student population.[v]

As enrollment in virtual schools is expanding, some evidence shows that the demographics of the virtual school population have become more like the overall student body. A 2012 report on Colorado virtual schools states, "What began as a small, marginalized education option for white, non-socioeconomic disadvantaged elementary school students has grown into a mainstream option with pupil demographics and socioeconomic levels that are fairly representative of those found statewide…" [vi]

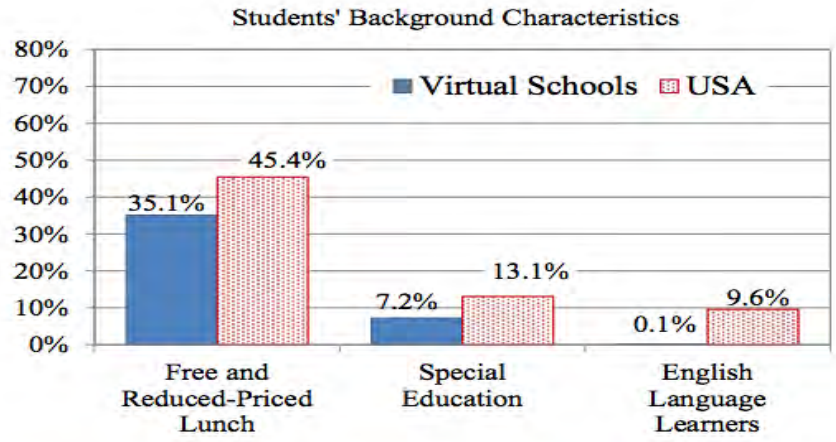


Figure 1.4. Students Qualifying for Free and Reduced-Priced Lunch, Classified as Special Education, or Classified as English Language

While the percentage of students enrolled at each grade level is generally consistent in brick-and-mortar schools, virtual schools enroll much larger numbers of students in high school. Nearly 50% of all virtual school students are enrolled in grades 9 through 12. In the elementary grades, only 4% of virtual school students are in kindergarten but that percentage increases each year. The concentration of virtual

school students in high school is not surprising given that independent learning and self-discipline is needed in a virtual environment.[vii]

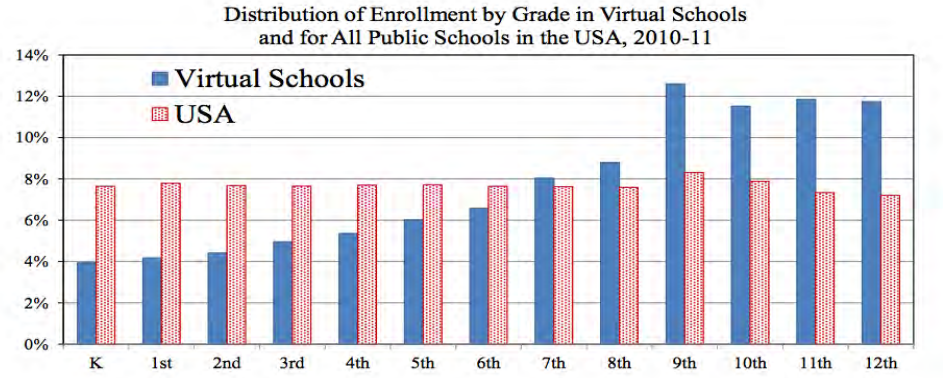


Figure 1.5. Enrollment by Grade Level for Virtual Schools and for U.S., 2010-11

II. How are virtual schools different from brick and mortar schools?

Unlike brick and mortar schools, virtual schools deliver most instruction remotely with the student and teacher in different locations. The remote instructional model impacts enrollment, student mobility, special need students, student assessment and school accountability.

The virtual school remote instructional model requires students to engage in school work outside the physical presence of a teacher. While there is no research comparing the performance of students who have adult support with those who do not, student performance data and the enrollment practices of some virtual schools highlight the fact that a virtual school is not appropriate for every student. Mary Gifford, vice president of K12 Inc., speaking to a North Carolina panel studying virtual schools said, "This isn't for everybody. There's a finite universe of people who can be successful in this. It is truly a lifestyle choice" [viii]

Gifford is also reported as noting that only 40 percent of K12 Inc.'s high school students are successful, and those are the ones who have the discipline and drive to work fairly independently.[ix] Students and their parents need to understand what is required for success in a virtual environment before they enroll. The Bartow County Virtual Academy operated by K12 Inc. reports that,

> "The first thing Bartow County Virtual Academy students learn is that online classes aren't as easy as A, B, C. They're also not for everyone. What we learned in the first six months is if you're not serious about working online, and you're not online every day, keeping up with assignments, you will not be successful,… Now we require prospective students to apply for the academy. We review applications, transcripts, discipline and attendance records and make accepted students sign a contract." [x]

Both K12 Inc. and Connections Academy, the two largest operators of virtual schools, emphasize that students need an adult learning coach in addition to the student's teacher, and are at risk of failure if they do not have an adult learning coach.

"The learning coach, usually a parent, "provide(s) the organization and structure students need to excel." Students without learning coaches, particularly in elementary grades, are at increased risk of failure." [xi]

Implications for policy

The differences between virtual and brick-and-mortar charter schools are significant enough that they require a separate regulatory structure. Existing laws and administrative rules governing district and charter schools are inadequate for addressing the unique challenges presented by virtual schools. Prior to authorizing a virtual charter school in Illinois, the legislature and ISBE need to modify the law and administrative rules in each of the following areas to create an environment in which virtual charter schools and their students can be successful.

Enrollment

Although some students clearly lack the commitment and support needed to succeed in the remote instructional model of a virtual school, Illinois charter school law does not allow virtual schools to screen applicants for the commitment or adult support required for success in a school with a remote instructional model.

Under current Illinois law, charter schools must accept all applicants: "Enrollment in a charter school shall be open to any pupil who resides within the geographic boundaries of the area served by the local school board…"[xii] State policy should make it possible for virtual schools to assess the readiness of potential students to succeed prior to enrollment. While there is probably no "bright line test" of virtual school readiness, state policy should require schools to establish criteria for enrollment based on the existence of needed student supports. Wyoming recently put such a process in place for virtual schools.

Student mobility

Virtual school students are more mobile than students in brick and mortar schools. The Colorado Department of Education study of virtual schools reported annual mobility rates of between 70% and 80% for virtual school students compared with rates of less than 30% for other students.[xiii] "Less than 25 percent of online students remained in the same school for four years as compared to 45 percent of students in brick-and-mortar schools."[xiv] The same data indicated that half the students leave the virtual school within a year.[xv]

Although there is little published analysis of the causes of virtual school student mobility, some of it is intentional--the result of students who enroll temporarily to meet a short-term need, for example, a student who is home bound as a result of illness. A survey by K12 Inc. found that "one-third of parents of high school students indicate an intention to keep their students enrolled in a full-time online school for only one year."[xvi] Another factor that may account for mobility is the lack of enrollment criteria—students who lack the either the readiness or support needed for success drop out or return to their home schools.

State policy should recognize the causes of student mobility. Regulations should permit virtual schools to determine whether a prospective student exhibits the ability to persist with remote instruction and whether adult support is in place. In addition, systems and tools for student assessment and school accountability should recognize that a substantial proportion of virtual school students will be enrolled for short periods of time.

Students with special needs

Virtual schools are required to comply with the Individuals with Disabilities Education Act (IDEA), Section 504 of the Rehabilitation Act of 1973, Title II of the Americans with Disabilities Act (ADA) and the 14th Amendment of the U.S. Constitution.[xvii] The remote instructional model and high student mobility of virtual schools may make it more difficult, but certainly not impossible, to identify and serve students with special needs. As described above, substantially lower percentages of students with IEPs enroll in virtual school than in brick and mortar schools.[xviii] Relatively few ELL students enroll in virtual schools.

Identifying some types of special needs, for example, attention deficit disorder, may be more difficult because the teacher and other school staff are not able to physically observe the student. Providing some types of services to special needs students may present additional challenges for a virtual school because the services need to be delivered at the student's home.[xix]

At the same time, virtual charter schools may offer a good fit for some students with special needs and students who are English Language Learners because they can provide greater opportunity for individualized instruction. Allison Hertog, writing in Education Next says, "The more customization a student requires, as is often the case with kids with special needs who need adaptations in pacing, methodology, presentation and curriculum, the more attractive virtual education can be."[xx] Online learning with graphics and animation, audio components and interactive exercises may be appropriate for some students. Online programs can also be personalized to an individual student's pace and ability, allowing them to advance through subjects and grades as quickly or slowly as they need.[xxi]

State policy should require virtual school operators to demonstrate the capacity to deliver services to students with special needs and English Language Learners, consistent with the law and the needs of the students prior to opening a school. That's because the processes for identifying students and delivering services in a virtual environment requires different approaches than those used in brick and mortar schools.

Student assessment

The characteristics of virtual schools also complicate student assessment. The existing schedule and protocols of state and school district assessments don't match up with the more fluid virtual school environment where students enroll throughout the year and complete courses at their own pace. Annual state tests administered on specific days in the spring are not an effective way to measure growth for students who may be studying material that doesn't match what is being tested.

Since students cannot be directly observed during assessments, virtual schools need systems that anticipate and reduce the potential for cheating.[xxii] Technology exists to assure that students are doing their own work. As in any other school, policymakers need to require that virtual schools use the best systems available to ensure that students are doing their own work.

High student mobility in virtual schools requires assessments that can assess student growth over short periods of time. Given the capacity of virtual schools to "personalize" education, it should be possible for virtual schools to use a combination of formative and summative assessments to measure growth over short periods of enrollment.

Virtual school instructional management systems capture every student keystroke day or night, seven days a week. If used thoughtfully, this data can provide rich information on student effort, progress and attainment. Virtual school operators should be expected to supplement standard state assessments

with data demonstrating the growth and attainment of their students. Virtual schools should also be expected to verify that every student is doing his or her own work.

School Accountability

High student mobility, short time of enrollment, flexible pacing and the remote location of students during testing present unique challenges to state accountability systems. Traditional accountability measures based on a single annual exam may discount or ignore the experiences of a large portion of virtual school students who are either enrolled for less than a year, or are not enrolled at the time of the assessment. Virtual schools need to be held accountable for the success of all of the students they enroll during a year regardless of when they enter or leave the virtual school.

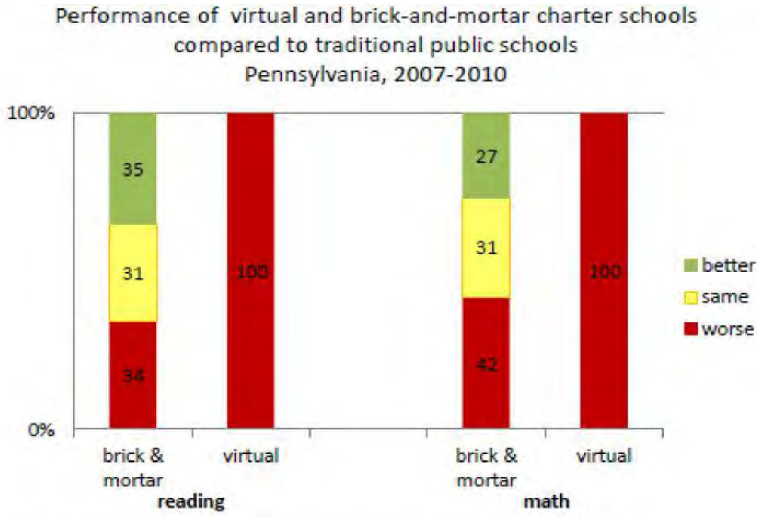
State accountability for virtual schools should include definitions and measures of student attendance and engagement, persistence, and retention to ensure that all the students who enroll are being served. They should also include summative and formative assessments administered throughout the school year to ensure that the experiences of students who are only enrolled for short periods of time, and therefore not represented in state assessment data, are considered. Fortunately, the technology used in virtual schools can collect a rich set of data that can be used to track individual student progress and attainment.

III. How do virtual schools perform?

> "The one aspect of online learning that stands out among all others is how little is known about its effect on student outcomes, especially at the K-12 level. Several attempts to document student performance have been thwarted by missing or incomplete data, weak monitoring rules, and a vague picture of students dropping in and out of the online environment and subsequently the accountability system."[xxiii]

A US Department of Education sponsored meta-analysis of prior research found a modest positive impact for on-line instruction with *post-secondary* students compared with students in traditional classrooms. However, the researchers found few studies of virtual K-12 education that met rigorous research standards. "Of the seven K-12 studies they examined, three showed significant effects in blended learning environments, one showed negative effects of online learning, and the remaining three had no statistically significant results."[xxiv]

A 2011 study of Pennsylvania charter schools by the Center for Research of Education Outcomes (CREDO) at Stanford University found that all eight virtual charters in the study performed significantly worse in reading and math than their traditional school counterparts in terms of student gains. The study covered the period 2007-2010.[xxv]



How to read this graph: 35% of brick & mortar charter schools performed significantly better than their traditional public school counterparts. SOURCE: CREDO, 2011

Most of the other research on K-12 virtual school performance is state-specific and based on comparisons of virtual schools to traditional brick and mortar schools without controlling for the students' prior performance. A 2011 study by the Minnesota Office of the Legislative Auditor found "that full-time online students have low course-completion rates and higher than average school drop-out rates. They also tend to lose ground on the state's standardized math tests."[xxvi] A 2013 study from the National Education Policy Center reports that for the 2009-10, 2010-11 and 2011-12 school years less than 30% of virtual schools made adequate yearly progress (AYP) and 52% of all schools and 51% of brick-and-mortar charters meet AYP in 2010-11.[xxvii]

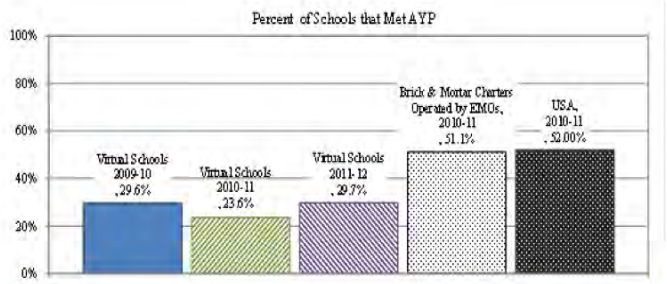


Figure 1.7. Percentage of Schools Meeting Adequate Yearly Progress, by School

A 2012 study by the Colorado Department of Education found similar performance results when looking at all Colorado virtual school students.

- "Elementary-aged students in online schools consistently performed below their non-online peers in reading and math assessments." [xxviii]
- "Online schools' graduation rates are much lower than graduation rates statewide and have been so consistently. [xxix]
- Dropout rates for online schools have also been much higher than the statewide rates.[xxx]

But the Colorado study also found that students who remained in virtual schools for four or more years made good progress. The report said that the "…small percentage of 9th grade students who remained

enrolled in an online school for four years or more performed comparably to and sometimes better, on average, than all 9th graders statewide" and concluded that "this finding demonstrates that online schools are a good option for some students, in particular those who remain enrolled in an online school for multiple years."[xxxi]

Chicago Virtual Charter School, the only virtual school in Illinois, serves students in grades K-12. The school achieved a "Level 2" rating from Chicago Public Schools in 2013, an improvement from a "Level 3" rating in 2012. The 2013 state report card indicates that students taking the ISAT were slightly above the state average in reading and slightly below in math for both growth and attainment. The percentage of high school students meeting or exceeding standards on the PSEA were slightly below the state average in reading and substantially below in math.

While most of the data on virtual school performance is discouraging, it should be considered along with the challenges described in Section II of this report. Most virtual schools currently operate in a policy environment designed for traditional brick and mortar district or charter schools. State policies regarding enrollment, assessment and accountability do not account for the ways that virtual schools are different from brick and mortar schools. If Illinois adopts policies that recognize and accommodate the differences, greater numbers of students will be retained and perform like the Colorado students described above.

III. What is the cost of virtual schools and how are they funded?

Costs

The cost structure for virtual schools is significantly different from brick-and-mortar schools. Virtual schools do not require substantial facilities, have lower student to teacher ratios, and require more robust technology infrastructure. A 2011 study of the costs of virtual education by the Fordham Institute identifies five virtual school "cost levers" that determine "resource-allocation strategies: 1) labor, 2) content acquisition, 3) technology and infrastructure, 4) school operations, and 5) student-support services." The study also provides an estimate of costs in each area and the approximate variation from school to school.[xxxii]

The Fordham study estimates the average per pupil cost for a fully virtual as $6,400, with a range between $5,100 and $7,700. Staff costs are the largest driver of cost and content acquisition is the largest area of variability between schools. For comparison, the study identifies an average cost for a traditional brick and mortar school of $10,000 excluding central administrative costs, based on all public-school types (elementary, middle, and high school) across the U.S.

Virtual Model[xxxiii]			
Category	**Cost Estimate**	**Fluctuation**	**Cost levers**
Labor (Teachers and Administrators)	$2,600	+/- 15%	Student-teacher ratio Teacher salary Professional-development delivery (virtual or in-person)
Content Acquisition	$800	+/- 50%	Content quality (level of personalization) Inclusion of content-management system
Technology and Infrastructure	$1,200	+/- 25%	Computer purchases or Internet subsidies for Additional instructional
School Operations	$1,000	+/- 20%	Facility size (determined by whether teachers work remotely) Transportation (field trips and state testing)
Student Support	$800	+/- 0%	May potentially change depending on student mix, but a critical component of all schools
Total	**$6,400**	**$5,100 – $7,700**	

Funding in states other than Illinois

The system and amount of funding for virtual charter schools varies from state to state. Most states fund virtual charter schools in the same way as they fund brick-and-mortar charters. The funding level is not tied to actual virtual school costs but is instead based on the state, district or charter school per pupil allocation for brick and mortar schools. Some states fully fund virtual schools while in other states virtual school funding comes directly out of school district budgets.

Funding for Virtual Schools [xxxiv]	
State	**Basis for funding**
Arizona	95% of the base support-level
Colorado	Per pupil minimum level set by state
Florida	Based on successful completion of course
Indiana	90% of the typical funding level plus any special education grants
Louisiana	90% of the state and local funding based on where the student resides.
Nevada	Same level of funding as brick-and-mortar schools
Michigan	Same funding as charter schools
Ohio	Same state per-pupil funding formula as traditional schools, but no local funds or poverty-based funding
Minnesota	Same funding as other schools
Pennsylvania	Per pupil funding of the students' resident district less the expense for services not provided by the virtual school, e.g. transportation

In Pennsylvania virtual charter school funding is based on the per pupil funding of the students' resident district less the expense for services provided by the district that are not provided by the virtual school, e.g., transportation, costs related to facilities, etc. On average, virtual charters receive 76% of district per pupil funding. Virtual charter schools serving students from multiple districts receive more money for students from districts with higher per-pupil funding and less for students with lower per pupil funding.[xxxv]

In Ohio virtual charter schools receive the state per pupil funding of the district where the student resides. Virtual charter schools receive funds only from the state, not from the district.

In contrast, Colorado virtual charter schools receive a flat amount of funding regardless of the student's home district or the school's location. Funding for schools authorized by the local district comes from the district. Virtual charters authorized by the state Charter Institute are funded directly from the state. [xxxvi]

Florida's virtual school is operated by the state and funded directly by the state through its funding formula. Funding for the virtual school is performance-based: the virtual school receives funding based on students' successful completion of courses. [xxxvii] For example, full funding for a high school student requires successful completion of six courses. If the student only completes four courses, the virtual school receives two thirds of the full funding amount for that year. Wyoming and Utah have also recently adopted systems that base virtual school funding on student performance.

Funding for Illinois charter schools is based on the number of students enrolled in the school each year. Illinois charter schools agree to a per pupil funding amount with their local board of education which pays them that amount. Charter school funding can range from 75% and 125% of the district's per capita student tuition (PCST) which ranged from over $26,000 to under $2,000 in 2011-12. The system provides a multi-district virtual school with an incentive to seek out students from districts with high PCST and avoid students from districts with low PCST. The funding formula also fails to account for the high numbers of short-term enrollments and drop outs found in most virtual schools or reward virtual schools for success.

Again, as with the policy issues discussed in Section II above, most state funding systems do not adjust funding to meet the unique characteristics of virtual schools. Only those states that base virtual school funding on student performance recognize the competency-based nature of virtual education and the challenge of retaining students in virtual schools. In addition to rewarding the school for student performance, a performance-based funding system discourages virtual schools from enrolling students who are unlikely to be successful in a virtual environment.

Although most states fail to link funding levels with actual virtual school costs, a state entity could prepare a detailed request for proposals describing requirements and performance expectations for a statewide virtual school, conduct a competitive bidding process, and, assuming that a bidder met the requirements, award a contract to the bidder providing the strongest proposal based on quality, effectiveness and price. Such a process would maximize the chance of receiving a proposal that meets the needs of the state at a reasonable cost.

Regardless of whether a virtual school is funded directly from the state or with a mix of state and local funds, it makes no sense to base the level of virtual school funding on district or charter brick and mortar school spending. As described above in the Fordham study, there is little connection between virtual and brick and mortar school costs, and there is no reason to differentiate funding based on a student's home district. Instead, the state should determine the amount it is willing to pay per pupil for a statewide virtual school, and make it consistent across districts. Districts that authorize virtual schools should determine the level of funding for those schools.

IV. Recommendations of the Commission

Summary of findings

Virtual schools provide an opportunity for some children to receive a quality education that they may not otherwise receive. The number of such students may be relatively small, but the state has a public interest in helping those students succeed, wherever they may live.

However, the overall record of academic performance of virtual schools across the country is weak and there are important aspects of virtual schooling that do not align with aspects of the state's charter school law.

Thus, to serve children and the public well, Illinois' charter school law should be amended to address these key aspects of virtual schooling. Illinois' moratorium on virtual charter schools should continue for approximately two and a half years while the details of these new policies are developed and implemented.

Definition of a Virtual School

For purposes of these recommendations, a Virtual School is defined as any school that uses an online instructional model with students spending fewer than 5 hours per week in a school building.
The range of blended and digital learning options is a continuum without bright line distinctions that clearly differentiate among virtual, blended and traditional school models. The Commission's Advisory Group reached a consensus that the 5 hour per week standard was reasonable.

Schools using an online instructional with students on site fewer than 5 hours per week would be considered virtual; schools with students on site more than five hours per week would be considered blended or traditional.

Vision
Virtual charter schools have the potential to benefit Illinois children for whom they are appropriate under a regulatory structure consistent with charter school oversight principles.

This is consistent with state policy objectives that all children have access to a quality public education, regardless of their zip code or family income.

With new legislation and rules, virtual charter schools could be authorized by a state body or a school district. Statewide virtual charter schools would be authorized by a state body and virtual charter schools serving a local school district or districts would be authorized by the district or districts they serve.

State-approved virtual charter schools should be funded by the state. Locally-approved virtual charter schools should be funded locally.

Recommendations
1. Existence
Because some students could benefit, Illinois should allow virtual charter schools to exist and should work to ensure that all Illinois children for whom a virtual school is appropriate have access to a virtual school, regardless of where they reside.

However, state policies must first be amended to reflect an appropriate oversight structure, and Illinois' moratorium should be extended until December 31, 2016 to allow development of such a structure (see recommendation 7).

2. Significant Modifications to Charter Law
In order to address the unique characteristics and needs of virtual charter schools and their students, existing laws and administrative rules should be modified to require any authorizer of a virtual school to:

- solicit proposals for virtual schools (as explained in recommendation 6),
- determine pricing through a competitive process,
- base payment on student success and evidence of student engagement,
- hold schools accountable based on both state tests and other measures appropriate for virtual schools,
- require schools to establish legally permissible criteria and processes for enrollment based on the existence of supports needed for student success, and
- require schools to demonstrate the capacity to deliver services to students with special needs and students who are English Language Learners.

3. Capacity to Develop New Rules and Processes
Because the development of the rules and processes needed to implement these recommendations will require capacity and resources that do not currently exist within the State Board of Education or State Charter School Commission, the General Assembly must appropriate resources to enable these rules and processes to be developed and implemented.

4. Approvals by State or Districts
Any local school district or group of local school districts should be able to authorize a virtual school consistent with the new laws and rules, but should not be required to consider unsolicited applications for virtual schools.

The state authorizer of statewide virtual charter schools should be the State Charter School Commission.

So long as two routes to authorization exist, as provided for herein and in recommendations 2 and 6, a decision to approve or deny a virtual charter school proposal by the state or by a local district should not be subject to administrative appeal.

5. Funding
A state-authorized virtual charter school should be fully funded by the state through the General State Aid formula.

A virtual charter school authorized by a local district should be funded by the authorizing district(s).

For each virtual charter school (whether authorized by the state or a district) per pupil payment amounts should be determined as proposed and approved in the virtual charter school application, without regard to districts' per capita tuition charges. In no case would the per pupil payment to a state-authorized virtual charter school exceed the state foundation level.

Payments to the virtual school should be based primarily upon a student's successful course or program completion and evidence of engagement, not only on enrollment.

6. Requests for Proposals
Following the approval of laws and rules addressing virtual schools by the State Board of Education, the State Charter School Commission, should issue a request for proposals for a statewide virtual charter school, award a charter to school(s) that meet the requirements, and closely monitor the operation and performance of such schools.

7. Moratorium Extension
Illinois' current moratorium on virtual charter schools expires on April 1, 2014. The General Assembly should pass new legislation that incorporates the Commission's recommendations and extends the moratorium. The moratorium should expire on December 31, 2016 or when the State Board of Education certifies that new rules have been put in place to implement the new virtual school law, whichever is sooner. If the State Board of Education fails to so certify by December 31, 2016, the moratorium shall expire, the provisions of the new virtual school law shall have no effect, and new virtual charter school proposals shall be permitted under the terms of the current law.

8. Data and Report
The new law permitting virtual schools should provide for funds for the ongoing collection of data on virtual school performance and shall require an independent study of virtual school costs and performance be provided to the General Assembly seven years after the law's effective date.

Appendix A: State Multi-District Fully-Online School Enrollment, 2012-13[xxxviii]

	Enrollments 2012-13	Annual growth SY 2011-12 to SY 2012-13	5-year growth (2008-2013)	2013 % of state K-12 population
Alaska	166	+95%	-53%	0.14%
Arizona	42,000	+8%	+40%	4.28%
Arkansas	499	0%	0%	0.12%
California	40,891	+16%	+289%	0.11%
Colorado	11,289	+1%	+49%	2.31%
Florida	14,000	+45%	+1,191%	0.58%
Georgia	13,412	+21%	+212%	0.89%
Idaho	5,213	0%	+44%	2.06%
Indiana	6,133	+80%	n/a	0.1%
Iowa	302	New in 12-13	n/a	0.01%
Kansas	4,689	+18%	+51%	1.1%
Louisiana	2,562	+28%	n/a	0.42%
Massachusetts	416	-2%	n/a	0.06%
Michigan	1,850	+94%	n/a	0.55%
Minnesota	9,196	+13%	+82%	1.21%
Nevada	10,414	+19%	+126%	2.61%
New Hampshire	125	+21%	n/a	0.01%
New Mexico	498	New in 12-13	n/a	0.16%
Ohio	38,519	+9%	+42%	2.42%
Oklahoma	6,298	31%	413%	1.11%
Oregon	6,631	+19%	n/a	1.21%
Pennsylvania	34,694	+1%	+56%	2.11%
South Carolina	8,130	+2%	+310%	1.26%
Tennessee	1,619	-1%	n/a	0.19%
Texas	8,441	+36%	+323%	0.2%
Utah	3,336	+8%	+561%	0.63%
Virginia	441	-8%	n/a	0.04%
Washington	2,145	+9%	+49%	0.29%
Wisconsin	6,121	+50%	+111%	0.88%
Wyoming	1,311	+21%	+1,211%	1.1%

Appendix B: Illinois School Funding

Illinois School Funding Definitions[xxxix]
Operating Expense per Pupil The gross operating cost of a school district (excepting summer school, adult education, bond principal retired, and capital expenditures) divided by the nine-month ADA for the regular school term.
Per Capita Tuition Charge The amount a local school district charges as tuition to nonresident students as defined by Sections 18-03 and 10-20.12a of the School Code. The per capita tuition charge is determined by totaling all expenses of a school district in its Educational, Operations and Maintenance, Debt Service, Transportation, Municipal Retirement / Social Security, and Tort Funds for the preceding school year less expenditures not applicable to the regular K-12 program (such as adult education and summer school), less offsetting revenues from state sources , except those from the Common School Fund, less offsetting revenues from federal sources except those from federal Impaction Aid, less revenues from student and community services, plus a depreciation allowance and dividing this amount by the nine-month ADA for the year.
Average Daily Attendance (ADA) The aggregate number of pupil days in attendance divided by the number of days in the regular school session. A pupil who attends school for five or more clock hours while school is in session constitutes one pupil day of attendance. The best three months average daily attendance of the prior year is used in calculating General State Aid for the current year. The 9 MO ADA figures are sometimes adjusted due to audits of school records. Therefore, the ADA and the per pupil fields that are dependent on the ADA may change because of these adjustments.

Illinois Expense and Tuition Charges, 2011-12 [xl]

Type	Number of Districts	Operating Expense Per Pupil	Per Capita Tuition Charge	9 Mo Average Daily Attendance
Elementary *	375	11,456.70	10,104.78	482,388.19
High School*	99	15,138.22	13,890.81	231,114.08
Unit *	387	11,338.19	9,025.69	1,144,906.97
State*	861	11,841.53	9,910.82	1,858,409.24
Chicago 299		13,432.53	9,462.21	355,105.07

	Operating Expense Per Pupil			Per Capita Tuition Charge		
Type	**Highest**	**Median**	**Lowest**	**Highest**	**Median**	**Lowest**
Elementary*	25,289.19	10,580.51	6,286.75	25,069.56	9,055.66	3,058.93
High School*	25,289.26	13,532.19	8,638.86	26,317.52	12,201.11	6,622.66
Unit *	16,982.72	9,607.93	6,061.04	15,594.74	8,236.82	1,895.54

Appendix C: Advisory Group Members

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Jennifer Saba, Assistant General Counsel, Illinois State Board of Education
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