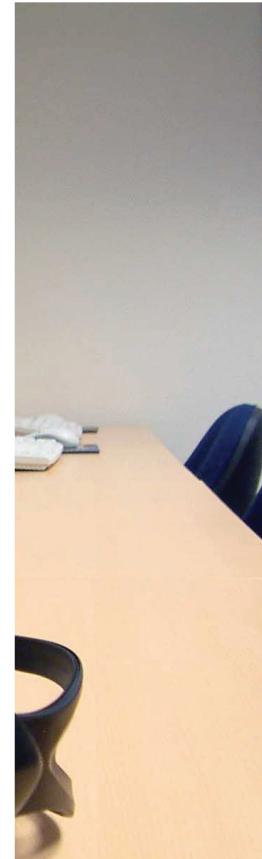


FISCAL IMPACTS

OF OREGON ONLINE
CHARTER SCHOOLS



ERIC FRUITS, Ph.D.

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t: 503.242.0900
f: 503.242.3822
www.cascadepolicy.org
info@cascadepolicy.org

4850 SW Scholls Ferry Road Suite 103 Portland, OR 97225



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Executive Summary

Online or “virtual” schools educate students using lessons delivered via computer to students’ homes. Oregon charter schools receive a lower level of state funding than non-charter public schools. Even so, online charter schools attract criticism regarding their funding. Some critics complain that charter schools draw funding away from traditional schools.

This study examines the fiscal impacts of online charter schools on Oregon school districts. It evaluates whether, and the extent to which, virtual charter schools significantly deprive districts of financial resources. Thus, this study is a district-level study, rather than a complete study of the state-level and district-level funding of schools.

Online charter schools account for a small share of Oregon’s K-12 education market. As such, any potential fiscal impacts are too small to be of any significant concern. Online charters, however, may shift funds from one district to another. This amount, however, is so small—\$13 million out of a potential \$3.7 billion (or about 0.35 percent)—that the impacts best could be described as de minimis.

It should be noted that the fiscal benefits to a district sponsoring an online charter may be amplified if the transferring student is in ESL, has an IEP, is pregnant or is in foster care. In many cases, transfers to charter schools will increase how much districts can spend per student on those who remain in traditional public schools in the district. In addition, those districts that receive little or no state funding because of their substantial local revenue would not be noticeably impacted by students transferring out of the district to an online charter school.

Background

Online or “virtual” schools educate students using lessons delivered via computer to students’ homes. The schools provide students with computers, textbooks and materials to use. These learning materials are provided at no charge to the students. Teachers contact students regularly by telephone and e-mail.

In 2009, Oregon’s legislature enacted a two-year hold on the growth of online charter schools in the state, capping enrollment at May 2009 levels. In addition, online schools must draw at least 50 percent of their students from the district in which they are chartered or obtain a waiver from the state exempting the school from the 50 percent residency requirement.

Oregon Connections Academy, started by the Scio school district and a for-profit corporation in 2005, teaches approximately 2,500 students in Kindergarten through grade twelve. Oregon Virtual Academy, opened in fall 2008, teaches approximately 600 students in Kindergarten through grade eight under the sponsorship of the North Bend school district and the management of K12 Inc.

Oregon charter schools do not receive the same level of funding as non-charter public schools. Charter schools receive a portion of state funding (from the General Purpose Grant), but they do not receive local funding. Oregon law specifies that state per student funds flow to the charter school sponsor (usually the school district in which the charter school is located). The sponsor then forwards 80-95 percent of these funds to the charter. The justification for this funding mechanism—and reduced funding for charter schools—is that the sponsoring district incurs costs in overseeing the charter school. In addition, charter schools in Oregon are not obligated to provide transportation for all their students.

Teachers’ unions and other education groups have criticized online charter schools because of funding. Even though Oregon charter schools receive less funding per student than traditional schools, critics complain that charter schools draw funding away from traditional

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schools. A lobbyist for school administrators explains: “There is a level of resentment when you are in Pendleton and see students and funding leaving for a district hundreds of miles away.”

This study examines the fiscal impacts of online charter schools on Oregon school districts. It evaluates whether, and the extent to which, online charter schools significantly deprive districts of financial resources.

Online charter schools account for a small share of the K-12 education market

Online charter schools account for a small share of Oregon’s K-12 education market. In Oregon, charter school students account for less than one percent of K-12 enrollment and less than one percent of public K-12 funding.

The number of students enrolled in online charter schools (approximately 4,000) amount to a little more than seven-tenths of one percent (0.7 percent) of the total number of children enrolled in Oregon public schools (561,700).

Table 1: Oregon School Enrollment, 2007-2008

Description	Number	Percentage
Enrolled in Public Schools	566,067	89.2%
Enrolled in Private Schools	50,947	8.0%
Homeschooled*	17,915	2.8%
Total	634,929	100%

* Number likely to be higher because of underreporting.
Source: Oregon Department of Education

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“ In Oregon, charter school students account for less than one percent of K-12 enrollment and less than one percent of public K-12 funding. ”

Much of the funding for Oregon public schools comes from the State School Fund, which is funded with income taxes, lottery proceeds and timber revenues. Charter students are considered residents of the school district in which the public charter school is located for purposes of distributing the State School Fund. For example, students enrolled in the Oregon Connections Academy online charter school are considered residents of Scio School District for purposes of distributing the State School Fund. Similarly, students enrolled in the Oregon Virtual Academy online charter school are considered residents of North Bend School District for purposes of distributing the State School Fund.

For each of the online charter schools in Oregon, a school district (rather than the state) is the sponsor. Thus, the school districts contract with the charter to pay for educational services. The payment must equal an amount per weighted average daily membership (ADMw) that is at least equal to:²

- 80 percent of the amount of the school district's General Purpose Grant per ADMw for students in grades K-8; and
- 95 percent of the amount of the school district's General Purpose Grant per ADMw for students in grades 9-12.

The amount that is not paid to the charter is evenly split between the sponsoring district and the student's "home" district.

For example, the Scio School District's General Purpose Grant per ADMw is \$5,579.³ Oregon Connections Academy is located in Scio operating a K-12 school. If, hypothetically, the school had an ADMw of 2,500.5, then the amount of funding that the district would receive would be \$13,950,289.50 (ADMw of 2,500.5x\$5,579 per ADMw). The district then would pay the charter school \$4,463 for each student in grades K-8 (\$5,579x0.80) and \$5,300.50 for each student in grades 9-12 (\$5,579x0.95).

Funds remitted to online charter schools account for approximately six-tenths of one percent (0.6 percent) of the total amount of the General Purpose Grant funds allocated to all districts in Oregon.

Distributional impacts of charter school funding

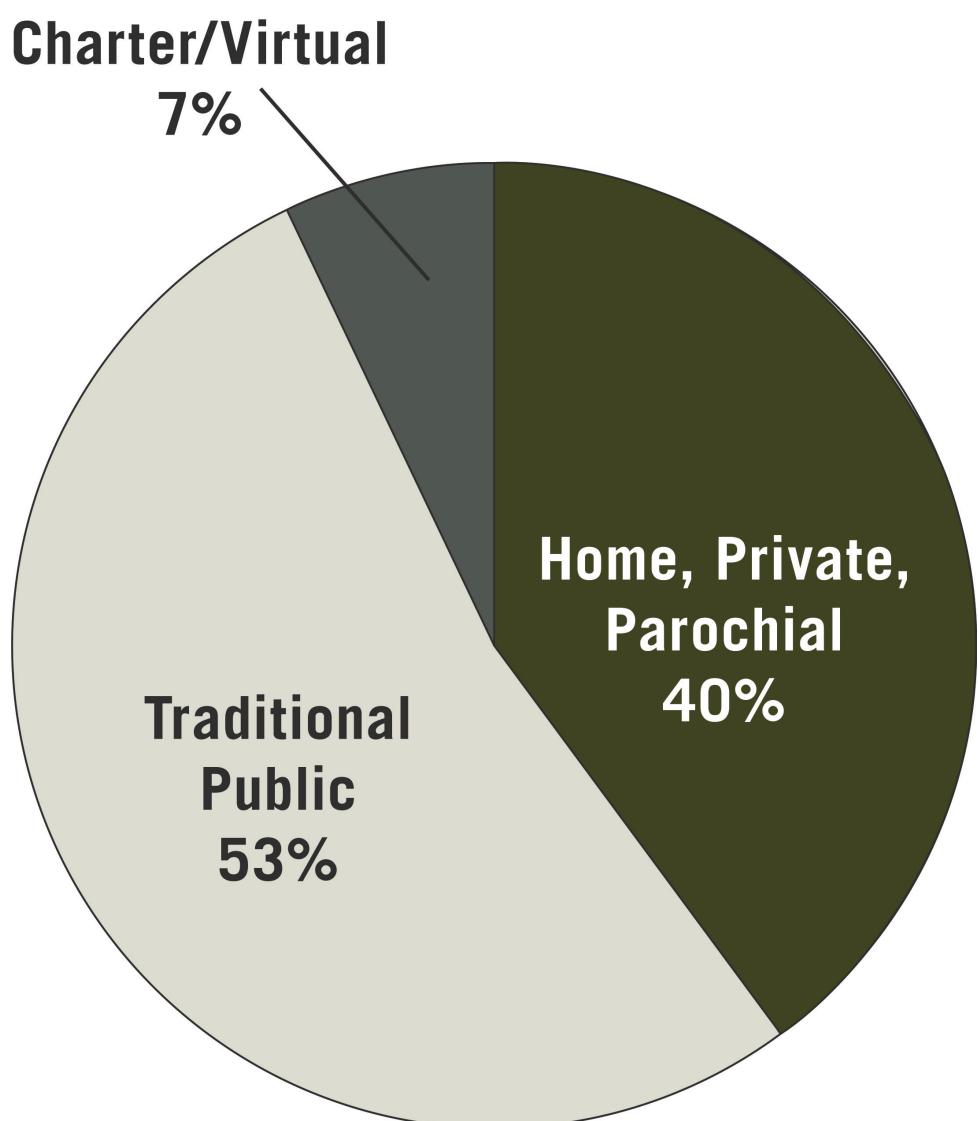
In some circumstances, an online charter school can draw funding away from traditional schools. However, in other circumstances, an online charter school can bring funding into a school district. The extent to which an online charter school adds or takes away funding from a district depends on where the student would be educated if the online charter did not exist. Each of the following three circumstances provides a different distribution of state funds to local school districts.

“ Thus, a student who transitions from one of these schools to an online charter school will attract state funding to the charter school and the sponsoring district. ”

- A transfer from a home school or a private school to a charter school would result in a net increase in state funds to the charter’s sponsoring school district;
- A transfer from a traditional school to a charter school in the same district would result in a net decrease in state funds to the charter’s sponsoring school district;
- A transfer from a traditional school in one district to a charter school in another district would result in a net increase in state funds to the charter’s sponsoring school district and a decrease in state funds to the district from which the student transfers.

The figure below shows where students obtained schooling before they attended Oregon Connections Academy online charter school. Among those who were previously enrolled in school, 40 percent were either home schooled or attended a private or parochial school, 53 percent attended a traditional public school, and 7 percent attended a charter or online school.

Figure 1: Prior Schooling Before Attending Oregon Connections Academy



Transfer from a home school or private school to charter school

Approximately 40 percent of online charter students were previously home schooled or attended a private or parochial school.⁴ Home schooled students and students in private or parochial schools do not attract any state funds to local school districts. Thus, a student who transitions from one of these schools to an online charter school will attract state funding to the charter school and the sponsoring district.

The table below shows that a hypothetical student who transfers from a private school or a home school would attract \$5,579 to Scio School District from the state's General Purpose Grant. After paying the charter school for its services, the district would have \$1,116 or \$279 more than if the student did not attend the charter school. Indeed, the additional funding is likely one reason Bethel School District recently voted to provide a charter to HomeSource, "a charter that will be essentially for those parents and students who want to educate their children at home."⁵

Table 2: Hypothetical transfer from home or private school in Scio SD to Charter School in Scio SD

Description	K-8	9-12
General purpose grants to Scio SD	\$5,579	\$5,579
Less: Payment to charter school	\$4,463	\$5,300
Memo: Percent distribution to charter school	80%	95%
General purpose grant funds retained by Scio SD	\$1,116	\$279
Less: General purpose grants to Scio SD if no transfer	—	—
Net benefit (cost) to Scio SD	\$1,116	\$279

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The fiscal benefits to the district sponsoring the online charter are amplified if the transferring student is associated with adjustments to ADMw that increase funding to the district from the state's General Purpose Grant. Such students include:

- English as a second language (ESL) students;
- Students with an Individualized Education Program (IEP);
- Pregnant students; and/or
- Students in foster care.

Transfer from a traditional school in one district to charter school in another district

A student who transfers from a traditional school in one district to a charter school in another district would be associated with a net increase in state funds to the charter's sponsoring school district, but a net decrease in state funds to the district from which the student is transferring. This is because 80 percent or 95 percent of the General Purpose Grant funds are paid to the charter school. In these cases, the sponsoring district retains 10 percent or 2.5 percent of the General Purpose Grant funding. The district from which the student is transferring would lose 90 percent or 97.5 percent of the General Purpose Grant allocation.

The table below shows that a hypothetical student who transfers from a traditional school in the Pendleton School District to a charter school in the Scio School District would be associated with \$5,579 from the state's General Purpose Grant to Scio School District. On the other hand, Pendleton School District would no longer receive \$5,873 from the state's General Purpose Grant, but it would receive \$558 or \$280 from Scio School District. While Pendleton's net funding may decrease, its per student spending for those who remain in the district most likely would increase. After paying the charter school for its services, Scio School District would have \$558 or \$280 more than if the student stayed in the traditional school.

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Table 3: Hypothetical transfer from traditional school in Pendleton SD to Charter School in Scio SD

Description	K-8	9-12
General purpose grant to Scio SD	\$5,579	\$5,579
Less: Payment to charter school	\$4,463	\$5,300
Memo: Percent distribution to charter school	80%	95%
General purpose grant funds retained by Scio SD	\$558	\$140
Less: General purpose grants to Scio SD if no transfer	—	—
Net benefit (cost) to Scio SD	\$558	\$140
Net benefit (cost) to Pendleton SD in foregone general purpose grant funds	(\$5,315)	(\$5,733)
Net benefit (cost) to Oregon school districts	(\$4,757)	(\$5,593)

Note: Totals may differ from sums due to rounding

Several school districts have substantial local revenues. The sources for these revenues include property taxes, federal timber fee revenues, and state-managed timber revenues. In some cases, the revenues are so substantial that, under the State School Fund formula, the districts receive no funding from the State School Fund. For these districts, a student transferring from the district to another district's online charter would have no impact on the state funds flowing in or out of the district. Thus, for several districts the transfer of a student to an online charter school may increase per student funding, even if funding from the state decreases.

Transfer from a traditional school to a charter school in the same district

A student who transfers from a traditional school to a charter school in the same district would be associated with a net decrease in state funds to the district. However, per student spending for those remaining in a traditional school in the district likely would increase, because (1) local funding is unaffected and (2) the district retains 20 or 5 percent of the General Purpose Grant funding. Eighty percent or 95 percent of the General Purpose Grant funds are paid to the charter school. Only 15 of Oregon Connections Academy's 2,500 students come from the sponsoring district of Scio.⁶

The table below shows that a hypothetical student who transfers from a traditional school to a charter school in the Scio School District would be associated with \$5,579 from the state's General Purpose Grant to Scio School District. After paying the charter school for its services, Scio School District would have \$1,116 or \$279. If the student, however, does not transfer, the district would be eligible for the full \$5,579 from the General Purpose Grant. Thus, the transfer represents a net loss to the district.

Table 4: Hypothetical transfer from traditional school to Charter School in Scio SD

Description	K-8	9-12
General purpose grant to Scio SD	\$5,579	\$5,579
Less: Payment to charter school	\$4,463	\$5,300
Memo: Percent distribution to charter school	80%	95%
General purpose grant funds retained by Scio SD	\$1,116	\$279
Less: General purpose grants to Scio SD if no transfer	\$5,579	\$5,579
Net benefit (cost) to Scio SD	\$(4,463)	\$(5,300)

Conclusion: Estimated net impacts on districts

Online charter schools account for a small share of Oregon's K-12 education market. As such, any potential fiscal impacts are too small to be of any significant concern. While some observers are concerned about the impacts of online charter schools on district level funding, it must be noted that to the extent online charter schools attract students who were previously home schooled or attended private or parochial schools, online charters likely increase the total amount of state funds that flow to individual districts and their schools. Additionally, when student transfers draw net funds out of a district, they typically will simultaneously allow the district to spend more per remaining student.

In some cases, however, online charters may shift funds from one district to another. Also, because online charters are not subject to many of the sponsoring district's regulations and collective bargaining agreements, some commentators seem concerned that money that flows to the charter school is somehow money that is not received by the district. In this way, critics argue that online charter schools



deprive districts of state funding. Even if one were to accept this reasoning, in fact, the amount of funding is so small that it should be virtually unnoticed by nearly any affected districts. For example, the table below estimates the impact of 4,500 online charter students on the net funding retained by districts. The table shows that online charter schools may reduce the total amount of funding retained by districts by approximately \$13 million, or less than four-tenths of one percent of the total General Purpose Grant.

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**Table 5: Estimated impacts on districts of 4,500 enrollment
in Oregon online charter schools**

	Transfer from home/private/parochial to online charter	Transfer from traditional to charter in different districts	Transfer from traditional to charter in same district	Total
Number	1,600	2,375	525	4,500
Benefit (cost) to sponsoring districts	\$1,317,000	\$977,000	\$(2,378,000)	\$(84,000)
Benefit (cost) to other districts	—	\$(12,971,000)	—	\$(12,971,000)
Total	\$1,318,600	\$(11,991,625)	\$(2,377,475)	\$(13,050,500)
Per Student	\$820	\$(5,050)	\$(4,530)	\$(2,900)

Endnotes

¹ Morris, R. (2009). Oregon Senate would take virtual charter schools offline for two years. *The Oregonian*. May 3.

² ADMw refers to average daily membership (weighted) and is defined by Oregon statute (ORS 327.013). ADMw assigns greater weight to special education students, English-as-a-second-language students and students in poverty. Thus, ADMw tends to be greater than the actual average daily membership and enrollment at the beginning of the school year. For example, the expected 2010-11 ADMw is 1.15 times larger than the enrollment at the beginning of the 2009-10 school year.

³ Oregon Department of Education (2010). Preliminary SFSF Share by District for 2010-11 as of 5/27/10.

⁴ Oregon Department of Education (2009). Monthly School Report, Oregon Connections Academy.

⁵ http://www.betheltech.com/content/eneews/voting_results.html, retrieved July 4, 2010.

⁶ Manning, R. (2009). Connections Academy faces uncertain future. Oregon Public Broadcasting. February 19.

Eric Fruits, Ph.D.

Eric Fruits, Ph.D. is President of Economics International Corp., an Oregon-based consulting firm specializing in economics, finance and statistics. He is also an adjunct professor at Portland State University. Dr. Fruits has been engaged by private and public sector clients, including state and local governments, to evaluate the economic and fiscal impacts of business activities and government policies. His economic analysis has been widely cited; and he has been published in *The Economist*, *The Wall Street Journal* and *USA Today*.

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