

Outsourcing education: The rise of virtual schools

By Nancy Hanover
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There are a growing number of American young people for whom “going to school” is now logging in at the family computer.

Virtual schools—those conducting all lessons via the Internet, as opposed to “brick and mortar” traditional schools—are now entrusted with the education of children as young as kindergarten and pre-kindergarten. An estimated 1.5 million American youth participate in online education today.

While a slash-and-burn campaign is destroying public education, the Internet revolution has been seized upon to force children to teach themselves—sometimes partially and sometimes entirely.

These initiatives have been given a green light by the Obama Administration’s Race To The Top, which rewards those districts which embrace charter schools, virtual schools, online learning, merit pay and destruction of teacher rights. All of these elements are, in fact, tied together. The 2012 federal budget has specially allocated \$26.8 billion for such “reform-oriented competitive initiatives” including \$372 million for charters.

These “reforms” take place as the administration spearheads unprecedented cuts to federal, state and local funding for education. Twenty-three states have enacted draconian changes in state funding this year alone. For example: Illinois is cutting overall aid to schools 11 percent, Kansas 6 percent, New York 6.1 percent, Ohio 7.5 percent, Pennsylvania 7.3 percent and Wisconsin 8 percent. [1]

Obama’s Education Secretary Arne Duncan has made no secret of the relationship between cuts and “reforms,” urging school districts to “do more with less.” [2]

In a speech last November 2010 Duncan hailed the example of virtual school Utah Open High School. He stated, “Technology can play a huge role in increasing educational productivity,” adding, “the military calls it a force multiplier.” Urging “better use of online learning, virtual schools, and other smart uses of technology,” he said that educational success requires schools to reduce “wasted time, energy, and money.”

Doing more with less—at least the latter is true. A survey on 20 virtual charters in 14 states indicates the cost of online learning is “roughly half that of traditional public schools” or about \$4300, according to a Brookings Institute study. [3]

There is less social interaction, less collective learning, less peer engagement and less individual attention and certainly less teachers—and teachers with less benefits, less job security and less resources. But there is more profit for the education industry. In fact, simple math would indicate a \$4300 per child cost would translate into \$2,000 or more per student profit, depending on the state’s allocation from taxpayer funds. Without the hard costs of buildings, maintenance or transportation, virtual schools clearly can entice districts facing extreme budgetary pressures.

Some virtual charters require a parent or adult to sign a contract as an “education coach,” some employ “facilitators,” and some house groups of certified teachers in cubicles who respond to questions and check homework. To the producers of the Brookings report, this kind of

warehouse teaching means “virtual charter schools offer the promise of increasing the productivity of the education system.” Clearly the potential increase in the ratio of students to teachers dramatically impacts what is considered productivity.

While not all online students attend full-fledged virtual schools, many of those part-timers take a significant segment of their coursework—including core classes—in computers labs, doing packaged programs while the teacher/facilitator functions as a room monitor.

There is no doubt that the Internet and the information revolution represent a huge educational and communications advance for society and should be thoroughly incorporated within education. These initiatives, however, are motivated not from the standpoint of expanding education, but from restricting it. The technology has become another vehicle to justify the shuttering of schools and programs and starve the public education system of funds.

Since most virtual schools are run by for-profit charters, the operating funds come from taxpayer coffers and are then funneled into various corporations. The fact is that virtual and online education is becoming a new source of huge profits.

The nation’s largest single provider of virtual schools is K12, a for-profit Education Management Organization founded and substantially owned by Michael R. Milken, the notorious “junk-bond king” and securities fraud felon (initially sentenced to 10 years, serving 22 months), together with former Goldman Sachs banker Ron Packard. This publicly traded firm now has about 81,000 students in 27 states, earning \$1.5 million in profits last year. As of this year, its stock valuation has doubled. Three-quarters of K12 schools failed to show sufficient progress, according to a December 2010 study of companies running for-profit charter schools by researchers at the University of Colorado at Boulder and Western Michigan University in Kalamazoo. This number compared with 45 percent of the physical charter schools in the study. [4]

The biggest beneficiaries of this process, however, appear to be the investment firms behind the scenes. For example, in July of this year Providence Equity Partners purchased Blackboard, Inc. Blackboard, well known to parents and students across the country, is a learning management software company, through which thousands of students, teachers and parents communicate and download educational content. The company, only founded in 1997, was sold for \$1.64 billion to Wall Street investors at substantially above its stock valuation, indicating confidence in future profits.

Wireless Generation, a testing and software online education program, was purchased for \$2.3 billion in November 2010 by Rupert Murdoch’s News Corp., currently embroiled in the cell phone hacking scandal.

Last April, Pearson, the owner of the *Financial Times* and book publisher Penguin, purchased SchoolNet, another software content and management firm, for \$230 million. Pearson stated as motivation for the investment, “Barack Obama’s administration has allocated about \$17bn to states and districts to support school improvement, through

programmes such as Race to the Top, to use data and technology to help prepare students for college.”

Connections Academies is a private for-profit with virtual schools in 18 states. It is primarily owned by Apollo Global Management LLC, a private equity investment firm founded in 1990 by Leon Black (#310 in Forbes billionaire list, son of Eli Black of United Brands who committed suicide after being caught bribing the president of Honduras.) The firm is one of the world’s largest private equity firms controlling over \$70 billion in investments.

States facing cuts embrace virtual education

There are approximately 50 million schoolchildren in the US attending kindergarten through 12th grade. This number is expected to grow by 260,000 this year, yet in 23 states there will be deep cuts to education spending. [5]

This is a sampling of the status of virtual schools in six US states. It indicates the exponential growth of this industry and a taste of the situation facing the young people attempting to learn under these conditions.

Michigan guidelines say teachers are optional

While the state of Michigan is imposing unprecedented cuts on public school funding, it is opening the state coffers to charter management companies specializing in all-virtual education.

Last month the Michigan Department of Education released new guidelines allowing more middle school students to take all of their classes online and to allow more school districts to operate virtual charter schools.

The rule changes are part of initiatives begun with the Obama Administration’s Race To The Top (RTTT) and Republican Governor Rick Snyder’s aim to uncap the limit for both the number of charter schools and the number students who can participate in online enrollment.

Michigan will cut its foundation grant baseline per pupil funding for the 2011-12 school year by a minimum of \$470 in every district. This is a reduction of funding of more than \$4 million for the Lansing Public Schools and Grand Rapids Public Schools, with Michigan’s largest district, Detroit Public Schools, facing up to \$25 million in lost revenue.

This well-publicized number of \$470 per student, however, does not take into account the many additional programs that face the axe as a result of Michigan legislative action. This includes dropout prevention programs, special education funds, isolated and rural school grants, and declining enrollment funds.

As a result, dozens of districts will face staggering levels of cuts. Willow Run community schools, for example, will lose \$716 per student, Taylor school district \$681, Stanton Township \$962 and Mount Clemens \$1046. Some smaller rural districts will lose even more [6].

For new charters, in addition to the lower costs per pupil compared with the net revenue from the state, there are even more boondoggles. Michigan provides state planning grants for staff training, development of testing, equipment for planning staff and salaries of administration prior to the opening of new charter schools.

Jackson Learning Lab of the Jackson public school system was one of six such schools selected for a taxpayer-funded grant of up to \$160,000 a year for two years. The school, designed as an “innovative program” by the Michigan Department of Education, allows children to either work at home or to visit a classroom outfitted with computers above the US Post Office in downtown Jackson. The program served 47 students last school year.

The move to widen the footprint of virtual charters comes with almost no track record in Michigan. The state’s first two virtual charter schools are brand new, just opening in the 2010-11 school year. Unlike 11 other states, Michigan did not have a full time virtual charter until the state’s

effort to secure RTTT funds in late 2009.

In Michigan, charters receive the state’s full foundation allowance, the per-pupil allocation, as well as “categorical” funding based on students’ socio-economic status. As in most states, the largest, Michigan Connections Academy and Michigan Virtual Charter Academy, are run by for-profit management companies.

Michigan Education Department’s online guidelines admit, “Although a teacher-led course or experience is preferable, not all districts have this capacity and district discretion will prevail,” [7] giving free rein to charters to eliminate teachers altogether!

They go on to state, “A growing number of online educational products and services can be used by students with no teacher involvement. These products are often referred to as “self-paced” online learning experiences and they usually work best for highly independent learners. ...” The guidelines admit, “Two common shortfalls of self-paced online learning include: a) the inability of students to seek support, feedback and direction from an educator online; and b) the ability of students to be part of a learning community and benefit from interactions with other learners for support and assistance on collaborative projects.”

Pennsylvania—the national leader

Pennsylvania cut K-12 education aid this year by \$422 million, 7.3 percent, but cut additional funding for programs such as pre-kindergarten and tutoring. Overall, the state loses \$851 million, 13.5 percent, or \$485 per student.[8]

The state is the nation’s leader in online education for the young, with 12 virtual schools now operating, most of them beginning offerings at the kindergarten level. The largest is Pennsylvania Cyber Charter School with a student body upwards of 11,000. It is estimated to have received \$100 million in state funding since its formation.

Next in size, based on reported net state dollars is Agora Cyber (K12 Inc.) at \$55 million, followed by Commonwealth Connections Academy (\$42 million) and Pennsylvania Virtual Charter School (\$39 million). It has been calculated that the state of Pennsylvania expended \$231 million as of 2009 in virtual academies, which was the lion’s share of the state’s individual charter school revenue.

It is telling to note that the pioneer virtual academy in the state, Pennsylvania Cyber, was initiated after ex-steel town Midland closed its only high school and sent students to neighboring districts.

In 2011 Stanford University’s Center for Research on Education Outcomes (CREDO) issued a study assessing Pennsylvania charter schools over the period 2007-10. The cyber population studied, about 30 percent of the total charter population (18,000 children), scored above the median in standardized testing and was in general more affluent than the overall school population.

Nevertheless after attending a virtual school, this population was more likely to repeat a grade than the average. The study states, “In both reading and math, all 8 cyber schools perform significantly worse than their traditional public school counterparts.” Stanford also pointed to lower performance in cyber schools among all ethnicities, among free and reduced lunch students, among special education students and among grade repeaters.[9]

Jeb Bush and Florida virtual education

This year Florida will cut \$542 per pupil from K-12 in addition to funds for school readiness.

Florida has long been in the forefront of charterization and virtual education, following the first charter school founded directly by former governor Jeb Bush. Even now, he remains active in the for-profit education industry. Bush runs a Washington DC-based corporate school reform group, Chiefs for Change, alongside former Edison Schools’ Chris Cerf, who is involved in the Carlyle Group which is now invested in

testing services. Cerf is also active with his brother's Ignite! learning computer/projector educational company.

In 2010 Bush launched his Digital Learning Council devoted to "put[ting] digital learning at the core of education rather than at the periphery."

The New York Times did a recent report on the 7,000 students in Miami-Dade County Public Schools enrolled in a teacherless program in which core subjects are taken using computers in a classroom. A "facilitator" is assigned to each room to deal with technical problems and "to make sure students progress." These virtual classrooms, called e-learning labs, were put in place last August to circumvent the limits assigned by the statewide Class Size Reduction Amendment. Florida law limits the number of students allowed in classrooms, but not in virtual labs.[10]

At the end of June, Governor Rick Scott signed legislation allowing "high-performing" charter schools to increase enrollment without local school board approval. Charter schools serve about 6 percent of Florida's 2.6 million students. The measure will also expand Florida Virtual School to elementary school children and kindergarten.

Dramatic rise in Oklahoma

Oklahoma will cut funds for elementary and secondary education by 4.5 percent. It is eliminating adult education, math labs in middle school and stipends for certified teachers.

An explosive growth of virtual education—up 400 percent in the past three years—has taken place. According to the *Tulsa World*, there were 5,429 virtual students in 2010-11, most of whom were under the jurisdiction of for-profit companies. One of the largest in the state is K12, the for-profit owned in part by Michael Milken.

Promotional radio, TV and direct mail are being utilized to ramp up attendance at K12 for the 2011-12 school year, although local administrators admit that many more students will attend "count day" (which determines state funding for schools) than will actually finish the program. Last year about 15 percent dropped out and they stated that after 16 days of no activity on the Internet, the school will drop students from the program.

By law, students who leave a charter school, either voluntarily or as a result of being told they were not progressing, must be accepted by their local public school. Nevertheless, the charter will typically receive the student's allocated per-pupil funding if they are "present" at count day.

First online charter in Louisiana

Nearly 600 students have signed up for Louisiana's first online charter offered through the Baton Rouge school district as of spring 2011. The Louisiana Connections Academy is a part of the chain Connections Academies. Certified teachers will be available remotely and a guardian is requested to serve as a "learning coach" for each child.

Mississippi—schools illegally under funded

For the fourth year in a row, Mississippi will fail to meet the state's statutory obligation to support K-12 schools, under funding school districts by 10.5 percent. This obligation was designed to support funding for lower-income and underperforming schools, and has already cost 2,060 school employee layoffs.

Mississippi Virtual Public School was established by legislation in 2006. Last year it serviced 2,800 students. As of 2010, the school contract was awarded to the nationwide chain, Connections Academy, and will be run for profit.

K12 backs "Idahoans for Choice in Education"

The Idaho Digital Learning Academy is a state-led virtual school which served about 10,000 students in the 2009-10 school year, most for

full-time education. Idaho, like Michigan and many other states, had no virtual schools prior to the RTTT competition.

State School Superintendent Tom Luna has sponsored a series of legislative initiatives aimed at removing most state teacher collective bargaining, imposing merit pay and expanding online learning. The national virtual school chain, K12 Inc. funded these proposals via a \$25,000 grant to "Idahoans for Choice in Education." However, opponents of the measures have placed three referenda on the November 2012 ballot to attempt to overturn Luna's "Students Come First" legislation.

Virtual schools embraced in Oregon

Governor Jon Kitzhaber proposed earlier in the year to enact legislation giving every student in the state access to a full-time virtual school, stating that online schools cost 70-80 percent of a traditional school. Additionally he is proposing cutting transportation allocations and facilities grants as well as consolidating school districts and buildings. The State Board of Education last year recommended a funding model including "the appropriate percentage of special education children who should be enrolled in online schools."

Notes:

1. <http://www.cbpp.org/cms/index.cfm?fa=view&id=3550>
2. <http://www.ed.gov/news/speeches/new-normal-doing-more-less-secretary-arne-duncans-remarks-american-enterprise-institut>
3. Charter Schools: A Report on Rethinking the Federal Role in Education, Brookings Brown Center Task Group on Charter Schools, December 2010
4. "Education According to Mike Milken," Bloomberg Businessweek, June 2, 2011
5. <http://www.cbpp.org/cms/index.cfm?fa=view&id=3550>
6. For a detailed list, see <http://www.mea.org/gov-snyders-education-cuts-worse-reported-many-school-districts>
7. http://www.michigan.gov/documents/mde/Online10.06_final_175750_7.pdf
8. <http://www.cbpp.org/cms/index.cfm?fa=view&id=3550>
9. http://credo.stanford.edu/reports/PA_Report_20110404_FINAL.pdf? State
10. New York Times, January 17, 2011, "In Florida, Virtual Classrooms With No Teachers," by Laura Herrera

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