



For-Profit Virtual Charter Schools: Literature Review and Report

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Don't limit a child to your own learning for he was born in another time
--Rabindranath Tagore

For-Profit virtual (or cyber-based) charter schools, funded with public monies, entered the New Mexico public education system with the establishment of two schools, New Mexico Virtual Academy (2012) and NM Connections Academy (2013-2014). NM Connections Academy is owned by Pearson, an English-based company that entered the U.S. education market in the year 2000 through providing services for scoring tests and school management systems. New Mexico Virtual Academy, called the NMVA Farmington Learning Center, uses the curriculum and school services provided by K12 Inc. that trades on the U.S. Stock Exchange as NYSE:LRN (4-Traders.com, 2012).

Currently, NM Connections Academy, located in Santa Fe and authorized by NM Public Education Commission, provides education for grades 4-12. NMVA Farmington Learning Center, authorized by the Farmington School District, provides education for grades 6-12.

Although non-profit, public charter schools have been part of the New Mexico public education system since 1993, admission of for-profit virtual charters offers a different kind of alternative school. This paper presents information about for-profit virtual education as a school choice.

Definitions

Charter schools are nonsectarian public schools of choice that operate with freedom from many of the regulations that apply to traditional public schools. These schools are established through a contract that details the schools mission, program, goals, students served, methods of assessment, and ways to measure success. Length of time for the contract varies but is usually 3-5 years and is renewable. The schools receive public money for educating students.

Types of public alternative education choices:

- Voucher schools - Parents use public vouchers to pay a portion of the tuition to send children to private schools that may or may not be religious in nature.
- Privately managed schools - public schools that an outside organization operates under a contract with a school district. Nonprofit and for-profit organizations may be the contractor.
- Charter schools - public schools created by persons or organizations that obtain a charter from a state authorizing agency. They may be managed by a nonprofit or for-profit group that may be a national or local community organization (Asche, 2011).

For-profit education refers to educational institutions operated by private, profit-seeking businesses. Rather than carry out a particular pedagogy, for-profit schools are market-oriented. Their mission is to fix failures of traditional educational institutions. Profit is gained by serving students that are ignored by

public and private nonprofit institutions. The schools receive public money for educating students. (Wikipedia 2013)

Types of for-profit education:

- Educational management organizations (EMOs) usually focus on primary and secondary education, and work with school districts or charter schools, using public funds to finance operations.
- K-12 schools that operate as businesses.
- Post-secondary institutions that operate as businesses, receiving fees from enrolled students.

For-Profit Virtual (or Cyber-Based) Schools As A School Reform Strategy

For-profit businesses have entered the educational market and some parents now may chose to educate their children through virtual charter schools. The latest available data for the school year 2011-2012, show that **for-profit** educational management organizations (EMOs) have grown in number to 97 in the U.S. according to the 14th edition of *Profiles of For-profit and Nonprofit Education Management Organizations* published by the National Education Policy Center (NEPC). During 2011-2012, these for-profit EMOs managed 840 schools with a total student population of 462,926 and an average school enrollment of 551. The leaders among the for-profit EMOs according to data for 2011-2012 are:

For-Profit	No. of Schools	Enrollment
• K12 Inc.	57	87,091
• National Heritage Academy	68	44,338
• Imagine Schools	Unknown	43,536
• Edison Learning	Unknown	31,445

Rank ordered by enrollment (Miron & Gulosino, 2011-2012, p. ii)

The number of **virtual schools** operated by for-profit EMOs increased from 60 in 2009-2010 to 97 in 2011-2012. The virtual for-profit schools are very large, with an average enrollment of about 1,400 students. K12 Inc., a virtual for-profit EMO listed in the chart above, enrolls by far the largest number of students among the for-profit EMOs, 19% of the for-profit EMO market share of students and 39% of all students enrolled in virtual schools in 2011-2012.

Among the many strategies for education reform, virtual education has moved to the top of the list and now constitutes one of the fastest growing forms of school choice. In the debate it is argued that virtual technology will revolutionize teaching and learning, dramatically reduce the cost of education and increase the availability of high-quality education (Molnar, Miron, Horvitz, Gulosino, 2013).

Virtual education takes many forms, serves many purposes, and is offered in a number of formats:

- Full-time online K-12 schools and single courses allow students to explore subjects not available in a traditional public school.
- Students may use virtual education to make up credits for a required course they failed earlier or to meet graduation requirements.
- Some curricula require student and teacher to be online at the same time (synchronous education).
- Others forms allow students and teachers to be online at their convenience (asynchronous education).
- Another form combines online work with traditional, in-person classroom instruction (blended instruction).

Providers can include public entities, non-profit and for-profit organizations and some traditional public school systems (Watson, Murin, Washaw, Gemin, Rapp, 2011).

Since 1983 when *A Nation At Risk: The Imperative for Educational Reform*, was published by the National Commission on Excellence in Education, the U.S. public education system has been under reform. One of the most dominant approaches to stimulating education reform is school choice. Implementing this type of reform gives parents the opportunity to transfer their children from failing schools to schools of their choice, where they believe their children will get a better education. Virtual, online schools is one of the choices they might make. Another approach is to improve the education provided to all students. This approach could lead U.S. students to perform at the top levels of educational achievement compared to students from other nations, as measured by international tests of achievement, which they already do if the data are controlled for poverty.

Since the 1990s, nonprofit and for-profit charter schools have been the major players in reform. For-profit businesses have had a continuing presence in the education system by providing textbooks and classroom furniture, transportation, low-and high-tech equipment from blackboards to "smartboards" and education services that include scoring tests. These businesses..." provide services and products **for already existing agencies running schools**, not the tough business of turning failing ones around" (Cuban, 2013, p. 3). As technology has improved, computer-based (or long distance) learning has emerged as an education option which has made inroads into the education market, and private businesses have taken on a more active role.

Since the late 1990s and early 2000s, private business has discovered education as a new source of profit. Although touted as increasing efficiency in providing education and achieving high performance among students, evidence is missing to support this claim (Cuban, 2013). Public schools have had access to federal money because of the Elementary and Secondary Education Act (1965) that emphasizes equal access to education and establishes high standards and accountability. Funding was authorized for professional development, instructional materials, resources to support educational programs, and promoting parental involvement. This act has been continually reauthorized by Congress, the latest reauthorization in 2001 under President George W. Bush (Wikipedia, 2014). The for-profit EMOs have engaged in heavy lobbying at the state and federal level to access these federal flow-through dollars, arguing that they are the organizations that can effectively reform education.

"Some for-profit businesses entering the market learned that what worked in companies to make silicon chips, crank out case after case of soda, and create brand new cereals flopped when managers tried to turn low-performing students around and get higher test scores (Cuban, 2013, p. 2)." For example, Education Alternatives, Inc, with nine schools in Baltimore, Maryland, some schools in Hartford, Connecticut, and a budget of \$133 million, filed for bankruptcy in 2001. Edison, Inc, in 1992 was the first for-profit school traded on the stock market. By 2005, it had 153 schools with about 65,500 students that were abandoned when Edison changed directions, closed its school management business and turned to contracts to provide tutorial services and other products needed by school districts. K12 Inc. was part of this early group of for-profit businesses and has survived to the present, although Whitney Tilson, an American investor, " is betting that K12 Inc. is over-valued and will stumble. And he will profit from [the] K12 Inc. fall (Cuban, 2013, p. 3)."

Former Florida Governor Jeb Bush was an early proponent of for-profit virtual education. During his governorship, the Florida school system reformed education by implementing voucher payments (eliminated in 2006) and establishing charter schools. With the Urban League, he founded the first charter school soon after taking office. He also instituted the grading system A-F for Florida schools (1999). "His own charter school received a grade of D. By 2008, the school received a C-, was \$1 million in debt, and was shut down by the state (Mencimer, October 2011, p. 5)."

Under Governor Charlie Crist, the former governor's Florida school reforms experienced several setbacks when legislation to expand Florida's virtual school program and eliminate teacher tenure was defeated. Also, an unsuccessful effort was made to decrease spending for virtual schools.

FEE and ALEC Activities Focused on Privatizing of Schools

After leaving office, former Governor Bush established the Foundation for Excellence in Education (FEE). The recent legislative setbacks caused FEE to adopt a more aggressive strategy at its October 2010 retreat. In a 2011 article in *The Nation* magazine, Lee Fang reported on the connections among FEE, technology companies, investment banking, foundation philanthropists, hedge fund investors and online educational companies. It was evident that the annual national education expenditure of \$638 billion for public elementary and secondary schools in the United States (US Department of Education, 2009-2010 data) was seen as an untapped potential source of new profit for the private sector.

In the name of school choice, an agenda for privatizing public schools was aggressively pursued with the intent of using public money to expand virtual school systems and add to the earnings of for-profit companies. With funding from online learning companies such as K12 Inc, Pearson, Microsoft and McGraw-Hill Education, persuasive personal visits to state governors brought about legislative changes at the state level that favored virtual education. Conferences enabled representatives from philanthropic foundations and notable legislators, lobbyists and corporate members to come together and plan. Panel discussions covered ways to replace intellectual debate about school reform with fear and anger; some focused on how to leverage each other's strengths. Investors and strategists planned a privatization campaign. FEE became involved with proposed legislation written by ALEC (American Legislative Exchange Council); particularly, The Virtual Public Schools Act that still circulates today. ALEC, founded in 1973 is a conservative nonprofit organization. It coordinates a fifty-state strategy for privatizing education and other government services through state level legislation. Composed of corporations, lobbyists and legislators, template law is written and distributed for passage by state legislators (Fang, 2011).

Protests by teachers' unions occurred over attempts to force teachers to use assessment tools and data services provided by companies that are owned by non-educators. This kind of protest arose when the State of New York sought to enter into a \$27 million contract with Wireless Generation, a Brooklyn-based education technology company that provides software, assessment tools and data services, owned by Rupert Murdoch. The contract was not awarded.

The mission statement for FEE is to build an American education system that equips every child to achieve his or her God-given potential. In this educational system, students will never set foot in a classroom. Through the initiative known as Digital Learning Now, former Governor Bush seeks to tear down legal barriers to public funding for virtual classrooms. This initiative claims to strengthen public education by making it more efficient, affordable, and accountable. It appears that he has aligned his foundation with a national political strategy to divert money from public institutions into for-profit companies; to undercut public employees, their unions, and the democratic base; and to deliver a profit for corporate backers. Former Governor Bush is seen by some as wreaking havoc on public school budgets. In an interview with Nick Gillespie, editor of the libertarian magazine, *Reason*, Jeb Bush described digital learning as a "transformative tool to disrupt the public education system to make it more child-centered, more customized, more robust, more diverse, and more exciting (Mencimer, October 2011, p. 8)."

Some concerns that are raised by the virtual, online, technology-based or computer-based learning (all terms used to describe virtual schools) are:

- Use of public money by for-profit companies;
- Accountability for student enrollment, classroom attendance, and withdrawal;
- Teachers becoming peripheral in the classroom dominated by online work;
- Aides replacing teachers during teacher shortages;
- Virtual teachers who are miles away communicating with students by phone or in simulated classrooms on the web;

- Availability of virtual teachers during scheduled interaction times;
- Student-to-teacher ratios higher than normal classroom size for online schools;
- Virtual teachers who are paid less than public school teachers, creating pressure to reduce the salaries of all teachers;
- Elimination of teacher's union;
- Assessment of student performance improvements;
- Students working from home, increasing the need for one parent to become the teacher;
- Students assigned to a waiting list for assistance;
- Need for students to be strongly self-motivated;
- Need for students who are not suited for this type of learning to be filtered out;
- Alleged fraud for overcharging for services and enrollment irregularities;
- Virtual learning companies spending public money on advertising; and
- Virtual learning companies spending public money on political lobbying.

On the other hand, even critics of virtual schools agree that online, computer based learning can be valuable in the following respects:

- Virtual learning is useful in areas where traditional resources are not available, and
- Virtual learning can be beneficial to students living in rural areas, special needs students who cannot be served in the traditional classroom, teen-mothers caring for their babies, addicts in rehabilitation, and those incarcerated.

Efforts Related to Tracking and Accountability of Virtual Schools

The National Education Policy Center (NEPC), located in the School of Education, University of Colorado at Boulder, has been tracking and reporting data on nonprofit and for-profit charter schools for a number of years. Its latest annual data report is the 14th Edition reporting on the period 2011-2012.

In 2013, NEPC began reporting on virtual schools in the U.S. These annual reports analyze the performance of full-time, publicly funded K-12 virtual schools; describe key policy issues raised by virtual education; assess the research evidence about K-12 virtual teaching and learning; and provide research-based recommendations to help guide policy making.

Currently, the report notes that available research is sparse and little is known about the efficacy of online education generally or about individual approaches specifically. Nonetheless, states are moving quickly to implement these systems that are supported by public school funds. Journal articles indicate that the goals of virtual education are unclear. The learning companies have problematic political and business relationships. It is difficult to collect data from the private sector because it is considered proprietary.

A few conclusions drawn by NEPC researchers are:

- Relatively few Black and Hispanic students, students living in poverty, and special education students are served by virtual schools.
- Adequate Yearly Progress (AYP) measures, state performance rankings and graduation rates of full-time virtual schools lag significantly behind traditional public schools.
- Significant issues are:
 - Linking funding to actual costs, identifying accountability metrics, accuracy in enrollment and limiting profiteering of educational management organizations (EMOs);
 - Assuring quality and quantity of curricula, instruction, and monitoring of student achievement;
 - Recruitment and retention of high-quality teachers that have appropriate skills for online teaching; and
 - Designing and providing appropriate professional development; and

- developing quality teacher evaluation.
- High quality research evidence is not available to support expanding virtual education at this time (Molnar, Miron, Horvitz, Gulosino, 2013).

Recommendations include:

- Slowing down or stopping the growth of virtual schools until evidence about the quality of performance can be determined;
- Capping student enrollment until evidence of satisfactory performance is available;
- Development of new funding formulas by policymakers, based on the actual costs of operating virtual schools;
- Developing new accountability structures, geographic boundaries, manageable enrollment zones, and guidelines and governance mechanisms that prioritize student learning over profit;
- Assurance of high quality curricula tied to state and district standards;
- Assessment of student achievement and provider contribution to student achievement;
- Certification and professional development for virtual teachers;
- Guidelines for student-to-teacher ratios; and
- Effective and comprehensive teacher evaluations (Molnar, Miron, Horvitz, Gulosino, 2013).

Summary

For-profit virtual education has an increasing presence among the recommended methods to improve public education. Because current guidelines allow public education money to follow the student, tax payers are paying for this method of education. Funding for public education has been decreasing in recent years in terms of **real** or inflation adjusted dollars. This raises the question of funneling already limited money into companies whose purpose is to make a profit.

Issues related to the quality of virtual education have not been thoroughly discussed here; however, in assessing for-profit virtual education, attention has to be paid to valid concerns. Should our children become educated by sitting in front of a computer all day? If virtual education is delivered in the home, are parents responsible for being at home, supervising and mentoring students through their lessons? Do parents have the necessary knowledge and skills to do these things? The quality of the curricula and teaching staff already is being questioned. Accuracy of enrollment and costs associated with actual services provided have come into question as well.

In our current culture, technology is an integral part of everyday life; therefore, it cannot be ignored in the classroom. It is already used in the classroom in a number of ways, (e.g. online testing, added reading and math lessons). The underlying concern raised in this paper is the efficacy of virtual education, the impact it will have on the public education system, and what happens when for-profit companies have taken profit and leave the industry. Will our public education system become a second **rust belt**?

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Notes Related to References Above

1. Larry Cuban, professor emeritus of education at Stanford University where he taught for over 20 years, started his career as a high school social studies teacher for 14 years, was a district superintendent for seven years in Arlington, VA, and is the author of a number of scholarly works on education, including his latest book, *Inside the Black Box of Classroom Practice: Change without Reform in America*.

2. Lee Fang's article in The Nation magazine provides deep insight into the numerous for-profit businesses, individuals, and conservative organizations and **think tanks** that are collaborating to privatize the American education system.
3. To read a full account of Nick Gillespie's interview with Jeb Bush on virtual learning that Stephanie Mencimer cites in her October article in Mother Jones magazine, go to <http://reason.com/archives/2011/04/20/jeb-bush>. The article is titled *Jeb Bush on Disrupting the Educational Status Quo*.
4. Whitney Tilson manages Kase Capital, a hedge fund founded in 1999. He comes from a family of educators and his philanthropic activities relate to charter schools and school reform. Originally bullish on the prospects of K12 Inc., he has now changed his mind. His PowerPoint which he updates regularly tells the story of his concerns about K12 Inc.'s financial stability and viability as a pathway to education reform. He shares portions of revealing interviews with a former manager of one of the large K12 Inc. virtual schools in Ohio and a current board member of another K12 Inc. school, all of which leave a very negative picture of the companies practices and accomplishments in reforming education.