

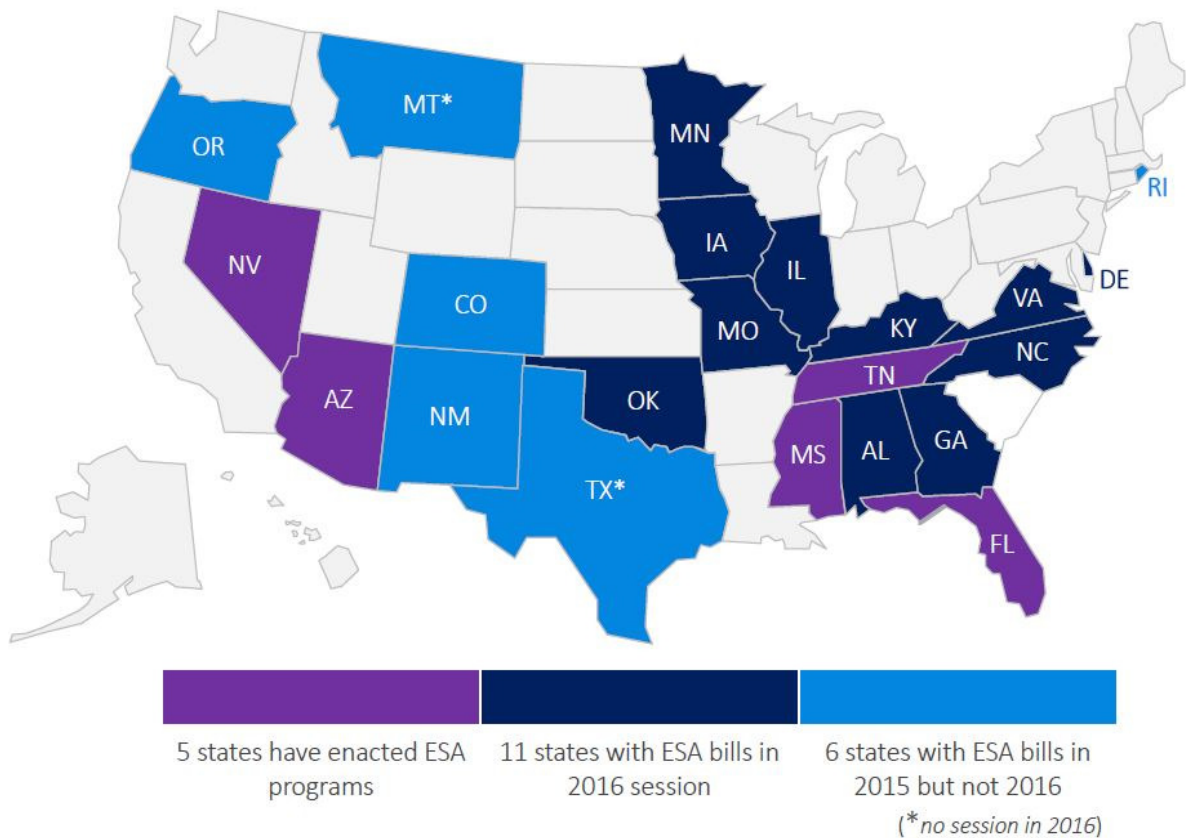
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Give Children the Best: Education Savings Accounts

By James Paul

Education Savings Accounts (ESA) empower parents to design the best educational experience for their children. The practice is simple: Funding otherwise earmarked for K-12 education is deposited into an account controlled by parents and supervised by the state. These funds may be spent on a variety of educational services, including but not limited to private school tuition, tutoring, and online programs. Unused ESA money is carried over from year to year. Five states now have this innovative program, and ESA legislation has been introduced or is pending in many others.

ESA Legislative Activity



Source: Foundation for Excellence in Education, 2016

ESAs, Vouchers, & Scholarship Tax Credits—What Is the Difference?

ESAs are the pure fulfillment of educational opportunity. Unlike vouchers or tax credit scholarships, which can be used only for private school tuition, ESA funds can be spent on multiple educational services. With an ESA, parents are no longer limited by the selection of nearby brick-and-mortar schools. Instead, parents have the freedom to customize the best learning environment for their child.

Examples of approved ESA expenses include:

- Private school tuition
- Specific home-school expenses
- Textbooks
- Instructional materials/curriculum
- Standardized test fees
- Tutoring
- Therapy for students with disabilities
- Transportation
- Online programs/courses
- Á-la-carte public school courses
- Coverdell college savings plans
- Savings for future college costs

Vouchers and tax credit scholarships are laudable school choice programs, but they do not allow parents to flexibly spend their education dollars. The rigid funding structure of a voucher or tax credit scholarship creates a “use it or lose it” mindset.¹ These programs do not encourage parents to economize, and schools do not stand to gain much by lowering tuition to attract parents.

ESAs, on the other hand, incentivize parents to maximize the value of their education spending. Empowering parents with control of their child’s education funding encourages them to seek the best possible services for the most affordable price. Likewise, schools and education service providers are encouraged to cut costs to attract students.

ESAs in the States

As of this writing, five states have passed ESA legislation, and many more have introduced ESA bills or are on the verge of doing so.

In 2011, **Arizona** became the first state to implement ESAs. Known as Empowerment Scholarship Accounts, Arizona’s ESA’s were originally restricted to K-12 students with special needs. State lawmakers subsequently expanded eligibility to cover pre-school children with special needs, students from failing schools, students from state foster care, children of active duty military members, and children living on Native American reservations. Most eligible students are required to have been enrolled in a district or charter school for the first 100 days of the previous school year.² Roughly one in five Arizona school-age children are eligible for the state’s ESA program. In 2015, 2,500 students participated, representing 0.2 percent of Arizona’s total public school enrollment.

Upon signing an agreement absolving the local school district from the responsibility of educating their child, a participating family receives 90 percent of the state funding that would have otherwise been spent on the child’s education. For special education students, this amounts

¹ Excel in Ed: “Education Savings Accounts: Giving Parents a Choice.” <http://www.excelined.org/education-savings-accounts/>

² Arizona Department of Education: “Empowerment Scholarship Minimum Qualifications.” <http://www.azed.gov/esa/minimum-qualifications/>

to \$13,000 to \$15,000 per year. Non-special education students receive just under \$5,000 per year. Funds are accessed through a pre-loaded debit card and spent on tuition, textbooks, tutoring, and educational therapies, among other approved expenses. Parents must retain receipts for educational purchases to ensure funds are spent on approved purchases. The state Department of Education and state Treasurer oversee the ESA program, and the law provides for random audits of accounts to protect against fraud.³ There are no standardized testing requirements.

In 2011, Arizona teachers' unions mounted a legal challenge to the ESA program, claiming it violated the Blaine Amendment in the state's constitution, which prevents tax dollars from funding private or sectarian schools. An Arizona Court of Appeals unanimously ruled in favor of the ESA program, which passed constitutional muster because ESA funds can be used on a variety of educational services, not merely tuition at parochial schools. The Arizona Supreme Court validated the lower court by denying an appeal and allowing the ESA program to stand.

Florida, the second state to pass ESAs, restricts eligibility to students with Individualized Education Plans (IEPs) who were previously enrolled in public schools, as well as students diagnosed with autism, Down Syndrome, or other select disabilities. Florida's ESA is known as the Gardiner Scholarship program. Unlike Arizona's program, Florida's ESA program receives a line-item appropriation each year. In 2016-17, the program will receive \$71.2 million, which will provide roughly \$10,000 for each ESA. Florida requires participating students to take nationally norm-referenced tests—which compare a student's performance to similar-aged children.

Under the Gardiner Scholarship, two non-profit scholarship organizations—Step Up for Students and AAA Scholarship Foundation—oversee the ESAs. Florida's Auditor General conducts annual audits on the accounts. Parents submit claims for educational expenses and are reimbursed by the non-profit. Privately managed (rather than state-managed) ESAs may be preferable because they are less likely to be undermined by politics, more dedicated to the concept of school choice, and operate more flexibly than government agencies.⁴

In 2014, the Florida Education Association sued to strike down various school choice programs, including the ESA program. The union based its lawsuit on a technicality, arguing the ESA legislation violated Florida's "single-subject rule" because it included multiple education reforms in a single bill.⁵ A Florida Circuit Court ultimately dismissed this case, and no appeal was filed. As in Arizona, Florida's ESA program survived.

Mississippi is home to the nation's third ESA program, which is reserved for students with an IEP who withdraw from the public school system. The program served 286 students in its first school year, 2015-16. A maximum of 500 new students may be added to the program each year until 2019-20. Each ESA is funded at \$6,500, a figure based on the funding allocated by the state to public schools.

The Mississippi Department of Education manages the program, and parents are reimbursed by the Department on a quarterly basis for approved educational expenses. The Department can

³ Matthew Ladner: "The Way of the Future: Education Savings Accounts for Every American Family."
<http://www.edchoice.org/research/the-way-of-the-future/>

⁴ Jason Bedrick and Lindsey Burke: "On Designing K-12 Education Savings Accounts."
<http://educationnext.org/designing-k-12-education-savings-accounts/>

⁵ Goldwater Institute: "Florida Judge Dismisses Attack on New Program for Special Needs Students."
<http://goldwaterinstitute.org/en/work/topics/education/education-savings-accounts/florida-judge-dismisses-attack-on-new-program-for-/>

also make direct quarterly payments to a school or service provider, if the parent so chooses.⁶ Mississippi does not require ESA participants to take standardized tests.

Tennessee's ESA program, known as Individualized Education Account, was passed in 2015 and will launch in January 2017.⁷ Eligible students have an IEP, are between Kindergarten and 12th grade, and were previously enrolled in Tennessee public schools for the past two semesters. The ESA is also available to students attending a public school for the first time. Eligible students must be diagnosed with one of the following: autism, deaf-blindness, hearing impairment, intellectual disability, orthopedic impairment, traumatic brain injury, or visual impairment. Tennessee does not limit the number of students who may receive an ESA.

Tennessee expects to provide each ESA with \$6,600 annually, based on the state's public education funding formula. The Department of Education, which manages the program, will make quarterly deposits into the child's account. Students in grades 3-8 are required to take nationally norm-referenced tests.

Nevada was the first state to introduce a universal ESA bill. Passed in 2015, the program is available to all students enrolled in a district or charter school for the previous 100 school days. Nevada's universal ESA is funded at 90 percent of the state's per-pupil funding level, or roughly \$5,100.⁸ Low-income students receive 100 percent of the state's per-pupil education funding, or roughly \$5,700. Special needs students do not receive additional funding.

The ESAs are administrated by the Nevada Treasurer's office, which is responsible for reviewing program applications, overseeing ESA accounts, and performing random audits. Parents receive funding from the Treasurer in quarterly payments. Nevada students are required to take nationally norm-referenced tests.

Although the program was scheduled for implementation in January 2016, a state judge issued an injunction against the ESA legislation.⁹ As of this writing, ESAs are on hold for more than 4,000 approved students, thanks to the lawsuit brought by the ACLU and Nevada teachers unions.

Voter Satisfaction with ESAs

A 2016 national survey of registered voters conducted by Glover Park Group¹⁰ demonstrates broad support for the ESA concept:

- On a scale of 1-10, where 10 indicates "completely agree," 62 percent of respondents fell between a 7 and 10 when asked if "parents should be able to control how the public money allocated to their child is spent."
- When asked if "parents should be able to customize education options according to the needs of their child," 68 percent of respondents fell between a 7 and 10.
- After being provided with a brief description of ESAs, 59 percent of respondents viewed the program favorably, while 20 percent did not favor ESAs.

⁶ Mississippi Department of Education: "Education Scholarship Account." <http://www.mde.k12.ms.us/ose/esa>

⁷ Tennessee Department of Education: "IEA Frequently Asked Questions." <https://tn.gov/education/topic/iea-faq>

⁸ Nevada State Treasurer: "Education Savings Accounts." <http://www.nevadatreasurer.gov/SchoolChoice/Home/>

⁹ Sandra Chereb: "Decision Delays Nevada Education Savings Accounts."

<http://www.reviewjournal.com/news/education/decision-delays-nevada-education-savings-accounts>

¹⁰ Glover Park Group: "Education Savings Accounts Awareness and Messaging Survey Topline Report."

- 71 percent indicated they “would be interested in exploring this program for their child,” compared to 11 percent who would not.
- 58 percent of respondents support their state legislature’s passing a bill to create an ESA program, while 21 percent were opposed.

A 2015 national survey¹¹ conducted by Braun Research, Inc. also found ESAs popular with voters:

- 62 percent of respondents support ESAs, compared to 28 percent who oppose the concept.
- All surveyed demographics were supportive of the concept—the most supportive being young-adults, low-income earners, and school parents.
- Respondents indicated support for universal ESA access, rather than means-tested eligibility based solely on family income.

Designing an ESA Program to Strengthen School Choice in Pennsylvania

A well-designed ESA program would provide more educational options for families in need. School choice is popular in the commonwealth, with upwards of 120,000 charter students and 45,000 tax credit scholarship recipients. But demand exceeds supply for affordable, high-quality educational options. Thousands of Pennsylvania students are stranded on waitlists for charter schools. Tax credit scholarships are limited by the caps on business donations. ESAs are the next step Pennsylvania students and families deserve.

Lawmakers interested in crafting ESA legislation must consider each of the following questions:

- Which students are eligible for ESAs? Are ESAs available to all students, or only those with special needs? Many states choose to begin with eligibility limited to students with special needs, but universal eligibility is ideal.
- Should ESA eligibility be restricted to students who previously enrolled in Pennsylvania public schools? This is commonly required in other states, as it ensures ESAs are not a “new cost” to state government.
- How much funding will each ESA receive? Will each account receive a percentage of the state’s base education expenditure, or will the state create a new line-item appropriation? ESAs could theoretically be funded privately, via business or personal tax credits,¹² but this approach has not yet been tested in another state.
- What educational services can a parent purchase with ESA funding?
- How will parents access funds? Will funding be credited on a quarterly basis to a financial account, or will parents pay for educational expenses up front before submitting reimbursement requests?

¹¹ Paul Diperna: “2015 Schooling in America Survey.” <http://www.edchoice.org/research/2015-schooling-in-america-survey/>

¹² Jason Bedrick, Jonathan Butcher, and Clint Bolick: “Taking Credit for Education: How to Fund Education Savings Accounts through Tax Credits.” <http://www.cato.org/publications/policy-analysis/taking-credit-education-how-fund-education-savings-accounts-through-tax>

- Will there be standardized testing requirements?
- What is the state's role in overseeing ESAs? Will the program be managed through the Department of Education or non-profit organizations? Is there a role for the state Treasurer? How will accounts be audited to prevent fraud and abuse?
- What happens to an ESA if the parent decides to send their child back to a public or charter school? How is the ESA closed and where are the remaining funds transferred? In other states, unused ESA dollars in closed accounts are returned to the state's General Fund.

State	Eligibility	Students required to attend a public school prior to using an account	Funding	Academic Transparency	Program Administration	Allowable Uses
Arizona (ARS 15-2401 to 2404)	<ul style="list-style-type: none"> Children with special needs Children from failing schools Children in active-duty military families Adopted children Incoming kindergarten students Siblings of existing accountholders Preschool children with special needs Children living on Native American reservations A child using a scholarship under the state's tax credit scholarship law for children with special needs ("Lextie's Law") 	Yes (except incoming kindergarten students, preschool students with special needs, and children of military members killed in action)	<p>90 percent of the state portion of the school funding formula for each student, plus additional assistance (approximately \$1500)</p> <p>Students with special needs receive additional funding based on the state's weighted school funding formula (an average of \$13,000-\$15,000)</p>	No requirements	Arizona Department of Education	<ul style="list-style-type: none"> Private school tuition Textbooks Educational therapies by firms selected by the treasurer. Tutoring Curriculum Online classes Standardized test fees or AP test fees Contributions to a Coverdell education savings account College tuition College textbooks
Florida (Chapter 2014-184)	<ul style="list-style-type: none"> Children with specific special needs diagnoses Based on state appropriations, approximately 5,000 students will be served in the 2015-16 school year. 	No	<ul style="list-style-type: none"> Approximately \$10,000 per student The legislature must appropriate funds each year. For 2016, the state appropriated \$53.4 million. 	Students must take a nationally norm referenced test	Step Up for Students and AAA Scholarship Foundation	<ul style="list-style-type: none"> Instructional materials, including digital devices Curriculum Special education therapy Private school tuition College tuition Online courses Standardized test fees Prepaid college tuition plans Public school services
Mississippi (SB 2695 as sent to the governor)	Children with an active individualized Education Plan (IEP)	Yes	\$6,500	No requirements	Mississippi Department of Education	<ul style="list-style-type: none"> Private school tuition Textbooks Personal tutors Curriculum Transportation costs (limited to \$60) Online classes Standardized test fees Education therapy Public school classes and extracurricular activities College tuition College textbooks Surety bond payments Consumable materials Computer hardware and software
Tennessee (SB 27)	Children with specific special needs diagnoses	Yes	\$6,628	Students must take a nationally norm referenced test	Tennessee Department of Education	<ul style="list-style-type: none"> Private school tuition Textbooks Personal tutors Curriculum Transportation Online classes Standardized test fees Coverdell college savings plans Educational therapy Public school classes and extracurricular programs College tuition College textbooks
Nevada (SB 302 as enrolled)	All public school students	Yes	90 percent of the average basic support per student (100 percent for low-income student Average accounts are estimated to be \$5,100 to \$5,700)	Students must take a nationally norm referenced test	Nevada Treasurer	<ul style="list-style-type: none"> Private school tuition Textbooks Personal tutors Distance education programs Standardized test fees Transportation (\$750 per year) Curriculum College tuition College textbooks

Source: Goldwater Institute, 2016

About the Author and the Commonwealth Foundation

James Paul is a senior policy analyst with the Commonwealth Foundation.

The Commonwealth Foundation is Pennsylvania's free-market think tank. The Commonwealth Foundation transforms free-market ideas into public policies so *all* Pennsylvanians can flourish.