

EDUCATION SAVINGS ACCOUNTS

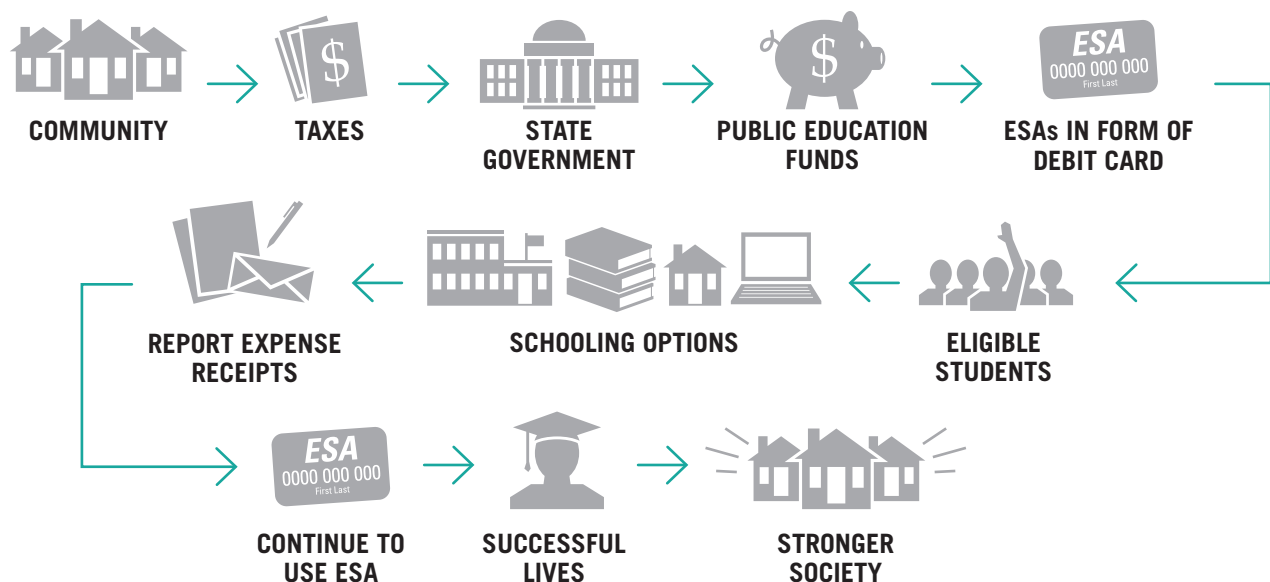


Educational choice options give families the freedom to choose the best learning environment for their children with the funding that would have been spent on their children in their zoned district schools. This ensures each child receives an excellent education, regardless of race, income, background, or ZIP Code. These programs come in four forms: education savings accounts (ESAs), vouchers, tax-credit scholarships, and individual tax credits and deductions.

Vouchers allow eligible families to send their children to the private schools of their choice using all or part of the public funding set aside for their children's education. With **tax-credit scholarship** programs, taxpayers receive full or partial tax credits when they donate to nonprofits that give out private school scholarships. **Individual tax credits and deductions** allow families to receive state income tax relief for approved educational expenses, which can include private school tuition, books, supplies, computers, tutors, and transportation. Innovative **education savings accounts**, on the other hand, are the next generation of educational choice.

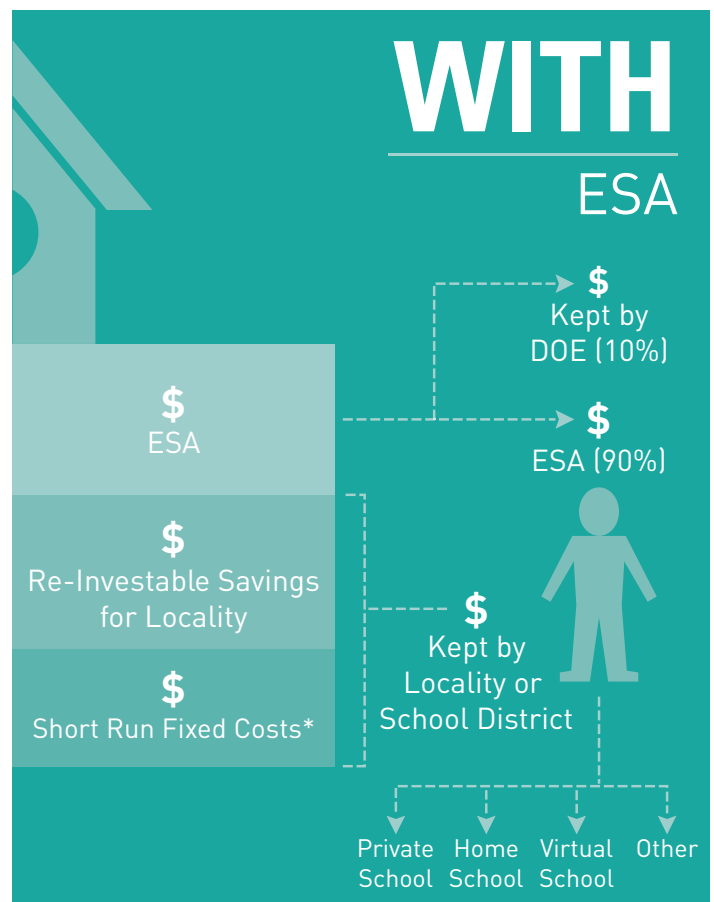
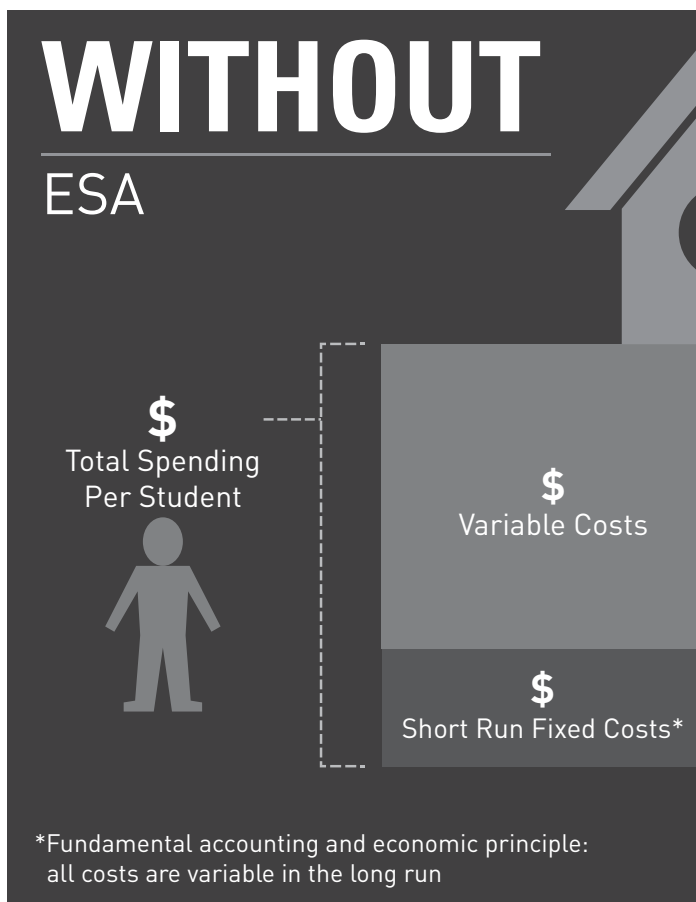
ESAs allow families to receive a deposit of public funds into government-authorized savings accounts with restricted, but multiple, uses. That means families are no longer limited to a choice among schools; they can fully customize their children's education.

With an ESA, families receive restricted-use "debit cards" loaded with a portion of their children's share of per-pupil funds, or access the funds via an online portal. They can then direct those funds to pay for pre-approved educational services and providers, including private school tuition, tutoring, textbooks, curricula, online learning, educational therapy, individual public school classes, Advanced Placement courses, and transportation to and from an education service provider. Families can roll over unused funds from year to year and even deposit funds into a college savings account.



How Education Savings Accounts Work

- 1** The eligible family receives a restricted-use debit card or online account loaded quarterly with allotted funds for their child's education. Eligibility is determined by the state.
- 2** The family uses the ESA for approved educational expenses and submits the receipts to the approved administrative agent for quarterly audits. ESA funds can be used only with vendors approved by the state. Those may include, but are not limited to, accredited and licensed therapists, tutors, and approved private schools.
- 3** Families may roll over funds quarterly, and any unused funds at the end of the year can be used the following year. (In many states, parents may place unused funds into a college savings account upon their child's high school graduation to use toward college tuition for a four-year time block.)



This graph attempts to convey a general depiction about how funds flow with most ESA and voucher programs. These flows ultimately depend on the details of how ESAs and vouchers are actually funded and on each state's own funding formulas. This graph is representative of how this works with most programs, but details vary by state. For example, one ESA proposal in NH would have 95 percent of state funds flow into a child's ESA.

Features of Education Savings Accounts

As of December 2017, six states have enacted education savings account programs: Arizona, Florida, Mississippi, North Carolina, Tennessee and Nevada.

Though each of the six enacted ESA programs allow families the flexibility to direct their children's public education dollars; program eligibility, funding, administration, and fiscal and academic accountability/transparency differ from state to state.

Eligibility. *Arizona's* ESA was signed into law by Gov. Jan Brewer in 2011. Originally, only students with special needs were eligible for the Arizona Empowerment Scholarship Program, as it's named in AZ. The program has been expanded several times to include children assigned to "failing" schools, children of active duty and fallen military personnel, children in adoptive care, incoming kindergarteners, and children from tribal lands. In 2017, Arizona expanded the program to near-universal eligibility, but the implementation is on hold pending a potential ballot referendum. In 2014 *Florida* enacted an ESA, called the Gardiner Scholarship Program (formerly the Personal Learning Scholarship Account). The Gardiner Scholarship is specified for children with particular special needs defined in statute, including autism, Down syndrome, and spina-bi da, among others. *Mississippi* and *Tennessee* also passed ESA programs for children with an Individualized Education Plan in 2015. Nevada broke new ground that same year by establishing the first near-universal education savings account program in the nation. All Nevada students who have been in public school at least 100 days before application are eligible for an ESA. In 2017, *North Carolina* enacted an ESA for students with special needs.

Funding. *Arizona* and *Nevada* ESA funding is set for 90 percent of the state portion of school funding. Students with special needs in Arizona are eligible for a higher amount through the school funding formula. In *Nevada*, low-income students and students with special needs are eligible for 100 percent of the per pupil state funds. In *Tennessee* and *Mississippi*, the amount per student is fixed at \$6,628 for Tennessee and \$6,500 for Mississippi. Funding for the *Florida* Gardiner Scholarship program is provided in the General Appropriations Act which specifies an annual amount, which varies according to grade, residence, and public school spending for students with disabilities. In 2016, the Florida legislature appropriated \$53.4 million to the scholarship program. In *North Carolina*, ESA students can receive up to \$9,000 per year and the legislature appropriate \$3.4 million for the 2018-19 school year.

Program administration. In *Arizona*, *Mississippi*, and *Tennessee* the ESA is administered by the states' departments of education, and in *North Carolina*, it is administered by the State Education Assistance Authority. However, it is considered best practice to place administrative authority in an agent that is not directly affected by the policy. For example, *Nevada* housed their ESA in the State Treasurer's Office and *Florida* designated two nonprofits to administer their scholarships.

Fiscal Accountability and Transparency. Account auditing differs per state. *Arizona* utilizes pre-paid, restricted-use debit cards. In *Arizona*, families access their funds through a Bank of America card, which is attached to a direct account and funded on a quarterly basis. At the end of each quarter, families must send their receipts to the Department of Education. Pre-approved vendors are listed in the merchant category code (MCC) within the Arizona Treasurer's office. The programs in *Tennessee* and *North Carolina* are modeled after Arizona's. *Florida* and *Mississippi* also have quarterly accountability and random auditing; however, in these programs families are reimbursed for approved education expenses, instead of paying upfront like the Arizona "education debit card."

Nevada's program has revolutionized the funding mechanism for ESAs. NV ESA payments are processed similar to a Health Savings Account through Benefit Wallet, a subsidiary of Xerox that traditionally serves as an online HSA portal. With the NV ESA, the approved education provider (school or tutor) files a claim with Benefit Wallet, which has an automated process through the department. Benefit Wallet is given a lump sum from the Treasurer's Office for ESA

expenses quarterly. Any claim filed by a provider is then paid directly from the family's Benefit Wallet. Furthermore, Benefit Wallet has a master list of approved providers, so any mismanagement is detected immediately. If families spend out of pocket, they can also be reimbursed for expenses. This process makes ESAs easier for families to get the care they need for their child without any paperwork burden.

The main scholarship organization administering the ESA program in *Florida*, Step Up for Students, is working with SAP Ariba to develop a similar online portal that would empower families to pay for preapproved educational products and services, and to rate those products and services and provide feedback based on their personal experience for the benefit of other families.

Academic Accountability and Transparency. Academic “accountability” and “transparency” mean different things for school choice. Academic accountability is best understood in terms of parental empowerment. Since parents are responsible for their children's educational outcomes, parental choice is its own form of academic accountability. Academic transparency is between the provider and the state, and is best understood in terms of testing requirements. Because ESAs allow parents to direct funds at a variety of education options, not just a particular school, the state cannot rely solely on a private school to administer a standardized test.

Arizona and *Mississippi* have no testing requirement. *Florida*, *Tennessee*, *Nevada* and *North Carolina* require a nationally norm-referenced test with results reported to the parent and department of education. Requiring a nationally norm-referenced test may be preferable, as long as parents are able to choose from a variety of norm-referenced tests and results are reported directly to them.

Future of Education Savings Accounts

Studies conducted on Arizona ESAs in 2011 show ESA families are happy with their accounts and utilize funds to customize their children's education. Parental satisfaction is a great indicator of success of a program. A 2013 Friedman Foundation study on Arizona's ESA program by Jonathan Butcher and Jason Bedrick found 71 percent of parents using Arizona ESAs were “highly satisfied” with their account, nearly 20 percent reported being “satisfied,” and 10 percent “somewhat satisfied.” No parent responded as neutral or dissatisfied with the accounts. Another 2013 Friedman Foundation study by Lindsey M. Burke found 34 percent of parents using the ESA in Arizona customized their children's education in the first year of the program by purchasing multiple learning services, and parents saved 43 percent of ESA funds for future expenses.

In a 2016 follow-up study by Burke and Butcher, data show AZ ESA families spent more money on tutoring from 2013–2015, and 28 percent of parents customized their children's education. This demonstrates that even with a larger cohort of students, families still use accounts for multiple options, and it adds to the larger body of evidence supporting ESAs.

In 1962 Milton Friedman wrote, “Not all education is schooling, and not all schooling is education. The proper subject of concern is education.” ESAs are educational choice 2.0 because they give families a choice in schooling options and allow parents to fully tailor their children's *educational experience*. ESAs are about education, not merely schooling. Universal education savings accounts would be the best in educational choice, to date, because they enable all students to have access to a top-notch, customized education that meets their unique learning needs—ultimately empowering families and strengthening communities.