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Strong States, Strong Nation

The Next Generation of School Vouchers: Education Savings Accounts

By Josh Cunningham

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The Arizona Legislature created "empowerment scholarship accounts" in 2011. Like traditional school vouchers, state funds are used to provide financial support to qualifying parents who want to send their children to private school. What makes Arizona's program different is that parents have the freedom to use their state support for more than just private school tuition. In fact, parents can choose not to use the funds for tuition at all, instead using them to pay for a number of products and services related to educating their children. These could include online courses, textbooks and tutoring. Arizona's program is an example of a policy concept that is broadly referred to as education savings accounts (ESAs). Four additional states enacted similar programs by June 2015.

How It Works

In ESA programs, restricted-use debit cards are issued to participating parents with the grant amount loaded onto the card. States can choose to issue the full grant up front or load it periodically during the year. Parents can use the funds to pay state-approved education vendors for qualifying education expenses.

States define which students are eligible for the grant. Arizona offers them to an array of different students, including those with disabilities, students in foster care and students living in the attendance zone of a low-performing school. Florida limits ESAs to students with disabilities, while Nevada's 2015 legislation makes them available to all public school students—estimated at 90 percent of all students in the state.

States must also determine the value of the grant. In Arizona, the amount of money deposited into a parent's account is 90 percent of the amount the state would have paid for their child to attend a charter school. In Mississippi, parents receive grants of $6,500. That amount is adjusted each year proportionally to the change in statewide base per-pupil funding. In Nevada, parents receive 90 percent of the state average per-pupil funding allocation unless they have a household income below 185 percent of the federal poverty level or their child has a disability, in which case they receive 100 percent of the state average per-pupil funding allocation.

A state can either manage the payment system itself or in some cases, like in Nevada and Tennessee, they can contract with a private, for-profit financial services company to manage payment verification and processing. The benefit of outsourcing these services is that states may not be equipped to conduct them in a timely manner, and there are private companies that already perform these services for flexible spending and health savings accounts. When services like these are outsourced, however, questions about accountability and transparency will likely be raised. It is unclear how much information and data a private company can be required to share and how much is protected as proprietary.

States must decide what happens to a parent's unspent funds each year. In Arizona, the unspent funds get deposited into a college savings account. In Tennessee, parents can contribute to a federal Coverdell Education Savings Account, allowing excess funds to carry over into future years. Coverdell ESA funds can be spent on K-12 or higher education, whether public or private schools. Once high school is completed, Tennessee students can use any remaining funds to pay for higher education courses. Mississippi, on the other hand, requires that when students complete high school, any remaining funds must be returned to the state. By giving parents options for using leftover funds in their account, supporters contend that parents will have an incentive to be more cautious in how they spend their ESA funds, seeking the best bang for their buck.

Accountability

What is the money being spent on? Are students receiving a high-quality education? Do students of all backgrounds have an equal opportunity to attend a high-quality school? What happens when students are not receiving a high-quality education? These are just some of the accountability questions lawmakers and taxpayers ask of any school choice program that receives public funding. States address these questions in many different ways. The most common tool used to measure how students are performing in private school choice programs is an assessment. If states choose to use this tool, they can require students to either take the same state assessment that all public school students take, or they can allow students to take alternative exams. The latter option grants education providers more flexibility in developing their curriculum since they are not bound to a single assessment. However, using alternative assessments makes it difficult to compare the performance of ESA students to students in other schools, both public and private. Currently, there are no states with ESAs that limit students to only the state assessment. Florida, Nevada and Tennessee all allow education providers to use state-approved alternative assessments.

Not all states believe testing is an appropriate way of measuring program performance. Arizona and Mississippi currently do not have any testing requirements for ESA students. Instead, they believe parents are in the best position to decide whether their child's school is the right fit or not. Research shows that parents choose schools for a variety of factors beyond academic quality, including proximity to home or work, safety, school culture and special programs offered.[1] These are factors that assessments cannot measure but that have an impact on how well students perform in school.

When it comes to ensuring participating vendors and private schools are providing a high-quality education, states have the option to establish minimum standards up front as well as to set performance expectations on the back end. This can include independent accreditation or a process by which the state evaluates and approves education providers before they can receive ESA funds. Additionally, states can impose penalties on low-performing providers, including removing their ability to receive ESA funds, similar to what some states with other forms of private school choice programs do. There are not, however, any current ESA programs that statutorily tie an education provider's continued participation in the program to the performance of students purchasing its services with ESA funds.

The Case for ESAs

Advocates argue that by giving parents an array of options on which to spend the grant funds, they will be more mindful of both the quality and cost of the services they seek, allowing them to get the most out of the grant. This will increase competition among schools and other qualifying service providers vying for parents' business and lead to decreased costs and increased quality in education. Having so many options also allows parents to customize their child's educational experience to best meet their individual needs, rather than expecting all children to fit into the traditional school model. Further, proponents argue, by giving parents such choices, traditional public schools will be forced to compete for students and the funding tied to them. These competitive forces will force schools to raise their academic quality, thus improving the education system as a whole. However, research on school competition has yet to reveal a strong effect on student achievement except when schools are in close proximity to one another.

Concerns over ESAs

Opponents of ESAs worry that there is not enough accountability to ensure that participating children are receiving a high-quality education and that funds are being used appropriately. Choosing a low-quality education provider can have long-term negative effects on a child's educational development. Some critics wonder whether parents would have access to enough information about their various options to distinguish high-quality services from poor ones. Many also believe ESAs improperly funnel public dollars to religious schools. Others contend that public funds are being shifted away from struggling neighborhood schools and instead given to private schools that are held less accountable than their public counterparts. With that said, there is no strong evidence tying private school choice programs to long-term funding shortages in public schools. In fact, public schools have always had to make budget adjustments as the result of students coming and going for numerous reasons.

Note

1. Mary Klute, *Understanding How Parents Chose Schools: An Analysis of Denver's School Choice Form Questions* (Denver, Colo.: Buechner Institute for Governance, December 2012), www.dkfoundation.org/sites/default/files/files/ How%20Parents%20Choose%20Schools%20Report%20FINAL.pdf.

Key Questions for Legislators Considering Education Savings Accounts

1. How will eligible students be defined? How many students will qualify for the program? What is the current capacity of private schools statewide and in areas with the highest concentration of eligible students?

2. How does your state measure private school quality? Are there accreditation standards? Will participating schools be required to meet additional quality standards?

3. How does your state regulate assessments in private schools? Will participating schools be required to administer state assessments? Will they have the ability to offer alternative assessments? If so, who will pay for it? If not, how will the state track the program's academic effectiveness?

4. In what ways, if any, will your state evaluate the performance of participating education providers? Will there be any consequences for those not meeting performance expectations?

5. How will your state manage parent accounts and verify parent transactions? Will a state agency manage the accounts or will the state contract with private financial institutions?

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