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Abstract

Education is on the verge of a new frontier. Online virtual schools are spreading, and charter schools now account for some 2 million students. Parents are able to find hundreds of educational tools online. A movement is gaining momentum to give all parents the ability to choose where—and how—their children are educated. This movement builds on long-standing school choice programs, including the Milwaukee Parental Choice Program, the D.C. Opportunity Scholarship Program, and private school scholarship options in Florida and Pennsylvania, among other states. The next generation of educational choice must offer more than school choice. Parents should have the flexibility to choose among schools, online courses, tutors, and other education services through education savings accounts (ESAs). ESAs give parents control over the funds that a state would have spent on their child in a public school, allowing them to use their child's funds for a variety of education services and products. This Heritage Foundation Special Report *presents three ways in which states can refine their existing school choice programs, transforming existing voucher and tax credit programs into flexible education savings accounts.*

Education is on the verge of a new frontier. Online virtual schools are spreading around the country, and charter schools now account for some 2 million students. Parents are able to find hundreds of educational applications on an iPad or use programs such as Skype or instant messaging to find tutoring programs for their children anywhere in the world. A movement is gaining momentum to give all parents the ability to choose where—and how—their children are educated. This movement builds on long-standing school choice programs, including the Milwaukee Parental Choice Program (MPCP), the D.C. Opportunity Scholarship Program (D.C. OSP), and private school scholarship options in Florida and Pennsylvania.

Milwaukee's voucher program is more than 20 years old, and other scholarship options, such as in Washington, D.C., and Florida have existed for more than a decade. The next generation of educational choice must offer more than school choice. Parents should have the flexibility to choose among schools, online courses, tutors, and other education services through education savings accounts (ESAs). Education savings accounts give parents control over the funds that a state would have spent on their child in a public school, allowing them to use their child's funds for a variety of education-related services and products.

This *Special Report* presents three ways in which states can refine their existing school choice programs, transforming existing voucher and tax credit programs into flexible education savings accounts. These options are:

1. **Creating public school education savings accounts.** Parents could use a public school

education savings account for traditional school classes, public charter school offerings, public virtual schools such as the Florida Virtual School, community colleges, or state universities.

2. **Shifting existing school voucher or scholarship tax credit funds to an education savings account.** States with existing voucher programs or scholarship tax credit programs should allow parents to deposit voucher or scholarship funds into an education savings account in order to gain more flexibility with their child's funds.

3. **Expanding the approved expenses covered by a voucher or private school scholarship.** This would include expanding the uses of a school voucher or scholarship, transitioning the program into an education savings account.

Shifting existing school choice programs to an education savings account would give parents more choices, and children more opportunity, in education. As online learning marches forward, empowering parents with control over education funding, and by extension, providing choices among discrete courses, will give every child the opportunity to pursue learning options that meet his needs, at his pace, in learning environments his family has chosen.

Expanding Educational Opportunity for All Children

Every child deserves the chance for a good education. For most families in the U.S., the odds of attending a good school depend entirely on where one lives. A *New York Times* article from May 2013 featured parents Kelly Bare and Jonathan Cohen along with their two children (Lizzie, age 2, and Drew, age 5), smiling in a picture atop the story.[1] The article, titled "The Get-Into-School Card," said Kelly and Jonathan were pleased with their local public school in Brooklyn—and the rest of the article explains that this family is an exception. Across New York City, while parents can exercise intradistrict public school choice, the options end there. A child's get-into-school card is her zip code. Yet even parents who could exercise the type of school choice made available by moving to a desirable district often find that the school they had sought out to attend is full.

While wealthy families can exercise choice by buying a house in a better neighborhood, or paying private school tuition, middle-class and low-income families are left with few options. Some families put their children on waiting lists at charter schools, as prominently featured in such documentaries as *Waiting for Superman* and *The Lottery*, while others take drastic measures and lie about where they live in order to be zoned for better schools.

A lack of choice helps to explain decades of low achievement in K–12 schools. On international math assessments, American children rank in the middle of the pack of developed nations, falling behind their peers in Estonia and Poland—not to mention traditionally high-achieving nations in East Asia, such as Korea and Singapore.[2] Since the 1970s, academic achievement has been flat, with math scores increasing only nominally, and reading achievement unchanged for the past 40 years.[3]

Not only have test scores been flat, but high school graduation rates have not improved for minority students and students in low-income areas. Graduation rates today hover around 78 percent, but in some of the largest cities in the country, only half of all students graduate high school.[4] According to research from Johns Hopkins University, the four-year graduation rate for black students is 66 percent or below in 20 states.

There are other signs that America's education system is failing to meet the needs of millions of students: One-third of students need remedial coursework when they enter college, and the achievement gap persists between white and minority students, and between children from low-income families and their more affluent peers.[5] According to the George W. Bush Presidential Center's *Global Report Card*, "[A]chievement in many of our affluent suburban public school districts barely keeps pace with that of the average student in a developed country."[6]

But there is good news: Underperformance in K–12 schools has galvanized some state and local leaders to give parents options other than their child's zip code–designated school. The problems that have plagued the K–12 system for decades are due in part to a lack of incentive for the public system to improve. The existing system funds public schools instead of children and leaves parents with little recourse when their child's assigned school fails to meet the child's needs. Little wonder, then, that the monopolistic nature of the public education system has meant it is resistant to change and been slow to improve. With a steady stream of dollars and students regardless of achievement outcomes, public schools have no reason to change the way they do business.

As a result, school choice programs have been a welcome solution for parents in states that have enacted school vouchers, scholarship tax credits, and online learning alternatives. These options have given thousands of children the chance for a brighter future, particularly among low-income families. In 2011, policymakers took this movement to new heights, expanding or enacting educational choice programs in 12 states and the District of Columbia, leading *The Wall Street Journal* to call 2011 "The Year of School Choice."[7] In 2012, Arizona and Louisiana lawmakers gave even more parents the freedom to choose higher-performing schools for their children by expanding the eligibility criteria for programs already in operation.

As Nobel Prize–winning economist Milton Friedman argued, the consensus to publicly *fund* education does not mean that government should dictate where children *attend* school. The financing of education should be separate from how it is provided, with dollars following a child to any school of choice: public, charter, virtual, private, or home. State education agencies should provide funds to families instead of to school buildings. Likewise, to give every child the chance to succeed, current voucher and scholarship options must be more flexible.

Education savings accounts, pioneered in Arizona in 2011, provide just such flexibility.[8] Parents control their child's share of education funding and finance a variety of education services and products, including private school tuition, online classes, education therapies, textbooks, and college savings plans. Parents can roll over unused account funds from year to year, and they can decide to deposit the money in a college savings account. Education savings accounts represent the most flexible, fine-tuned approach to educational choice to date, a refinement of Friedman's original school voucher concept of 1955.

State and local leaders should transition existing school choice programs into flexible and innovative education savings accounts. By doing so, they will empower parents, provide every child with more choices, and breathe life into a stagnant K–12 education system. In the 2012–2013 school year, 302 children used an ESA.[9]

Arizona's Education Savings Accounts

In 2011, Arizona Governor Jan Brewer signed S.B. 1553, creating the nation's first education savings accounts (ESAs) for children with special needs.[10] While traditional voucher or tax credit scholarship programs offer parents and their children the option to choose a private school, ESAs give families the flexibility to choose from a variety of educational products and services. Similar in design to health savings accounts (HSAs), education savings accounts are bank accounts which include a debit card that the state awards to parents of eligible children. Arizona deposits 90 percent of a child's per-student funding from the state education formula onto a pre-paid card, and parents can use the card directly or through online services like PayPal to make purchases.

An HSA allows account holders to use the money to pay for copayments for doctor visits, prescriptions, and hospital visits. An ESA allows parents to use the money to pay for private school tuition for their child, textbooks, tutoring, or to save for college. Approved expenses also include educational therapy, online classes, standardized testing, college tuition, and individual public school classes and extracurricular activities.[11]

Governor Brewer signed an expansion to the program in 2012, doubling the number of eligible students.[12] Today, more than 200,000 Arizona children are eligible for the accounts, nearly one in five Arizona public school students: 125,000 children with special needs, 87,000 children in failing Arizona public schools (schools that received a "D" or below on their state report card), more than 11,500 children of active-duty military families, along with children adopted from the state's foster care system.[13] Children applying for the first time must have attended a public school (traditional or charter) in the previous school year. In June 2013, the education savings accounts were further expanded to include incoming kindergarten students who meet the eligibility requirements.[14]

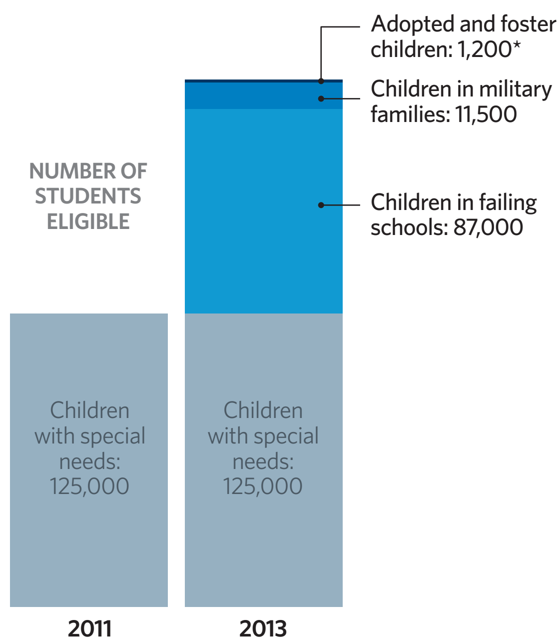
How Arizona Parents Use Education Savings Accounts. The Arizona Department of Education posts the education savings account application on its website.[15] Parents must complete and submit applications to the department between January 1 and May 1 of a given year.

Once an application is approved, the state Department of Education and state Treasurer's

CHART 1

New Groups Eligible for ESAs in Arizona

In 2013, three new categories of students became eligible for education savings accounts (ESAs) in Arizona, raising the total number of eligible students by nearly 100,000.



* Estimate.

Source: Jonathan Butcher, "Education Savings Accounts: A Path to Give All Children an Effective Education and Prepare Them for Life," Goldwater Institute *Policy Report* No. 253, October 30, 2012, http://goldwaterinstitute.org/sites/default/files/PR253ESAsPathToAllChildren_0.pdf (accessed June 18, 2013).

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Office provide families with access to an account and debit card. Parents sign a contract with the state's education department stating that they will provide their child with an education in at least the subjects of reading, grammar, mathematics, social studies, and science, and will not enroll their child full time in a public school (traditional or charter) while using an ESA (though parents can purchase individual public school classes or pay for extracurricular activities that take place at public schools).[16]

The department makes quarterly deposits in the accounts. During each fiscal quarter, parents must return all receipts for purchases to the department. The department reviews each purchase to make sure parents spent money only on eligible expenses. If parents use their ESA to pay for something that is not an eligible expense, such as gas or groceries, the department will withhold the next quarterly deposit and correct the error with the family. More information on audit procedures and eligible expenses is provided below, under "Key Components of Education Savings Accounts."

Education savings account parents have created a digital message board on Yahoo.com to help navigate the application process, discuss eligible expenses, and share effective practices. As of June 19, 2013, 194 parents have joined the message board and posted 3,935 conversations.[17] The message board serves as a guide for account families and eligible families as they consider their options.

Legal Challenges to Education Savings Accounts. This model of ESAs was conceived by the Goldwater Institute in 2005, and Arizona lawmakers turned to the program as a solution after the Arizona Supreme Court ruled two school voucher programs unconstitutional. In 2009, the court ruled that a voucher system for students with special needs and another for children in foster care violated state constitutional provisions prohibiting the use of public funds for religious purposes.[18] Such "Blaine Amendments" are found in at least 38 state constitutions, and teachers unions regularly cite these provisions when challenging parents' educational choices.[19]

The Arizona teachers union and state school board association sued to take the accounts away from parents of special needs children shortly after Governor Brewer signed education savings accounts into law in 2011. These organizations referred to the same constitutional provisions that were used to strike down the state's school voucher laws.[20]

In January 2012, Maricopa County Superior Court Judge Maria Del Mar Verdin ruled the accounts constitutional, saying, "The exercise of parental choice among education options makes the program constitutional."[21] Judge Del Mar Verdin cited the distinction between a school voucher or scholarship tax credit, which can only be used for the purpose of private school tuition (in most states with such laws[22]), and education savings accounts, which can be used for a host of different education expenses, as a critical basis for the accounts' constitutionality. Currently, the Arizona

Court of Appeals is considering oral arguments held on February 13, 2013. A decision is expected later this year.

Education Savings Accounts and Cost Savings. Arizona's accounts not only provide families with more choices in education but do so at a cost savings to the state, and potentially the taxpayer. First, 10 percent of the per-student funding is retained by the state; 90 percent of the student's allotment is deposited in the ESA. Of this 10 percent, the Arizona Department of Education can use up to 5 percent to cover administrative costs, such as staff salaries and technology necessary to audit the accounts.

Arizona's accounting system adjusts for student mobility one year after schools submit their enrollment data to the state. School districts report enrollment in April, and the state Department of Education requests funds from the treasury for the next school year based on those student counts. If a child uses an ESA, the state education department's request to the treasury for education funding in a given year will be reduced by the difference between the child's traditional per-student funding amount and his new savings account award.

Second, education funding comes from three sources: legislative appropriations, local districts, and the federal government. Since the accounts are only funded using the state portion, the entire local and federal portions are saved by the state education department and local districts.

For children from failing schools, military families, or adopted from the foster care system (these children are eligible for accounts in the 2013–2014 school year), education savings account awards will be approximately $3,200, which is one-third of the state per-student average of $9,233.[23] The 2013 expansion increases the average award from approximately $3,000 to $6,000.

Children with special needs receive larger ESA awards because of Arizona's weighted funding system. These children have a numerical "weight" applied to their base funding according to their need.[24] For example, a child with a hearing impairment receives an ESA based on a funding weight of 4.771 multiplied by his base amount ($3,200), resulting in an account total of $13,740 (90 percent of $15,267). Like children from failing schools, in military families, or adopted children, children with special needs who use an education savings account also do not receive local or federal money.

Key Components of Education Savings Accounts

Education savings accounts are a unique concept in education. Since no other state had tried such a program, Arizona lawmakers and advocates studied the implications of six specific elements of the law when writing the legislation:

1. **Student Eligibility.** In 2011, legislators allowed only children with special needs to be eligible for the accounts. Over 125,000 children with special needs attend public school in Arizona, and these students often need services that public schools are not equipped to provide. Private school choice programs exclusively for children with special needs are also available in Florida, Georgia, Louisiana, Mississippi, Ohio, Oklahoma, North Carolina, and Utah.[25] In Arizona, some public schools already place children with special needs in a private school if the public school determines it cannot adequately serve the child. Education savings accounts give parents the ability to make the best choice for their child and do not limit educational decisions to public school officials.

   In 2012, the ESA program expanded to include children from failing schools, children of active-duty military parents, and children adopted from the state foster care system. This expansion doubled the number of eligible students to more than 200,000. As mentioned, since June 2013, the ESAs now also include incoming kindergarten students who meet the eligibility requirements. Today, the accounts serve children who are the most vulnerable to falling through the cracks of the traditional public school system.

   For children in failing schools, clearly the traditional system has not delivered a quality experience—student test scores are among the lowest in the state, and student achievement is not improving. (In Arizona, school report card grades are based on annual test scores and achievement scores over time.)

Children from military families regularly change cities and even states based on their parents' assignments, and this regular upheaval prevents a consistent school experience with the same school and peers from one year to the next. Education savings accounts allow parents to find a private or online school for their child to attend even as the family may move between base assignments.

Likewise, foster children also change homes as they move from one family to the next. Under Arizona's savings account law, foster children must be in the final stages of adoption before they are eligible for an account. Otherwise, the children are still wards of the state and the state would be making decisions over various private and public services for the child. If a child is adopted or near the end of the adoption process, the new family can make these decisions. Education savings accounts also give these foster or adopted children stability in their school experience, a feature previously absent from their personal life.

But all students should be eligible for an education savings account, just as all students are eligible to attend a public school. The same funding source is used for both—so why should some students have more educational options than others? Indiana has enacted an inclusive voucher law that allows children in a family of four with a household income of up to $63,964 to qualify for vouchers.[26] Nearly 4,000 students signed up for school vouchers in the program's first year, the largest inaugural enrollment in a school choice program in history.[27] In 2012, Louisiana Governor Bobby Jindal signed an expansion to the state's voucher program that included children from schools that received a "C" or below on the state report card, making some 380,000 children eligible.[28]

2. **Funding.** The original education savings account law funded the accounts using an Arizona funding source for children with special needs that is maintained outside the traditional education funding formula (called the "special education fund"). The state's use of the special education fund for ESAs caused two problems: First, because Arizona resources its schools based on the previous year's enrollment count, Arizona paid for each new ESA student twice in the first year. One payment came out of the traditional funding formula and went to a child's previous school, and the second payment came from the special education fund. Second, it was impossible to expand the program to other student groups because the special education fund was only set aside for students with special needs. If the program was to expand to traditional schoolchildren in mainstream classrooms, the law did not provide a funding source.

Arizona lawmakers resolved the funding issue in 2012 with H.B. 2622.[29] This bill changed the funding source from the special education fund to the traditional education funding formula. This change allowed the bill to expand student eligibility to children in "D"-rated and "F"-rated public schools, children from military families, and children adopted from the state's foster care system. In order to do so, the expansion was set to take effect one year after H.B. 2622 was signed into law. The delayed implementation allows the education department to gather applications and report the number of 2013–2014 accounts to the treasurer in time for the state treasurer's office to make payments to school districts and accounts for the next school year.

Because of Arizona's inefficient funding mechanism for public schools, however, taxpayers still pay for accounts twice in the first year a child's parents use an account.[30] As described above, traditional school districts report enrollment near the end of the year, and these enrollment figures are used to calculate funding for the following school year. As a result, if a student enters kindergarten or graduates or changes schools between enrollment counts, his transition is not accounted for until the next school year. This practice caused Arizona taxpayers to pay $125 million for empty seats in Arizona public schools in the 2009–2010 school year.

The solution to this inefficiency is to fund Arizona's traditional schools and education savings accounts in the same manner as the state's charter schools. Arizona charter schools report enrollment periodically throughout the year, and the state adjusts charters' funding accordingly. Charters are funded based on the children they are currently educating, not those they educated last year. This method eliminates the waste caused by traditional schools' delayed funding mechanism.[31]

If traditional schools reported enrollment throughout the year, ESA children would be accounted for as having left a traditional school, and taxpayers would only have to pay once per year for each public school child, regardless if he was using an education savings account or attending a traditional or charter school.

3. **Eligible Expenses.** Arizona law lists 11 eligible educational expenses for education savings accounts:

- Private school tuition and fees;
- Textbooks;
- Educational therapies;
- Tutoring services;
- Curriculum materials, including manipulatives like blocks used for math lessons or map materials for geography and history activities;
- Online classes;
- Standardized test fees;
- College savings plans;
- College tuition and fees;
- Fees for administrative management of the accounts; and
- Public school classes and extracurricular activities.[32]

These expenses allow families to choose a private school for their child, homeschool, enroll their child in college classes, use online classes, or combine any of these options.

The accounts have proved flexible for families and students. In November 2011, shortly after the accounts were operational, the Arizona Department of Education reported that parents spent

- $182,636.88 on private school tuition;
- $497.19 on textbooks;
- $9,948.41 on educational therapies;
- $3,195 on tutoring services;
- $1,886.94 on curricular materials;
- $600 in college savings plan deposits; and
- $70,971.51 was rolled over from one quarter to the next.[33]

Even with this flexibility, there are regular expenses that parents incur when educating their children that are not allowed with an Arizona ESA. Parents should have the freedom to use ESA funds to pay for school uniforms, educational summer camps, classroom materials (consumables such as pencils and paper), computers and tablet devices, and transportation fees. For items that can be used for any non-education activity, such as a computer, limits could be put on how many times these items can be purchased during a certain time period. For example, families could be allowed to purchase one computer every three years with account funds.[34] Such a provision would help to prevent fraud and abuse of the funds.

The Arizona Department of Education's limitations on how many different ways families can spend account monies are due in part to the department's own auditing limitations. Additional recommendations for how states can improve audit procedures and allow parents more flexibility are discussed in the appendix.

Just as ESA parents help each other navigate different processes using a Yahoo! message board, so, too, are schools and other vendors helping families evaluate their choices between various purchases. In February 2013, two schools hosted an "Education Savings Account Fair" and invited vendors to distribute information to families. Brightmont Academy and Lexis Preparatory School (located in Scottsdale) hosted the event, which was similar to a summer camp fair or job fair. Schools, tutors, and other providers set their material on tables, and Brightmont and Lexis Prep invited ESA parents to browse different vendors' displays and discuss providers' services.

4. **College Savings Plans.** ESA parents were allowed to invest in 529 college savings plans, yet few families were able to make deposits into these accounts because the ESA funds are available only on pre-loaded debit cards. The department of education and treasurer's office coordinate deposits at the beginning of each fiscal quarter, and parents can neither write checks, make cash withdrawals, nor conduct electronic fund transfers (EFTs) with the cards. Most 529 account providers coordinate deposits into their savings plans using electronic transfers or by depositing physical checks, payment methods not available to ESA families.

   In addition to the logistical challenges for parents in making 529 deposits, these accounts increase the potential for financial fraud, since 529 funds can either be withdrawn entirely with a tax penalty and used for any expenses or be transferred to another family member for use in his or her college education instead of the ESA student. Arizona's law tries to prevent this fraud by stipulating that 529 accounts must be used "for the benefit of the qualified student," but Arizona officials have no mechanism by which to make sure the money is used only for an ESA student's college education.[35] Once funds are deposited in a 529, according to federal law, individuals can withdraw funds and pay the tax penalty or use the account to pay higher education expenses for an ESA child's sibling or other family member—a violation of Arizona's ESA law. Without monitoring receipts from 529 transactions in perpetuity and depending on parents to correspond with the department until the account is empty, Arizona officials have no recourse if funds are used for expenses other than the education of the student.

   One remedy for this problem came earlier in 2013 in Arizona H.B. 2458.[36] This bill changed the college savings options from 529 plans to Coverdell Education Savings Accounts. The 529 college savings plans can only be used for higher-education expenses, and the only limits to contributions are that the total deposits "cannot exceed the amount necessary to provide for the qualified education expenses of the beneficiary."[37] Coverdell accounts are also federally created education savings plans, but families can use the funds for K–12 or college expenses. Annual deposits cannot exceed $2,000.[38] This means that any K–12 or higher-education purchases that parents make with Coverdell accounts are governed by federal law and subject to review.[39] More discussion of fraud prevention ideas is provided in the appendix.

5. **Unused Funds.** Because Arizona's education savings accounts are flexible, parents and students can spend each quarter's deposits on private school tuition, tutoring, and any of the other eligible education expenses, or families can save the funds. As explained above, parents can leave all or a portion of the money in the account until a child reaches college age and then spend the funds on college tuition. This means that money could remain in an account for years, even a decade or more, without any activity.

   All states have "escheatment" laws, which require financial institutions to report unclaimed property after a designated period of time.[40] To prevent the confusion that would ensue over unused account money, state departments of education should notify families if their account is due to become dormant.

   Additionally, under Arizona's ESA law, parents and students must return unused account funds after the student graduates from college.[41] Funds also return to the state if the child does not attend college within four years after high school graduation. States should consider education savings account monies as private funds after a child finishes his or her education. Escheatment should not be an issue once an account recipient turns 21, and the now-adult account holder should be allowed to roll leftover account monies into a retirement savings account or an HSA.

6. **Homeschooling.** H.B. 2622, the Arizona bill that Governor Brewer signed in 2012, which expanded ESAs to include children from failing schools, from military families, and adopted children, also drew clear distinctions between account families

that choose to homeschool and traditional homeschool families. In this way any current or future changes to the account law would not apply to families that homeschool without an account.

Arizona law now outlines five ways for a student to meet the state requirement to attend a "school": (1) traditional public school, (2) charter school, (3) private school, (4) education savings account, or (5) homeschool.[42] As a result, homeschool families not using an account are not automatically included in any revisions to the education savings account law that may include reporting requirements for families in order to prevent fraud and abuse.

Refashioning Choice Programs into Education Savings Accounts

School choice programs throughout the country are providing children with access to educational options that would otherwise be out of their reach. Voucher and tuition tax credit programs empower parents to send their children to a private school of choice, and as a robust body of empirical evidence has demonstrated, these school choice programs have led to increased graduation rates and higher levels of parental satisfaction.

In 2011, Arizona demonstrated that a new frontier of education choice is possible and can provide families with more than just school choice: Education savings accounts enable families to completely customize their child's education. State and local policymakers now have the opportunity to refine existing school choice programs, transforming voucher and tax credit programs into flexible education savings accounts. Three options for doing so are explained below.

Creating Public School Education Savings Accounts. In some states, such as Florida, state law precludes the option of universal education savings accounts. In *Bush v. Holmes*, the Florida Supreme Court ruled that the uniformity clause in the state constitution was violated by a system of private school vouchers that had been in place for six years before the ruling.[43] (Voucher programs have been upheld by other state supreme courts and the U.S. Supreme Court).[44] Florida's McKay Scholarship Program, which provides vouchers to children with disabilities, was not considered in *Holmes* but was referenced: "The majority in *Bush v. Holmes* held that programs targeted at disabled children are a special case, beyond the pale of the uniformity clause."[45]

Yet, unless and until *Bush v. Holmes* is overturned by a different Florida court, a statewide ESA could be challenged as violating the state constitution. For a state like Florida, a *public school* ESA option would be a means of providing additional educational choice while abiding by the state constitution and the current legal landscape. Other states that may be in similar situations should consider such an option.

ESA Child: Jordan Visser

Jordan Visser was diagnosed with mild cerebral palsy at age five and struggles with motor coordination and vision. But because he functions well in many other areas, his mom, Kathy, struggled to find the right school and treatment for him.

Jordan did not fit in anywhere, says Kathy. For the first eight years of his life, Kathy did everything she could to help Jordan find a school and therapies that met his needs, but she was largely unsuccessful, she says.

Kathy began using an education savings account for Jordan in 2011, and she says, "It's been a Godsend."

At first, Kathy used the account funds for a private school that specializes in treating students with special needs, but then Kathy began homeschooling Jordan in 2012.

Kathy has hired a teacher to work with Jordan during the week. Kathy also uses account funds to pay for a physical education class for homeschooled students on Wednesdays. In addition, Jordan sees a physical therapist twice each week using ESA funds.

Kathy also uses the account to pay for Jordan's therapeutic horseback riding classes. She explains that Jordan used to lose his balance and fall over frequently, even after a small gust of wind. The riding lessons have helped his balance tremendously, Kathy says. In Jordan's weekly P.E. class, he now participates in activities like dodge ball and relay races.

"Education savings accounts allow parents to have a choice they wouldn't have had otherwise," Kathy says.

A public school ESA could be used for traditional schools, public charter schools, public virtual schools, such as the Florida Virtual School, community colleges, or state universities. Under such a system, parents who choose not to enroll their child as a traditional student in a public school would have their child's funds from the state formula deposited into their ESA. They could then use their funds to purchase individual classes from traditional schools or public charter schools, or parents could buy individual classes from their state's virtual school network.

The legislature in a given state would provide an appropriation for a per-student allocation, weighted by specific student characteristics, such as poverty and disability. Funds would be deposited in an ESA and could be used to pay course fees at public schools and public charter schools, in a state online learning program, and at a community college or state university. Utah Representative John Dougall (R–Highland) introduced a similarly structured proposal for his state during the 2012 general legislative session.[46]

While a public school ESA option would not provide the type of highly customized flexibility as an account open to public and private uses, it is a step toward unbundling the courses that are offered in public schools and institutions, and the accounts would empower parents to direct their children's education.

Shifting Existing Voucher or Scholarship Tax Credit Funds into an Education Savings Account. Some states, such as Wisconsin, have long-standing school choice programs. The Milwaukee Parental Choice Program (MPCP) has been meeting the unique needs of children since 1991, when it was enacted as the country's first private school voucher program. Today more than 23,000 low-income children participate in the MPCP, and these students are attending more than 106 different private schools.[47] While Wisconsin has led the way for school vouchers, the state still must make sure that every student has access to learning opportunities that meet their unique needs.

The opportunity for Wisconsin—and every other state in the country—is to unbundle public school services. "As technology improves, schools can match students to their ideal difficulty point, giving them the intrinsic satisfaction that comes with a genuine learning experience," writes Harvard Professor Paul E. Peterson.[48] Children in Milwaukee and surrounding districts are currently able to use a voucher to attend a private school of choice, but students have the potential to be better served if their vouchers were more flexible and had multiple uses. All Wisconsin children and their parents would be equally well served by having maximum control and flexibility with their share of education funding.

For a state like Wisconsin, or places like Ohio, Indiana, Louisiana, Oklahoma, and Washington, D.C., infusing more flexibility into their existing voucher programs would provide a critical refinement of their school choice programs. The flexibility would allow these states, which have been the vanguard of the choice movement, to move beyond school choice and toward educational choice. Likewise, states with scholarship tax credit systems, such as Georgia, Iowa, and Pennsylvania should include the same flexibility.

States with existing voucher or scholarship programs should allow parents to deposit funds into an education savings account. In a state with a voucher program, such as Wisconsin, or a state with scholarship tax credits, such as Iowa, this would take the form of freestanding education savings accounts, separate from the established school voucher or scholarship program. Parents who currently use a voucher or scholarship for their child to attend a private school of choice could either continue with the voucher/scholarship option, or could choose to deposit their funds into an ESA. States that choose this route should create a statewide ESA and provide parents the option to deposit funds into the accounts.

For example, in Wisconsin, a parents whose children currently receive a voucher through the MPCP could deposit their vouchers into education savings accounts. The education savings account option wouldn't be attached to the MPCP, but the accounts would provide an additional vehicle for parents to customize how they use their voucher funds. Wisconsin should extend ESA eligibility to as many students as possible, not just to those who currently participate in the existing voucher program.

Establishing a freestanding ESA option alongside the MPCP would create flexibility for parents using the voucher program. Parents in rural districts could use their account to purchase online courses, giving them access to courses and instructors that were previously inaccessible. MPCP parents could still enroll their children in private schools, but they could use any unused funds for supplemental private tutoring. Parents with advanced students could use their accounts to pay for college-level coursework. Establishing an ESA option to run parallel with Wisconsin's existing school choice programs would provide just that flexibility.

Families in Wisconsin and states across the country that have existing voucher or tax credit scholarship programs should be given the option to deposit their funds into an education savings account. Such an option would represent the second generation of school choice, fostering previously unseen levels of educational innovation. It would allow choice among K–12 courses, moving beyond school choice to educational choice.

Such an approach also provides a secondary benefit: It solves the fundamental problem of how much a public school class should cost. As ESAs become more prevalent, the market will decide the cost.

Expanding the Uses of Vouchers and Scholarships to Function Like ESAs. A third option for introducing education savings accounts in a state with private school choice is to increase the number of possible uses for a school voucher or scholarship. This would transition the programs into an education savings account. Changes to a voucher or scholarship program could be phased in over time, but each successful push would be a new use for a family's voucher.

For example, the first expansion could extend the eligible use of a voucher or scholarship to allow purchase of private online courses, in addition to the voucher or scholarship's applicable use at a private school of choice. A subsequent legislative effort could expand the eligible uses to include coverage of special education services. Vouchers and scholarships could also be reformed to allow payment of curricula, textbooks, or private tutoring. A state's voucher or scholarship tax credit program would look more like an education savings account, providing families with a wide array of educational options without increasing spending or enacting new programs.

ESA Child: Kasey Locke

Jeff and Rebecca Locke did not want Kasey to be frustrated in, or out of, school. Kasey, age six and diagnosed with autism, responded the best when her parents used a behavioral technique called Applied Behavioral Analysis (ABA). The Lockes encouraged Kasey's teachers to use some of the ABA techniques in the classroom, explaining the success they had with the approach at home.

"They couldn't really ever bake the ABA stuff into the cake," Jeff says, explaining that Kasey's teachers were unable to combine ABA techniques with their other instructional approaches. But when the Lockes learned about the new education savings account program, "[i]t was almost too good to be true."

"So far," says Jeff, using an education savings account has "just been great." He adds that "it has opened a lot of doors." Kasey is attending a new school, and her new teachers are implementing the behavior strategies into the teaching. Kasey is now less frustrated, and she communicates better with her parents. Jeff reports, "She likes to go to school and is a lot happier in the morning. On the car ride down there, she is more excited."

The Lockes use Kasey's account for private school tuition and speech therapy services. "It's been a huge success for us," Jeff says.

Transparency Is Key

No matter how a state chooses to pursue education savings accounts—whether by enacting a completely new program like Arizona, creating public school ESAs, providing the option to deposit existing voucher funds into a savings account, or expanding the eligible uses of a voucher—state policymakers should address the issues of accountability and academic transparency.

Fiscal Accountability. ESA debit cards should have the same protections as food stamp debit cards (with purchases and receipts overseen by the state department of education, treasury, or an outsourced private firm). The cards should be protected from ineligible purchases and should be subject to regular and random audits by the state education department or treasury. To further insulate taxpayers from misuse of funds, states should enable state departments of education or state treasurers to contract with a bank or insurance company to create surety bonds for education savings account families. This would enable the state to use surety bond payments to pay for a collection agency to recoup ESA funds spent on ineligible items. Surety bonds should be a required expense to protect the financial interests of the state. The bonds must be an allowable expense under an education savings account, with parents able to cover the cost of the bonds with their account funds.

States must be able to expand their fiscal oversight provisions as a program grows. A state department of education or treasury should not rely on a review of each receipt a parent submits. Account oversight should be outsourced to private firms, similar to the way in which expenses covered through an HSA account are outsourced. With an HSA, private financial firms often approve transactions and can do so for a nominal fee.

Accountability for Student Outcomes. Academic transparency requirements need to balance individual liberty and accountability to taxpayers for the use of tax money.

Arizona's education savings account options require parents to sign a contract with its department of education stating that they will provide their child with an education in at least the subjects of reading, grammar, mathematics, social studies, and science. Taxpayers need an assurance that parents are providing their children with education in these subjects. In order to provide that information without imposing undue regulations on parents or otherwise limiting their educational freedom, states implementing ESAs could require students to take a national norm-referenced test. A norm-referenced test determines how well a student has mastered course content relative to other students. Examples of norm-referenced tests include the Stanford Achievement Test and the Iowa Test of Basic Skills.

In addition to requiring ESA enrollees to participate in norm-referenced tests, account statutes should require regular independent evaluations. Federal legislation creating the highly successful D.C. Opportunity Scholarship Program in 2003 stipulated that the program be evaluated using "the strongest possible research design for determining the effectiveness" of the program.[49] For the D.C. Opportunity Scholarship Program, that meant an experimental evaluation of the impact of voucher use on participating students' academic achievement and graduation rates. Separate qualitative evaluations were also conducted to assess parental satisfaction with their child's educational experience as a participant in the program.

At a minimum, state policymakers should make sure that information is gathered about ESA usage (the types of educational options financed and how much was appropriated to those options) and student outcomes on nationally norm-referenced tests. Additional studies could also be included in statute to provide researchers, taxpayers, policymakers, and parents with information about program outcomes.

Conclusion

Education savings accounts are the most innovative education choice option in the U.S. The accounts provide student-centered funding—not just the funding for physical school buildings and classrooms. Funding children instead of institutions gives families the flexibility to direct every dollar of that funding to their child's education.

Lawmakers can create a new education savings account option, like in Arizona—or, they can convert existing programs into ESAs. There are three options for conversions: (1) allow public school education savings accounts, (2) allow parents to deposit their voucher funds into an ESA, or (3) expand the allowable uses of a voucher or scholarship tax credit so that it more closely mirrors an ESA. Education savings accounts will increase student access to education options that meet their individual needs, paving the way for student success.

Appendix

Fraud and Abuse

The Arizona Department of Education and treasurer have discretion over how to manage financial fraud in education savings accounts. The treasurer can contract with a private firm to administer funds and oversee the accounts and the department "may adopt rules and policies necessary for the administration" of the accounts.[50] To date, the treasurer has not outsourced any operations, and the department has reviewed every receipt returned by parents to document how accounts are used.

The program started with only 75 accounts in 2011, doubling to 150 in 2012, and the number of accounts grew to 302 in the 2012–2013 school year. But with over 200,000 children eligible for the 2013–2014 school year, the department of education and treasurer will need operations that are designed to grow with the increasing number of participating students.

First, ESA cards should have the same protections as food stamp debit cards. With food stamp cards, individuals cannot make purchases at vendors that do not sell eligible items nor can they purchase ineligible items. Food stamp cards are not foolproof, but they prevent individuals at the register from using their cards to buy non-food items.

ESA cards cannot be used at certain stores (gas stations, for example), but families can make purchases at large retailers, such as Target and Walmart. The cards are not as sophisticated as food stamp cards, however, and parents can purchase non-educational items. If parents do not return receipts, state departments of education will not recognize the fraudulent activity until a department conducts a quarterly or annual audit. The account cards would be less vulnerable to fraud if cardholders could not purchase ineligible items.

Second, the Arizona Department of Education or state treasurer should contract with a bank or insurance company to create surety bonds for account families.[51] Public notaries and government contractors regularly use surety bonds as insurance policies to ensure that both sides of an agreement fulfill their part of the contract. Parents sign a contract with the department of education stating that they will use ESA funds to educate their child and not enroll their child in a public school as long as they are using an account, so a surety bond system is a natural fit.

In Arizona, public notaries can purchase a surety bond for one year for $26 and be insured up to $25,000. State officials should make a similar arrangement for ESA families, an option specifically provided in H.B. 2458. If a parent misuses an account and refuses to repay the funds, the department can use surety bond payments to hire a collection agency to recoup the funds. Otherwise, if the funds are not recoverable, surety bond payments can be used to reimburse the state for the loss.

State officials should also use fraud-prevention techniques employed in other public benefit programs, such as Medicaid. For example, the state department of education should create a telephone hotline for fraud reporting, and an online form that both parents and vendors can use to report misuse of funds.[52] Arizona's Health Care Cost Containment System has such a toll-free hotline and online form.[53] State leaders should also commission "compliance buyers," or individuals posing as shoppers attempting to commit fraud with account funds. The Special Supplemental Nutrition Program for Women, Infants, and Children has used such procedures.[54]

None of these fraud prevention approaches will prevent all forms of abuse, and every public program is susceptible to fraud. However, these recommendations will create a stable, effective program and protect children from suffering the results of account fraud.

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