

Education Opportunity Accounts in Practice

Pa. Projections and Lessons from Other States

KEY POINTS

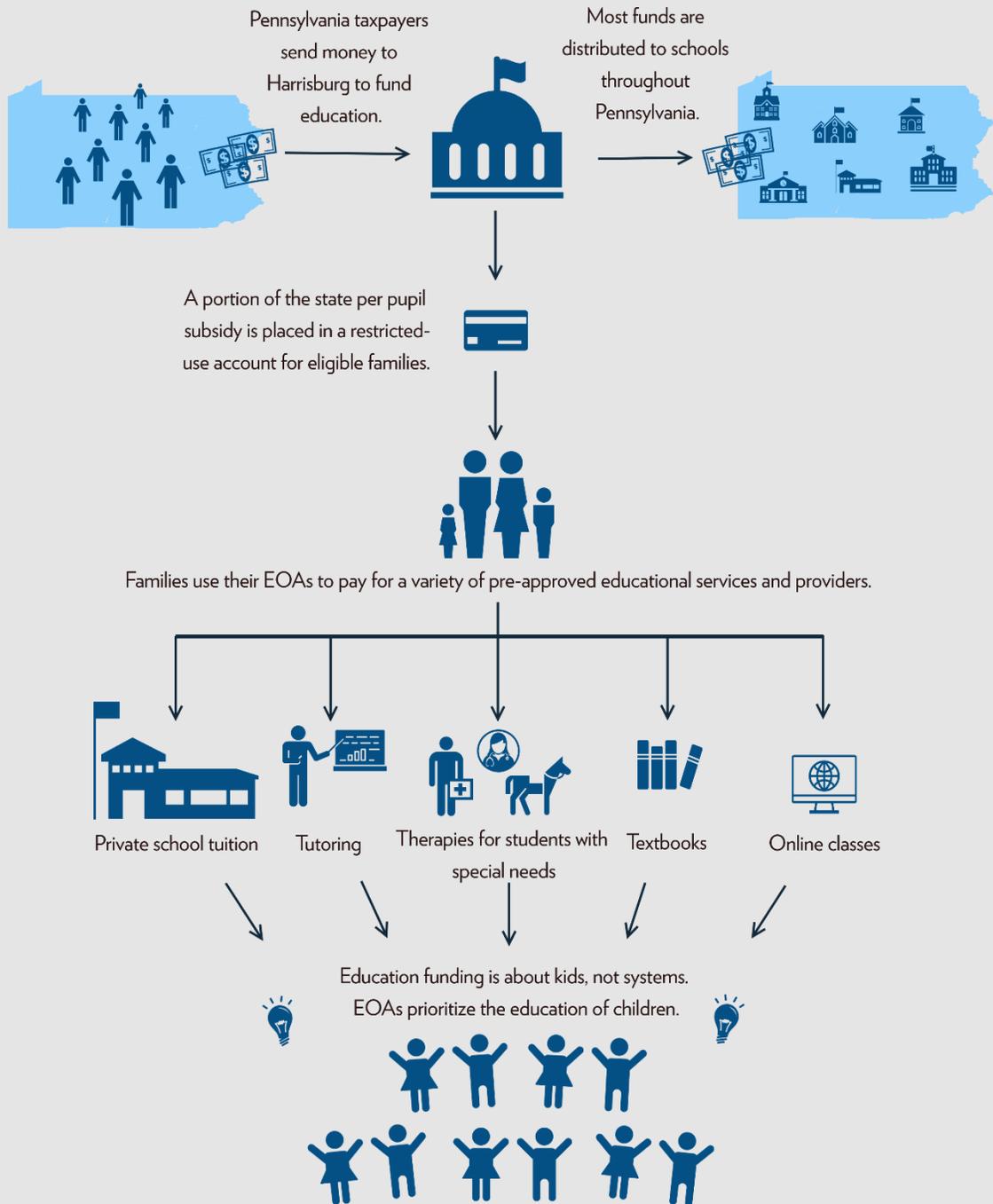
- Education Opportunity Accounts (EOAs) are transformative, flexible-use accounts funded by state tax dollars.
- Program Administration: The Pennsylvania Treasury is the ideal administrator at the state level and may contract with a third-party manager such as ClassWallet.
- Cost and personnel requirements: The Treasury estimates \$1 million for initial appropriation plus \$8 million per year for a targeted (Exceptional Students) program. While costs vary depending on program eligibility, Treasury's cost estimate is high.
- Similar programs in other states have a proven track record of reliably serving families with low rates of fraud.

WHAT ARE EDUCATION OPPORTUNITY ACCOUNTS?

- Bullet EOAs are flexible, restricted-use accounts typically funded with state education dollars. The funds are only for qualified education expenses, such as private tuition, tutoring, curriculum, services for students with special needs, and much more. EOAs are a solution to pandemic learning loss and persistent achievement gaps.
- EOAs give parents maximum flexibility in meeting their child's academic needs. EOAs refocus state funding on the education of children. Under existing proposals, only students leaving a public school would be eligible.
- Under current legislative proposals, each participating child would receive via their EOA an amount equal to the average state education subsidy per student minus transportation funding. This figure is simple to calculate using the Pennsylvania Department of Education's (PDE) Annual Financial Report (AFR) data. The most recent AFR is for 2019-2020. Based on PDE's data, EOA amounts that year would have been approximately \$6,700 per student.¹
- EOAs will not receive their funding from the districts, rather participating student's amounts would be deducted from the state subsidies for individual school districts. There would be no significant impact to the state budget, and school districts keep all local and federal dollars.
 - For the 2019-2020 calculation, this means \$6,700, on average, would have gone into the EOA of each participating child, while \$13,000, on average, stayed with the district for each of these students, allowing school districts to increase spending per student.

Education Opportunity Accounts (EOAs)

With education opportunity accounts (EOAs), the state deposits a portion of per-pupil education funding in restricted-use accounts that parents control. The money can be used for approved expenses, such as tuition, tutoring, online classes, curriculum, and services for students with special needs.



WHERE ARE EDUCATION OPPORTUNITY ACCOUNTS AVAILABLE?

- EOAs, also referred to as [Education Savings Accounts \(ESAs\)](#), are currently available to students in ten states: Arizona, Florida, Indiana, Kentucky, Mississippi, Missouri, North Carolina, New Hampshire, Tennessee, and West Virginia. Five of those states passed EOA legislation in 2021. This wave of new school choice legislation underscores the growing demand from parents for customizable, high-quality education options for their children.²
- All current EOA programs include funding for students with special needs. Arizona's also includes military families, students in low-performing districts, foster children, and children on Native American reservations. New Hampshire, Missouri, and Kentucky have EOA programs limited by income. West Virginia's new program is open to K–12 students who are switching out of public school or entering kindergarten.

PROGRAM ADMINISTRATOR

- Treasury or the PDE could administer the EOA program(s), often in concert with a third-party manager such as ClassWallet.
- Treasury administration is preferable given that the administrator should focus on efficiency and preventing financial fraud, not dictating approved educational services.
- In the event the PDE chooses to contract with a third party to manage student accounts, Treasury would need to issue a request for proposal (RFP). A number of vendors have experience managing EOA programs. These include (but are not limited to):
 - ClassWallet: The platform works with Arizona, New Hampshire, and North Carolina in traditional programs and supports non-traditional programs in other states (i.e., Idaho, Oklahoma). This list is not exhaustive.
 - Step Up for Students: Known primarily as a Scholarship Granting Organization in Florida, Step Up For Students helps administer four Florida scholarship programs, including the Family Empowerment Scholarship program, which provides a type of EOA to students with special needs.
 - Tuition processors: FACTS and Simple Tuition Solutions are the most prevalent in Pennsylvania.
 - Scholarship Organizations: Pennsylvania has a robust network of scholarship granting organizations. Significant overlap exists between what these organizations currently do for the Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC) programs and what would be required for EOAs.

ADMINISTRATIVE COSTS

- Cost will vary by program type and student eligibility. Treasury estimates the following costs for a targeted (Exceptional Students) EOA program.
 - A \$1 million initial appropriation and 5 percent of scholarship awards annually thereafter—or \$8 million per year.³

- This estimate assumes 16,000 students will participate in the EOA program, or 4.5 percent of the eligible pool. This is high considering other states' experiences and the number of students that would be eligible under the Exceptional Students EOA program.
- **Arizona's program** began with 153 students and leveled off in years 9 and 10 serving just under 11,000 students.

Student Use of EOAs in Other States

State	Program Name	Participation	Participation Rate
AZ	Empowerment Scholarship Accounts	10,850	4%
FL	Family Empowerment Scholarship Program-- Formerly Gardiner	17,508	6.5%
MS	Equal Opportunity for Students with Special Needs Program	492	<1%
NC	Personal Education Savings Accounts	318	<1%
NH	Education Freedom Account Program	1,635	3%
TN	Individualized Education Account Program	307	1.5%

Source: EdChoice, School Choice in America Dashboard, <https://www.edchoice.org/school-choice/school-choice-in-america/>.

- One percent of eligible Pennsylvania students in an exceptional EOA program is equivalent to 3,500 students.

Targeted EOA Admin Cost Projections

5% Admin Set-Aside Projection

Participation	Admin Set-Aside (5%)
500	\$252,925
3,500	\$1,770,475
10,000	\$5,058,500
16,000	\$8,093,600

*Assumes an average EOA grant of \$10,117.

Treasury projects 16,000 initial participation.

CF projects 3,500 initial participation.

- The 5 percent administration cost estimate is in line with Pennsylvania’s Supplemental Nutrition Assistance Program (SNAP) per case administration expense of \$339.⁴
- This will not require its own appropriation, as the 5 percent comes out of individual accounts. See schedule below.
- Cost of EOA administration in other states:
 - Arizona’s EOA law allows up to 5 percent of total scholarship awards for administrative costs. Prospective vendors are required to provide fixed price quotes.⁵
 - In Florida, scholarship organizations may receive up to 3 percent of the value of scholarship awards for administrative expenses; this amount comes on top of the program, not from out of scholarship funds.
 - Mississippi sets aside 6 percent for administration and returns unused funds.⁶
 - West Virginia’s Hope Scholarship allows for “an amount not to exceed 5 percent of the fund” for administrative costs.⁷
- Costs estimates should also consider the inherent savings of a targeted Education Opportunity Account program.
 - For instance, total spending per special education student is roughly \$32,000 in Pennsylvania.⁸ Assuming an average EOA recipient receives a grant of \$10,000 (base amount x 1.51), the school district will save more than \$20,000 per grantee. A low-performing schools EOA would have similar advantages, given above-average spending per pupil in low-performing schools.

FRAUD PREVENTION

- Legislation typically defines the qualified education expenses.
- An audit provision is typical, with teeth built in for violations. These may include:
 - Misuse of funds resulting in loss of eligibility.
 - Referral of fraudulent cases to law enforcement agencies for investigation.
 - Reverting student account balance(s) to the General Fund in the event of fraud.
- Rates of EOA fraud in other states are miniscule. In Arizona, barely 1 percent of the \$60 million in education account funds was misspent and an even smaller fraction of that was related to fraud.⁹
- However, Arizona’s administrators wanted to reduce fraud exposure further still. As a result, they shifted from debit to a wallet system—which preserves ease of use for the customer and maximizes fraud protection.

HOW TO QUALIFY FAMILIES

- Online application processes have become the standard, where applicants can enter qualifying information as needed. Applications commonly have one-page limits for ease of use.
 - Here is an example of a [Florida Hope Scholarship application](#).¹⁰

- The screening process is highly dependent on program type (e.g., targeted vs. universal). This can be handled by third party or scholarship organization (e.g., ClassWallet, Step Up For Students, and/or Pennsylvania’s network of scholarship organizations).

QUALIFIED VENDORS

Standards for vendors or curriculum providers in legislation include:

- A nonpublic school for grades K–12.
- An institution of higher education.
- A distance learning program.
- A tutor who is either a licensed teacher in any state, has tutored or taught at an eligible postsecondary institution, has tutored or taught at an eligible nonpublic school, or is a subject matter expert with a tutoring agency otherwise approved by the department.
- A counselor, licensed or accredited by the state to work with school-age children.
- A provider of home education services or curriculum that adheres to state education laws.

BEST PRACTICES

- Indiana Department of Education maintains an updated list of schools participating in the Choice Scholarship Program. Pennsylvania could create a similar list to assist parents considering an EOA for their child.
- Create a one-page FAQ (available in English and Spanish) similar to the Florida Family Empowerment Scholarship FAQ.
- Offer a parent handbook to include explaining how to qualify, what expenses an EOA covers, fraud penalties and parent expectations. Here are some examples.
 - [Arizona](#) (Empowerment Scholarship Account Program)
 - [Florida](#) (Gardiner Scholarship Program)
 - [North Carolina](#) (Opportunity Scholarship)
 - [Tennessee](#) (Individualized Education Account Program)
- Establish a method for answering parent questions about the program in a timely manner.
- Ensuring the treasury has adequate time to launch the program. ClassWallet reported opening their Oklahoma application window for parents 30 days after the state announced three direct aid programs stemming from CARES Act funds.¹¹
- Ensure a reliable funding source. Florida’s Hope Scholarship, for example, necessitated a legislative fix because the funding through fluctuating DMV revenues caused administrative problems.¹²

CONCLUSION

The K-12 education bureaucracy's woeful pandemic responses have underscored what we already knew: the system is broken, and children need for transformative change right now. Education Opportunity Accounts (EOAs) offer that transformative solution.

Some concerns have been raised by Treasury and others about the cost and logistical processes of program administration. Thankfully, other states have been down this path and offer a roadmap.

The Pennsylvania Treasury is the ideal administrator at the state level and should consider contracting with a third-party manager.

Treasury's estimate of \$1 million for initial appropriation plus \$8 million per year for a targeted (Exceptional Students) program is high, as it overestimates likely initial participation. Additionally, Treasury's cost assessment is missing context that the program would largely pay for itself.

Other states have proven track records of reliably serving families with low rates of fraud. Our task in Pennsylvania is to preserve both maximum parent flexibility **and** the integrity of the program.

APPENDIX

Table 1 – Targeted (Special Needs) EOA Savings:

PA K-12 Special Education Funding

Targeted EOAs can meet kids' needs and save districts money

Cost Compare Special Education Grants v In-District Cost	
<i>Non-Special Ed Spending per Student</i>	\$16,166
<i>Special Ed Spending Per Student</i>	\$16,227
Total Spending Per Special Ed Student	\$32,393
<i>Exceptional Student EOA Amount*</i>	\$10,117
EOA Savings to School Districts (per student)	\$22,276

* Assumes an EOA student with a grant multiplier of 1.51

Source: PA Department of Education Expenditure and Special Education Data Reports
<https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/AFR-Data-Summary-Level.aspx>
https://penndata.hbg.psu.edu/penndata/documents/BSEReports/Data%20Preview/2020-2021/Speced_Quick_Report_PA_Final_2020-2021.pdf

¹ Pennsylvania Department of Education, Annual Financial Reports; State Revenue: 2010–11 to 2019–20, <https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/AFR-Data-Detailed-.aspx#.VZwC6mXD-Uk>.

² Edchoice, "Education Savings Accounts," 2021, <https://www.edchoice.org/school-choice/types-of-school-choice/education-savings-account/>.

³ Cost estimate from Pennsylvania Treasury, presentation shared via email.

⁴ SNAP SAE (State Admin Expense) = \$339 per case; 946,000 households; \$206,802,000 monthly benefits/\$2,481,624,000 annual benefits. See Geller et al., "Exploring the Causes of State Variation in SNAP Administration Costs", Manhattan Strategy Group and the Urban Institute for the U.S. Department of Agriculture, Food and Nutrition Service, February 2019, <https://fns-prod.azureedge.net/sites/default/files/media/file/SNAP-State-Variation-Admin-Costs-FullReport.pdf>; and U.S. Department of Agriculture, "Characteristics of Supplemental Nutrition Assistance Program Households: Fiscal Year 2018", November 2019, <https://fns-prod.azureedge.net/sites/default/files/resource-files/Characteristics2018.pdf>.

⁵ Matt Beienburg, Testimony for Arizona Joint Legislative Budget Committee, January 2018, <https://www.azleg.gov/jlbc/jlbcag010918.pdf#page=33>.

⁶ "2020 Statutory Review of Mississippi's Education Scholarship Account Program," Mississippi Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER), December 2020, <https://www.peer.ms.gov/Reports/reports/rpt649.pdf>.

⁷ West Virginia Legislature, House Bill 2013, March 17, 2012, https://www.wvlegislature.gov/Bill_Text_HTML/2021_SESSIONS/RS/signed_bills/house/HB2013%20SUB%20ENR_SIGNED.pdf.

⁸ See appendix Table 1.

⁹ Matt Beienburg, "The Public School Benefits of Education Savings Accounts: The Impact of ESAs in Arizona," Goldwater Institute, August 2019, https://goldwaterinstitute.org/wp-content/uploads/2019/08/Public-School-Benefits-of-ESAs_web.pdf

¹⁰ Step Up For Students, "Hope Scholarship application," 2021, <https://hope.sufs.org/s3/hope-scholarship-application-2021>.

¹¹ Oklahoma Stay In School Fund Program Report, December 2020, https://www.opsac.org/uploads/1/1/1/3/111330333/sis_report__print.pdf.

¹² Florida Senate, Text of Senate Bill 506, "Hope Scholarship Program," July 2021, <https://www.flsenate.gov/Session/Bill/2022/506/BillText/Filed/PDF>.