

Education Opportunity Accounts in Practice

Pennsylvania Projections and Lessons from Other States

KEY POINTS

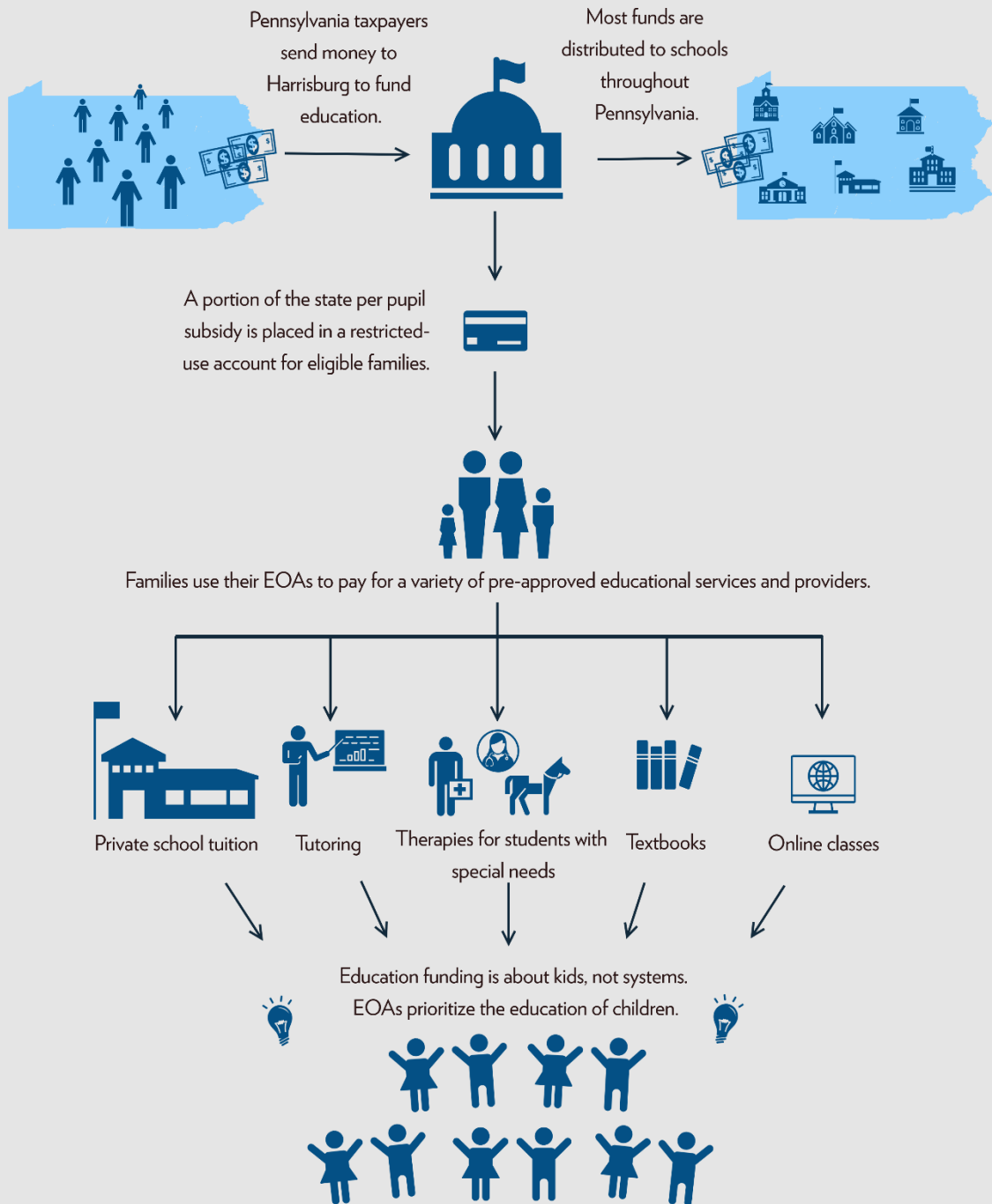
- Education Opportunity Accounts (EOAs) are transformative, flexible-use accounts funded by state tax dollars.
- Program Administration: The Pennsylvania Treasury is the ideal administrator at the state level and may contract with a third-party manager such as ClassWallet.
- Similar programs in other states have a proven track record of reliably serving families with low rates of fraud.

WHAT ARE EDUCATION OPPORTUNITY ACCOUNTS?

- 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 2021–22. Based on PDE's data, EOA amounts that year would have been approximately \$7,100 per student.¹
- EOA funding for each participating student would be deducted from the state subsidies for individual school districts—not from the districts. There would be no significant impact to the state budget, and school districts keep all local and federal dollars.
 - For the 2021–22 calculation, this means \$7,100, on average, would have gone into the EOA of each participating child, while \$14,100, on average, stayed with the district for each of these students, allowing school districts to increase spending per student.

Education Opportunity Accounts (EOAs)

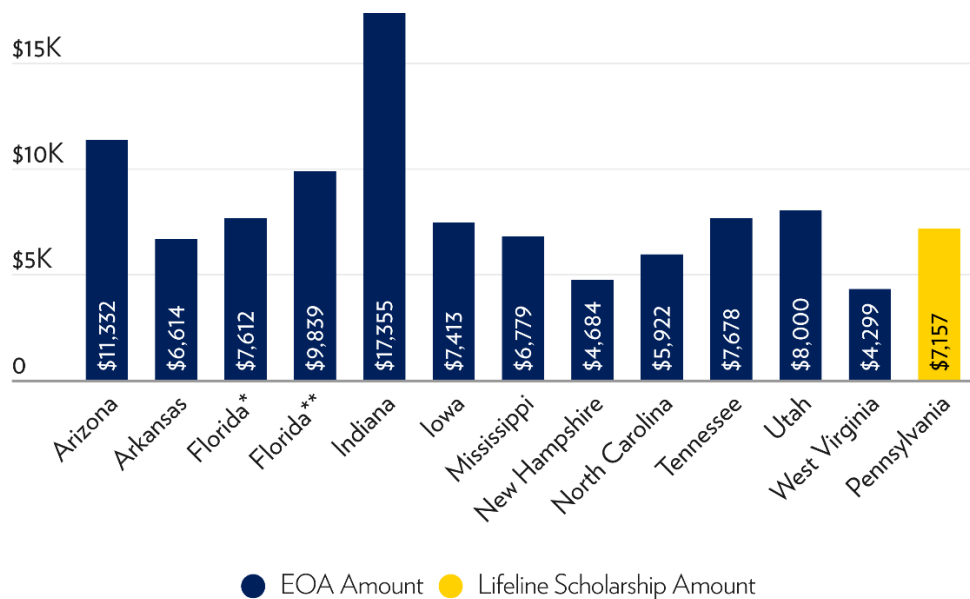
With education opportunity accounts (EOAs), the state deposits a portion of per-pupil education funding in restricted-use accounts that parents control. The money can be used for approved expenses, such as tuition, tutoring, online classes, curriculum, and services for students with special needs.



WHERE ARE EDUCATION OPPORTUNITY ACCOUNTS AVAILABLE?

- EOAs, also referred to as **Education Savings Accounts (ESAs)**,² are currently available in 13 states. Six states offer universal EOAs: Arizona, Arkansas, Florida, Iowa, Utah, and West Virginia. Seven states limit them to specific groups of students: Indiana, Mississippi, Montana, New Hampshire, North Carolina, Tennessee, and South Carolina. Ten of those states passed or expanded their programs since 2021. In **2023 alone**, eight enacted new or expanded existing EOAs.³ This wave of new school choice legislation underscores the growing demand from parents for customizable, high-quality education options for their children.
- All current EOA programs include funding for students with special needs. **Arizona's** program became available to all students in 2022. **Utah** raised its ESA amount to \$8,000 starting in 2024, yet its program, while open to all students, has enrollment capped at 5,312 students. Programs in **Arkansas** and **Iowa** currently hold limits but become universal, respectively, in 2025 and 2026. **New Hampshire's** program limits help depending on income. **West Virginia's** program is open to K–12 students who switch out of public school or entering kindergarten.

Education Opportunity Account Value by State



● EOA Amount ● Lifeline Scholarship Amount

*Family Empowerment Scholarship for Educational Options Program
 **Family Empowerment Scholarship for Students with Unique Abilities
 Source: Ed Choice, "What is an Education Savings Account," Accessed May 22, 2023.
<https://www.edchoice.org/school-choice/types-of-school-choice/education-savings-account/>

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 agency chooses to contract with a third party to manage student accounts, the commonwealth 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

- Costs will vary by program type and student eligibility. In 2021, the Pennsylvania Treasurer estimated the following costs for a targeted special education EOA program:
 - A \$1 million initial appropriation and 5 percent of scholarship awards annually thereafter—or \$8 million per year.⁴
 - This estimate assumes 16,000 students will participate in the targeted special education EOA program, or 4.5 percent of the eligible pool. This is high considering other state experiences.
 - Under the Lifeline Scholarship EOA program, 11,250 students are equivalent to about 4.5 percent of the eligible pool.
- [Arizona's program](#) began with 153 students and leveled off in years 9 and 10, serving just under 11,000 students. After eligibility expanded, participation increased to over 30,000 students.⁵

Student Use of EOAs in Other States

State	Program Name	Participation	Participation Rate
AZ	Empowerment Scholarship Accounts	30,471	1.35%
AR	Children's Educational Freedom Account Program*	N/A	N/A
FL	Family Empowerment Scholarship for Educational Options Program	83,700	2.48%
FL	Family Empowerment Scholarship for Students with Unique Abilities	25,310	7.49%
IN	Education Scholarship Account Program	173	0.11%
IA	Education Savings Account Program*	N/A	N/A
MS	Equal Opportunity for Students with Special Needs Program	390	1.38%
NH	Education Freedom Account Program	3,110	5.54%
NC	Personal Education Student Account	3,285	1.77%
TN	Individualized Education Account Program	292	1.35%
UT	Utah Fits All Scholarship Program	5,312	0.79%
WV	Hope Scholarship Program	1,797	0.72%

*Program not yet launched

Source: EdChoice. "What is an Education Savings Account." <https://www.edchoice.org/school-choice/types-of-school-choice/education-savings-account/>

- One percent of eligible Pennsylvania students in the Lifeline Scholarship EOA program is equivalent to 2,500 students.

Lifeline EOA Admin Cost Projections

5% Admin Set-Aside Projection

Participation	Admin Set-Aside (5%)
500	\$178,925
2,500	\$894,625
10,000	\$3,578,500
11,250	\$4,025,812

*Assumes an average EOA grant of \$7,157.

Treasury projects 11,250 initial participation.

CF projects 2,500 initial participation.

- The 5 percent administration cost estimate is in line with Pennsylvania's Supplemental Nutrition Assistance Program (SNAP) per case administration expense of \$339.⁶

- This will not require its own appropriation, given the 5 percent comes out of individual accounts. See the schedule above.
- Cost of EOA administration in other states:
 - Arizona’s EOA law [allows](#) scholarship awards to be used for administrative costs.⁷
 - 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.⁸
 - West Virginia’s Hope Scholarship allows for “an amount not to exceed 5 percent of the fund” for administrative costs.⁹
- Cost estimates should also consider the inherent savings of a targeted Education Opportunity Account program.
 - For instance, total spending per [student](#) is \$21,263 in Pennsylvania.¹⁰ Assuming an average Lifeline Scholarship recipient receives a grant of \$7,157, the school district will save more than \$14,000 per grantee.

PA K-12 Education Funding

Targeted EOAs can meet kids’ needs and save districts money

Cost Compare Education Grants v In-District Cost	
Total Spending Per Student	\$21,263
<i>Lifeline Scholarship EOA Amount</i>	\$7,157
EOA Savings to School Districts (per student)	\$14,106

Source: PA Department of Education Expenditure Data Reports
<https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/default.aspx>

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, a 2020 Auditor General [report](#) found that of 168,020 approved transactions, there was only one transaction totaling \$30 that should not have received approval.¹¹
- Concerns about fraud in EOA programs are often a result of misunderstanding student needs. For example, an Arizona parent bought educational games for their special needs child using ESA

funds. However, the games were outside the materials explicitly approved for the student's curriculum and therefore considered a "fraudulent" purchase.

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](#).¹²
- The screening process is highly dependent on the program type (e.g., targeted vs. universal). This can be handled by a 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

- The 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 frequently answered questions (FAQs) page, available in English and Spanish, [similar to](#) the Florida Family Empowerment Scholarship FAQs.
- 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 Coronavirus Aid, Relief, and Economic Security (CARES) Act funds.¹³
- Ensure a reliable funding source. Florida’s Hope Scholarship, for example, necessitated a legislative fix because the funding through fluctuating Department of Motor Vehicle (DMV) revenues caused administrative problems.¹⁴

CONCLUSION

The K–12 education bureaucracy’s woeful pandemic responses underscore what we already knew: It is a broken system, and children need transformative change right now. Education Opportunity Accounts (EOAs) offer that transformative solution.

The Pennsylvania Treasury and others have raised some concerns about the costs and logistical processes of program administration. Thankfully, other states have been down this path and offer a roadmap.

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

Treasury’s estimate of \$1 million for the initial appropriation plus \$8 million per year for a targeted special education EOA 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.

¹ Pennsylvania Department of Education, Annual Financial Report (AFR) Data Files, 2021–22, <https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/default.aspx>

² EdChoice, “Education Savings Accounts (ESAs),” accessed May 15, 2023, <https://www.edchoice.org/school-choice/types-of-school-choice/education-savings-account/>.

³ Jason Bedrick, “School Choice Chalking Up More Wins Across Country,” Heritage Foundation, May 17, 2023, <https://www.heritage.org/education/commentary/school-choice-chalking-more-wins-across-country>.

⁴ To the reader, this is a cost estimate from the Pennsylvania Treasury, presentation shared via email.

⁵ EdChoice, “Arizona: Empowerment Scholarship Accounts,” January 17, 2023 [update], <https://www.edchoice.org/school-choice/programs/arizona-empowerment-scholarship-accounts/>.

⁶ To the reader, 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, June 2019, <https://www.fns.usda.gov/snap/exploring-causes-state-variation-snap-administrative-costs>; and Kathryn Cronquist, “Characteristics of Supplemental Nutrition Assistance Program Households: Fiscal Year 2018,” U.S. Department of Agriculture, Office of Policy Support, Report No. SNAP-19-CHAR, November 2019, <https://www.mathematica.org/publications/characteristics-of-supplemental-nutrition-assistance-program-households-fiscal-year-2018>.

⁷ Arizona Department of Education, “Allowable Expenses for All ESA Students,” March 17, 2023, <https://www.azed.gov/sites/default/files/2023/03/Published-Allowable-List-2023-03-17.pdf>.

⁸ Mississippi Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER), “2020 Statutory Review of Mississippi’s Education Scholarship Account Program,” December 16, 2020, <https://www.peer.ms.gov/Reports/reports/rpt649.pdf>.

⁹ 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.

¹⁰ Commonwealth Foundation, “Pa. Education Funding Spikes Again,” May 18, 2023, <https://www.commonwealthfoundation.org/research/pa-education-funding-spikes/>

¹¹ Lindsey A. Perry, “Arizona Department of Education Empowerment Scholarship Accounts Program Special Audit,” Arizona Auditor General, Report 20-103, April 2020, https://www.azauditor.gov/sites/default/files/20-103_Report_0.pdf.

¹² Step Up For Students, “Hope Scholarship Application,” accessed May 15, 2023, https://hope.suufs.org/s3/hope-scholarship-application-2023?__hstc=105327836.78ad81f21dfd8ddea1ed4aeb4db5114.1683657373980.1683657373980.1683657373980.1&__hssc=105327836.1.1683657373981&__hsfp=2003037740.

¹³ Oklahoma Stay In School Fund Program Report, December 2020, https://www.opsac.org/uploads/1/1/1/3/111330333/sis_report__print.pdf.

¹⁴ Florida Senate, Text of Senate Bill 506, "Hope Scholarship Program," July 2021, <https://www.flsenate.gov/Session/Bill/2022/506/BillText/Filed/PDF>.