

Designing an Education Savings Account 2016*

Byron Schломach & Vance H. Fried

Abstract

Oklahoma should immediately create Educational Savings Accounts. At the parent's direction, funds in their child's account would be used for educational materials, tutors, private school tuition, and other education related services. Account funding would vary by student and be equal to 100% of State Aid. This is a sufficient amount for an education using private schools and tutoring. Funding should come from existing sources at the state level. All students who are currently enrolled in Oklahoma public schools should be eligible. ESAs would give Oklahoma parents control over their child's education, provide the State with annual savings of \$1,000-3,000 per participating student, and increase per pupil funding at public schools.

This paper, in its entirety, can be found at 1889institute.org/k-12-public-education.html

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Education Savings Accounts (ESAs) are a particularly attractive policy innovation for Oklahoma. They allow Oklahoma parents to pursue the education of choice for their child at a cost to the state below that of the public schools.

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ESAs allow teachers and schools to adopt new models of education. They are particularly attractive policy because they allow incremental, voluntary change over time rather than trying to force immediate change on the whole educational system.

This policy analysis provides a broad design for an Oklahoma ESA program; first starting with an overview of ESAs. It then discusses the major questions that need to be answered in designing an ESA. It concludes with an analysis of the impact of ESAs on both local public schools and state

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finance. Broad policy recommendations for ESA design are summarized at the end.

What ESAs Are

Education Savings Accounts (ESAs) are accounts set up for school-age children and used for educational purposes such as private school tuition, tutoring, books, and online materials. These accounts, controlled by students' parents or guardians, are funded by the state. Students have the option to participate if they agree to not attend a traditional public school (i.e., parents cannot double dip on taxpayers funds). An incentive to economize is provided since funds remaining in the ESA account upon graduation can be used for college or career education.

Five states have passed ESAs into law, with Arizona being the first in 2011. In Arizona, ESAs were initially limited to special needs students, and then expanded to include low-income students from Native American tribes who the state had assigned to poor-performing public schools.¹ Florida in 2014, and Mississippi and Tennessee in 2015, passed ESAs for limited student populations.² In 2015, Nevada passed a universal ESA that covers any student who has attended public school for at least 100 days.³

Parents in Arizona have spent 85 percent of ESA funds on private school tuition, with five times as much spent on non-parochial schools as on parochial schools. Seven percent of the ESA money was spent on therapy, 4 percent on tutoring, 2 percent on curriculum, and the rest on fees, tests, online courses, and textbooks. Many parents did not spend all the money. Some saved as much as 40 percent to be used in a future year or for post-secondary education.⁴

The Logic of ESAs

ESAs are a form of school choice. Choice allows parents to pick the best education for their child given that child's strengths, weaknesses, and interests. While parents want the best for their children, they differ in the type of education they believe to be best. Some want Montessori, some Direct Instruction; some want art, some sports, some science; some want Judeo-Christian values; some are devout secularists, and some Deep

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Ecologist. Forcing everyone into the same school means that the school is bound to disappoint most parents, particularly given the high level of pluralism in today's society. Choice gives parents the ability to pick from multiple educational options.

There are other issues as well. Thomas Edison's mother withdrew him from public school when the teacher became convinced Thomas was "addled."⁵ Other children might be bullied.⁶ Still others might not be learning to read.⁷ These are legitimate reasons for parents to exercise discretion in where their child is educated, and by whom. Given that the state has financially committed to provide an education to every child in Oklahoma, a parent's choice to do what is best for their child should not cause them to lose that financial support.

Choice is not just about matching educational features to the student. It's also about choosing a provider that does an excellent job of execution. Choice fosters competition. Competition leads to better execution. Competition forces every educational provider, including public schools, to up their game.⁸

ESAs have two major advantages over other forms of choice like charters or vouchers. First, they are much more flexible as to how money can be spent. This expands the ability to tailor an education to the student, and allows public education to move away from the Prussian factory model of education, prevalent for over 100 years. Second, since unspent funds can be used to pay for post-secondary education, parents have an incentive to choose lower-priced, higher-quality options. This puts downward pricing pressure on school tuition and upward pressure on educational quality.

Financially, choice is attractive because it shifts students from the high cost public system to the

lower cost private system. The average Oklahoma school district spends \$9,588.68 per student (see Table 1). Most districts spend within \$1,200 of this amount. Differences between districts are largely due to 1) low income districts getting more money from the state and federal government, and 2) growing and/or rich districts spending more on facilities.

In making efficiency comparisons between public and private schools, it is not fair to public schools to include “Child Nutrition” since it is not strictly education-related and much of it is federally funded. Some argue that public schools also serve more high special needs children who are significantly more expensive to school. However, given that less than 8 percent of the students in the state are high needs (this includes some double-counting), the average costs spread through the system is around \$235 per student.¹⁰ Thus, on average, Oklahoma school districts spend \$8,868 to educate students without high special needs. In addition, there are some education-related items that the state pays for directly, like health insurance

Table 1
Average School District Spending per Student
2013-2014 School Year (latest available)

Instruction	4,201.24
Support Services	1,851.71
Transportation	319.09
Child Nutrition	485.12
Physical Plant	1,814.57
Debt Service	803.63
Total	\$9,588.68

and retirement contributions. These items do not run through the school districts’ books.

Comprehensive estimates of all education costs vary, but a conservative estimate of what the state and local districts spend per student on public schools is \$10,000.¹¹ This is much more than most Oklahoma private schools charge (see Table 2), and far more than online private schools (see Table 3).

Table 2
2015-2016 Private School Tuitions¹³

School	Location	Elementary	High School
Bishop McGuinness	Oklahoma City	NA	\$12,800
Casady	Oklahoma City	\$14,480	\$18,925
Children’s House Montessori	Norman	\$5,950	NA
Christ the King	Oklahoma City	\$6,480	NA
Community Christian	Norman	\$4,470	\$4,920
Holland Hall	Tulsa	\$16,725	\$18,850
Hope Christian Academy	Skiatook	\$4,325	\$4,375
Lawton Christian	Lawton	\$4,655	\$5,593
Liberty Academy	Shawnee	\$3,450	\$3,450
Monte Cassino	Tulsa	\$9,800	NA
Oklahoma Christian School	Edmond	\$6,920	\$8,850
Saint Catherine	Tulsa	\$5,308	NA
Saint Philip Neri	Midwest City	\$5,200	NA
St. John Christian Heritage Academy	Oklahoma City	\$3,375	NA
Sunnybrook Christian	Stillwater	\$5,000	NA
Victory Christian	Tulsa	\$5,900	\$6,700
Victory Life Academy	Ardmore	\$4,120	\$4,755
William Bradford Christian	Pryor	\$4,135	\$4,160

Private schools are largely tuition funded. Schools with church affiliations are often provided free space by the church. Churches may also provide a limited amount of operating support. Donations from private individuals and foundations are limited at most private schools. Total non-tuition funding for the low-tuition private schools is likely less than \$1,500 per student,¹² and some are totally tuition dependent.

Online schools are entirely tuition dependent. Nevertheless, they are often money makers. Thus, the cost of providing an education at an Oklahoma public school can be about twice as much as the cost of a traditional private schools, and 4 to 10 times as much as online private schools.

ESAs for Oklahoma

The major questions to be answered in designing an ESA are:

1. How much money should a student receive?
2. How can the money be spent?
3. How do we make sure the money is spent properly?

How much money should a student receive?

ESA funding per student is usually based on per-student formula funding provided by the state to public schools. In Oklahoma, funding for school districts comes from state (41 percent), local (48 percent) and federal (12 percent) sources.¹⁵ State funding is for operating costs. Local funding is for operating costs and building costs. Federal money is primarily targeted to lower income students and students with learning disabilities.¹⁶

State funds are provided from dedicated tax revenues and annual state appropriations. Local revenues come from property taxes. Much of the money each district receives from local and state sources has its quantity determined by the state formula-funding system. Local school boards' taxing authority is almost entirely limited to property taxes to pay off building bonds. The state has effectively determined school property tax rates for operations and commandeered most of that money for formula-funding.¹⁷

One way to determine a student's ESA funding is to compute the amount of money the child

Table 3
Virtual School Tuitions¹⁴

School	Elementary	High School
A Beka	\$740	\$995
James Madison	NA	\$1,374
Keystone (K12)	NA	\$2,300
Liberty	\$2,475	\$2,700

represents under the formula funding system. Another way would be to determine a fixed amount per student that approximates the average amount per student provided under the funding formula.

Per-pupil funding under the formula averages \$4,928.¹⁸ However, the amount per-pupil varies according to pupil characteristics. For the 2015-16 school year, the base amount of formula funding for each pupil, as of this writing, is \$3,079.60.¹⁹ This amount is adjusted upward based upon grade level and any special characteristics of the student (see Table 4). For example, a bilingual kindergarten student from a low-income family is funded at \$6,160 (\$3,080 + \$770 + \$1,540 + \$770). A gifted 12th grader is funded at \$4,743 (\$3,080 + \$616 + \$1,047). An average 5th grader is funded at the base amount of \$3,080.

Preferably, the amount of funding per student should be high enough to allow low-income students to participate without their parents having to pay a significant amount out-of-pocket to make up a difference between the ESA and tuition. This is generally possible using only formula-funding amounts.

Table 4
State Aid Add-Ons²⁰
2015-2016 School Year

Grade	Value	Special Categories	Value
Pre-K	\$924	Low Income	\$770
K	\$1,540	Bilingual	\$770
1-2	\$1,081	Gifted	\$1,047
3	\$157	Learning Disability	\$1,232
4-6	\$0	Physically Handicapped	\$3,696
7-12	\$616	Autism	\$7,391
		Deaf-Blind	\$11,702

A low-income first grader's ESA, based only on formula funding would have enough money (\$4,931) to fully cover tuition at many private schools. At some schools there would be money left for before and after-school care. However, a normal, low-income fifth grader is funded at \$3,850, so parents of such a child would pay around \$1,200 to make up the difference at most private schools.

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A low income high-school student would have \$4,466 available to spend. Some schools charge close to this, but at many high schools the gap is \$2,000 or more. Covering this gap may be very difficult for many families. Schools could help by providing scholarships. Some might go further and implement cost cutting measures to allow a reduction in tuition. Existing schools with excess capacity may be able to cut tuition, as more students means more total revenue with little additional cost. Further, new schools will likely enter the market with operating models built to allow low tuition as ESAs increase demand.

Low-income students attending online schools can easily cover tuition with money left over to spend on tutoring and co-curricular activities. New providers will likely enter the market to provide all-day, on-demand tutoring in a bricks-and-mortar facility combined with co-curricular and extracurricular activities.

Finally, home-schooled students will be able to pay for all necessary educational materials, potentially with thousands left over. They can save much of this money for college.

Rather than use the funding formula to directly determine the amount of ESA funding, the

state could set a fixed amount per student that approximates the average amount per student provided under the funding formula. This approach is much simpler to administer and more closely reflects real-world private education pricing since the grade weights under the funding formula do not match the pattern of market pricing. No private school surveyed charges more for the 1st grade than the 4th, and most charge more for high school than they do for grade school. Many of the special categories are totally ignored in the private school market. For example, most private schools accept both "low income" and "gifted and talented" students, yet do not charge them more than average, middle-income students.

Here is one possibility for determining total, set amounts per student for ESAs instead of using the formula in Oklahoma. As noted above, average per-student formula funding with add-ons, or weights, is \$4,928. If one excludes the teacher index, isolation, summer program, gifted, and special education weights, the weighted count/actual student count ratio becomes 1.38 instead of the actual 1.6. Multiplying 1.38 by the basic per-student amount of funding (\$3,080) gives us about \$4,250.

Given real-world private school pricing, \$4,250 is enough for elementary school. High school arguably needs more, perhaps the actual weighted average at \$4,900. These fixed amounts could be statutorily indexed to Inflation or to the basic per-student amount, or statute could leave these amounts to be directly set by the legislature each year.

Although the mix of elementary and high school students using ESAs cannot be known in advance, the fixed amounts above would likely result in an average per-student expenditure very close to the formula funding per-student average.

How Can ESA Money Be Spent?

An Oklahoma ESA should minimally allow parents to spend for:

1. Private school tuition,
2. Tutoring,
3. Educational materials (both print and online),
4. Educational and extra-curricular services voluntarily offered by public schools,

5. Traditional co-curricular and extra-curricular activities such as art, athletics, drama, music, student clubs, and other academic-related activities,
6. Educational therapies (often used by special needs students),
7. College tuition for concurrent enrollment students,
8. Testing,
9. Post-secondary education after high school graduation.

Parents should be allowed to allocate funds among these eligible expenses any way they see fit. Any funds left over at the end of a school year would carry over into the next year. Upon graduation, unspent funds could be used for post-secondary education.

Some question whether tuition at unaccredited schools or church affiliated schools should be covered. Arizona includes only accredited schools, of which there are many. While arguments can be made to include unaccredited schools, currently this does not appear to be an issue in Oklahoma. The accreditation process is well established and has not been controversial. Nevertheless, accreditation is arguably overrated. For example, one well-regarded private school, Thales Academy in Raleigh, NC, explicitly rejects accreditation as counter to its mission and argues that accreditation is not a signal of quality.²¹

If accreditation must, for some reason, be included as a condition for a private school to be paid under an ESA program, one issue that must be considered is what to do when a new private school has not yet received its accreditation. All the accrediting agencies require a school be in operation for at least a year before it can be accredited. As a result, a school would not be eligible to participate in the ESA program in its first year of operation if accreditation is required. This problem is easily solved by including schools which are in the process of accreditation with one of the approved accrediting groups. This solution has been applied in Mississippi.²²

From the standpoint of good program design, any accredited private school should be allowed to participate. However, Oklahoma's Constitution

includes a "Blaine" provision that arguably prohibits some religious schools from inclusion in an ESA. This issue has been litigated to conclusion in Arizona. The Arizona Supreme Court upheld religious school tuition as a valid use of ESA funds. A case raising similar Blaine issues is now before the Oklahoma State Supreme Court.²³ Oklahoma ESAs should include as many schools as possible consistent with the Court's decision. If the Court prohibits church-affiliated schools, an ESA is still quite viable since many private schools are independent and without a church-affiliation.

Arizona requires tutors to have a bachelor's degree if they want to serve ESA recipients. Tennessee requires tutors to be accredited.²⁴ Thus, Tennessee would prevent an Albert Einstein or a Richard Feynman from tutoring Physics. Arizona would prevent a smart undergraduate college student from tutoring a fourth grader in history or in mathematics. A specific educational requirement for tutoring is unnecessary. Tutoring is currently unregulated by Oklahoma. Tutoring works quite well as a reputation-based profession. If a tutor can't help a student learn, then they will quickly be replaced by someone who can.

If a public school wishes to do so, it should be allowed to offer educational services to students with ESAs. Public schools could offer individual academic courses, participation in individual activities like clubs, sports, and after-school programs. The legislature might have to intervene to allow ESA student participation in sports. Whether or not to allow ESA students to participate in sports should be the decision of the individual school.

Transportation costs might also be included as a valid expense item. However, including them

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makes the program more difficult to administer. Reimbursing parents requires daily record-keeping by the parent and increased record-checking by the program administrator. Further, it increases the potential for fraud.

How do we make sure the money is spent properly?

The philosophy behind ESAs is that parents should be free to choose the best possible educational option for their children. Under an ESA, the parent is the primary person accountable for their child's education. They, in turn, hold schools and other education service providers accountable for their work.

For the vast majority of parents, there is no need to regulate how they spend the money. They will spend it properly because the education of their child is important to them. However, not all parents can be trusted to act in their child's best interests. Ideally, an ESA program would not determine what are proper education-related purchases. However, it is important for program legitimacy and taxpayer accountability that expenditures be for genuine education-related purposes. Thus, an ESA needs to be administratively designed so that parents actually control them, yet at the same time prevents abuse by irresponsible parents. The system needs to have adequate financial and educational quality controls.

Financial. The Office of the State Treasurer should be custodian of the accounts and primarily responsible for their administration. The Treasurer is most familiar with the proper management of state money. The Department of Education also has a role. It needs to inform the Treasurer as to whether a child is eligible to enroll in a public school. Further, if formula funding is used, the Department might need to inform the Treasurer of the amount of money that should be placed in a student's account.

Financially, the issue is avoiding fraudulent payments to parents and vendors. To disburse funds, Arizona uses a debit card system similar to what is used today for "food stamps," but debit cards can be abused.²⁵ Arizona has a system for reviewing ESA expenditures that, unfortunately, only discovers abuse of ESA funds after it has

occurred, and requires parents to hoard receipts. Overall, the Arizona approach has worked, but can be significantly improved.

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Nevada is implementing a more efficient system with higher levels of fraud control. Nevada plans to use an online bank account system with parent-authorized purchases.²⁶ Further, they use a system of vendor registration.²⁷ Parents are restricted to a list of registered/bonded vendors who would be familiar with what purchases are permitted. This simplifies the disbursement process and reduces the risk of fraud by vendors or parents. Money never passes through the parent's hands and only paying to registered vendors reduces the risk of improper payments. In addition, the Nevada approach provides a robust electronic paper trail for audit purposes. Oklahoma should use a system similar to Nevada's.

There are two main types of abuse the system needs to focus on. One is a parent buying unnecessary print textbooks or electronic equipment and then reselling them. For example, a parent uses a child's ESA to purchase five computers, resells them on Ebay, and pockets the cash. This problem can be solved two ways. First, simply do not include the purchase of electronics or print textbooks (students could still rent them for the year). Less strictly, allow their purchase, but prohibit their resale. Still another possibility is to restrict the quantity of an item purchased or the frequency of its purchase.

Another concern is parents colluding with an education provider. For example, at the parent's direction the ESA pays a tutor \$2,000 for tutoring services. The "tutor" then kicks back \$1,500 to the parent. This behavior needs to be expressly criminalized. In addition, tutoring by a close relative of the student should be prohibited.

Concern for possible misuse of any taxpayer funds is entirely justified. Such concerns, however, should be kept in perspective. Oklahoma's traditional public schools are hardly free of financial malfeasance. Oklahoma City schools were recently rocked by a scandal involving a tutoring contractor and the defrauding of the federal government.²⁸ In 2013, a former Skiatook superintendent received a federal prison term for bribery.²⁹ Former State School Superintendent, Sandy Garrett, was found to have spent over \$2 million from a slush fund that allowed state employees to get around state spending guidelines.³⁰ There is some indication this money was solicited directly from the pockets of district superintendents who were afraid of repercussions for not contributing.³¹ Recently, it was discovered \$235,000 was embezzled from the tiny Swink district.³²

The potential for fraud always exists when one person has access to taxpayers' money. However, this danger is actually much lower for an ESA than for district public schools since parents directly monitor all spending. Further, when fraud does occur, the dollar amount involved is lower.

Quality. Quality control is a tougher issue than financial control. With parental choice, quality control will be more robust than occurs in the public school system, but that isn't saying much. The problem in education is that few agree on what the product should be. Is it use of a certain curriculum to teach a child? Is it a certain level of competence demonstrated by a student according to a state-mandated or nationally norm-referenced exam? Much of the discussion surrounding educational quality focuses on inputs to schools (accreditation being a prime example), though there is no guarantee that these inputs will produce good outputs (student learning).

In an ESA system, the quality of parents' educational choice decisions should be evaluated simply by the results they produce. Vendors like private schools, tutors, and online providers should be regulated very little or not at all. This allows for greater innovation and customization to particular student and family needs. At the same time, taxpayers have the right to expect that careful

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decisions are made by parents to achieve the end taxpayers are funding: a well-educated, independent adult ready for college or career training upon high-school graduation. The issue is to allow for flexibility while ensuring that failure to achieve the goal of education is recognized before a student turns 18.

Achievement testing, despite its drawbacks, has always been used to check student progression toward an educational goal.³³ Classroom testing by teachers and grades posted on report cards for parental perusal have always been used to measure progress as well. For decades, achievement tests such as the California Achievement Test, the Iowa Test of Basic Skills, the Stanford Achievement Test, and the Metropolitan Achievement Test, have been used to check students' educational progress against a national benchmark.³⁴

The great controversy surrounding testing in recent years is with high-stakes, state-mandated, state-specific tests aligned to state-directed curriculum standards. These tests, and the standards that govern their content have: 1) constantly changed; 2) contributed to the politicization of curriculum, and 3) narrowed curriculum to learning objectives regularly tested. Thus, to require state-specific, state-mandated tests for students exercising choice is tantamount to regulating and standardizing the curriculum of private education vendors.

On the other hand, nationally normed achievement tests have rarely been controversial. ESA parents should be required to have their child tested yearly using one of the several nationally norm-referenced achievement tests. It would be up to them to choose which one, but the same test

should be used from year-to-year. This provides a consistent measure of educational progress over time. The results of testing will be useful to parents, but will also allow the State to identify students who are not making adequate progress.

Parents should be required to send the results (testing companies would likely perform this service) to the Oklahoma Department of Education. Barring unusual circumstances, any child who fails to make “adequate educational progress,” would not be allowed to participate in the ESA program and would forfeit any savings in the account. The standard for progress could be determined over a period of years according to a minimal standard that accounts for factors affecting student testing performance.

How Would ESAs Impact Public Schools?

Members of the public school establishment are strongly opposed to ESAs. With polls showing that only 40 percent of the public prefers public schools over private schools or home-schooling, public schools are rightly concerned about losing significant market share.³⁵ Loss of market share means loss of institutional power. The main argument they present against ESAs is that many students will choose to leave their school, leaving the public school without enough money to educate those who choose to stay. This argument plays on most people’s understandable ignorance of Oklahoma’s complex, byzantine, and often illogical, education financing system.

ESAs will not hurt public schools financially. It is true dollars are diverted, but so are students. As public schools lose students, their costs fall. Fewer

students mean fewer teachers, fewer administrators, fewer books, less transportation expense, less nutrition system expense, and so on. Most education costs are variable costs, which can be adjusted up or down based on enrollment. The major exception is building-related costs, mostly those from paying off bonds incurred for construction.

Under Oklahoma’s financing system, when schools lose students they actually have more to spend per student. The district will not receive formula funding for ESA students in their district, but will continue to receive local property tax revenues for bonded indebtedness. In addition, the district will continue to receive about \$300 per student (statewide average) from a part of a county levy and another school levy that is not part of formula funding.³⁶ Some other state operating funding will continue to flow as well, so that operating funding per pupil actually increases with the loss of students.

Often, opponents of school choice claim that payroll costs are not easily adjusted up or down. This is not correct. Costs from administrator and teacher salaries can be adjusted on an annual basis by changing the number of administrators and teachers employed by schools. Fewer students requires fewer teachers and administrators; more students means more teachers and administrators.

Public schools, both large and small, already deal with their revenues rising or falling with enrollment. The financial impact of a child leaving a local district to take advantage of an ESA is the same as when a child leaves a local district to attend a different local district in Oklahoma or moves out-of-state. The school loses the formula funding for that student. Money is lost by a school district any time a student leaves a district, no matter where they go. However, revenues do not drop as rapidly as costs and per-student revenues increase. (See the Appendix for a fuller explanation of how public school districts are impacted by students entering and leaving districts.)

Further, while districts lose formula funding when they lose students, they gain formula funding when they gain students. Total formula funding only goes down if a school has a net enrollment loss. Even then, it goes down very slowly because Oklahoma has a generous hold-harmless provision. Formula funding

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for school districts is based on the most recent THREE years' weighted student count. If a district actually loses student count due to ESAs, the hold-harmless provision in law ensures that the district has more than enough time to adjust its costs to match its enrollment. Thus, the public school establishment's financial argument is without merit.

To illustrate this point, the legislature can easily promise to indemnify any district that can demonstrate that it was more financially harmed by a child leaving with an ESA than by a child leaving for another district. The cost of this promise would be zero due to the nature of formula funding.

In addition to the financial argument, public schools often argue that it is unfair to make them compete with the private sector. One argument is that private schools do not have to take everyone and public schools do. However, most private schools will take anybody but students with high special needs or severe discipline issues. Even so, there are some private schools that are targeted specifically for these hard-to-teach students. In fact, over the last few years the public school establishment has waged a legal fight to keep high-special-needs children in public schools.³⁷

A more legitimate argument from public schools is they cannot compete with private schools and tutors on a level playing field because of the numerous restrictions and mandates placed upon them by the state. This is probably true, but consider why these public school regulations exist. Many exist because public education is a monopoly with a 95 percent market share.³⁸ Others exist because of the internal politics and bureaucracy of public education.

Public schools cannot be significantly de-regulated under the monopolistic status quo. All those regulations, and plenty more waiting in the wings, have constituencies with few good options besides the public school the state assigns them to. However, with choice and competition, public schools can be substantially de-regulated. Those constituencies currently trapped in public schools would, over time with school choice, have alternatives, often alternatives specifically created to fill the constituencies' needs. Those regulations brought on by public school politics – i.e., by those who work in the public schools – that increase costs but make no

difference to children's educations, would disappear out of necessity in order to compete.

Long-term, a healthy ESA system helps the public schools. It would strengthen the public schools' argument for less state control over their operations with respect to everything from testing to teacher's salaries to architectural issues. Further, public schools would no longer have to deal with parents who feel their children are trapped in an inferior school.

How Would ESAs Financially Impact the State?

From the state's perspective, funding ESAs at 100 percent of formula funding, whether by way of an average fixed amount per student or as a result of explicitly funding each student by formula, results in significant savings. ESAs would be a financial wash with respect to formula funding. This is because under formula funding, the money that moves when a child moves from one district to another is all state money, with rare exception.³⁹ School districts always retain local funds that count toward the formula, so whether a student is formula-funded at the basic level of \$3,080 or at the deaf-blind level of \$14,702, and whether the local share of formula funding for a district is 10 percent or 80 percent, the funds that migrate are state funds. (See the Appendix.)

Although formula funding is a wash, the state does save from a reduction in spending made outside of formula funding. The state helps pay pension contributions and with fewer personnel, could save about \$4,300 per foregone employee.⁴⁰ Health benefits that cost the state about \$8,000 per teacher could also be foregone.⁴¹ Transportation

Long-term, a healthy ESA system helps the public schools. It would strengthen the public schools' argument for less state control over their operations with respect to everything from testing to teacher's salaries to architectural issues. Further, public schools would no longer have to deal with parents who feel their children are trapped in an inferior school.

expenses could be saved, with savings mostly accruing to school districts and partly to the state through formula funding, depending on the circumstances and numbers of children who opt for ESAs. Finally, the state could potentially appropriate less money to various special programs that accrue to public schools. Per-student savings to the public education system would conceivably be in the \$1,000 to \$3,000 range for every student who switches to an ESA from the public schools.

Some would limit ESAs to poor children, or to children in failing schools, or limit the program to students with special needs. They would deny the benefits of ESAs to middle-class students. There is no justification for excluding middle-class children. Given that students switching from the state system makes parents happy and saves taxpayers money, all students currently enrolled in a public school should be allowed to switch into an ESA program.

Per-student savings to the public education system would conceivably be in the \$1,000 to \$3,000 range for every student who switches to an ESA from the public schools.

Clearly, all students currently attending public schools should be eligible for an ESA. However, making students who currently attend private schools eligible is a different issue financially. These students' parents are currently taking care of their children's education at no cost to the state. Making them eligible would increase cost to the state because the state would then be contributing to their ESA. Financial prudence requires assuming most of the estimated 36,000 students currently attending private schools would immediately participate in an ESA if allowed. If average cost was \$4,500, that is \$120 million dollars or a little more than one-half of one percent of current total state spending.⁴²

Long-term, participation of currently privately-schooled students might be funded by the savings created when students switch from public schools to ESAs. If average savings per switching student were \$2,000 and average aid to new students was \$4,500,

it would take the cost savings from 2.25 switching students to cover one student already in a private school. So to cover the 36,000 students currently in private schools would require 81,000 students currently enrolled in the public schools to switch to an ESA. An immediate switch of this magnitude is highly unlikely. Further, much of the cost savings would be from funds that cannot be immediately repurposed.

There are several potential ways to deal with the issue of fulfilling the constitutional promise to provide a publicly funded education to all students with ESAs:

- ▶ Limit eligibility to allow students who attended public schools last year (Nevada requires 100 days—slightly over half a school year) or are new enrollees in the system (out-of-state move-ins and students starting pre-K).
- ▶ Include existing private school students and keep per-student state funding at the same level. This would require \$120 million in new funds for education.
- ▶ Include these students but not increase state funding. This would reduce base level funding from \$3,080 to about \$2,920. This would leave the average public school with \$160 per student less a year to spend, or a decline of about 1.6%.
- ▶ Fund these students at a reduced rate, say 50%. This would provide some assistance to these students, but would have less impact on the state and/or local school budget.

No matter what is done with students currently attending private schools, ESA eligibility should clearly extend to all students who attended an Oklahoma public school for the entire year prior to applying for the ESA, students starting pre-K, and perhaps move-ins from out-of-state.

Summary

Oklahoma should enact Education Savings Accounts (ESAs) with the following features:

1. At a minimum, be available to all students who have attended Oklahoma's common schools for at least a year and all students starting pre-K,

2. Be funded at 100 percent of formula funding, or at a level that approximates average formula funding,
3. Allow for savings to accumulate in an ESA account that can be applied toward future K-12 expenses or post-secondary education,
4. Allow funds to be spent as broadly as possible as long as they are for legitimate educational purposes, including with public schools that voluntarily offer educational services to ESA students,
5. Implement academic accountability by having parents choose a nationally norm-referenced test and checking for academic progress, denying ESAs to those who fail to maintain adequate process,
6. Have basic financial administration of the program handled by the State Treasurer
7. Implement a vendor registry to prevent fraud and abuse in addition to implementing common-sense prohibitions such as payments to close family members,
8. Explicitly criminalize kickbacks between providers and choice parents.

Appendix: The Financial Impact of Student Movement

For the sake of argument and clarity, let us ignore the hold-harmless provision in Oklahoma’s school formula-funding system and consider a hypothetical school district with \$9,800 in total spending (revenue) per student. It receives \$5,000 per student in formula funding, roughly the state average. Suppose a student funded at the average transfers into or out of the district to and from various destinations. Alternatively, also suppose a student transfers out of a district, and this child is heavily funded due to being blind, poor, and non-English speaking, so that the child’s formula funding is \$16,000. Consider the following scenarios in table form for simplicity:

Table 5
Financial Impacts of Student Migration on a School District

Change in Student Status	Change in formula funding	Change in non-formula local property tax revenue	Change in federal funding	Change in facilities costs	Change in other state funding	Change in No. of Teachers
Average-Funded Student						
Transfers from other district	\$5,000	- 0 -	+ ?	- 0 -	+ ?	- 0 -
Transfers to other district	(\$5,000)	- 0 -	- ?	- 0 -	- ?	- 0 -
Transfers from other state	\$5,000	- 0 -	+ ?	- 0 -	+ ?	- 0 -
Transfers to other state	(\$5,000)	- 0 -	- ?	- 0 -	- ?	- 0 -
Transfers from other private school	\$5,000	- 0 -	+ ?	- 0 -	+ ?	- 0 -
Transfers to other private school	(\$5,000)	- 0 -	- ?	- 0 -	- ?	- 0 -
Highly-Funded Student						
Transfers from other district	\$16,000	- 0 -	+	- 0 -	+	- 0 -
Transfers to other district	(\$16,000)	- 0 -	-	- 0 -	-	- 0 -
Transfers from other state	\$16,000	- 0 -	+	- 0 -	+	- 0 -
Transfers to other state	(\$16,000)	- 0 -	-	- 0 -	-	- 0 -
Transfers from other private school	\$16,000	- 0 -	+	- 0 -	+	- 0 -
Transfers to other private school	(\$16,000)	- 0 -	-	- 0 -	-	- 0 -

With certainty, we can say that: 1) formula funding changes by \$5,000 when an average student transfers, 2) property taxes not included in formula funding do not change for the district, and 3) fixed facilities costs do not change when a child moves into or leaves a district. Similar changes occur with the highly-funded student. Federal funding might change for the average student, but that depends on the programs being funded and the child’s participation in the programs. It is a virtual guarantee the highly-funded student participates in federal programs, and so funding changes accordingly. The same is true for other state funding. In the vast majority of scenarios, the number of teachers will not change in any district where only one student either moves in or out.

On average, it is likely that if an average or nearly average student moves out of a district, regardless of the reason, she will leave behind \$1,000 to \$2,000 in funds that stay with the district. Highly-funded students would not leave any money behind. In the vast majority of districts, such students are funded at a level higher than the average, which means the district’s funding per student will fall slightly when such a child leaves. But, so do costs such as special services and aides for such children. These children, however, are relatively few in number and they are already served through the Lindsey Nicole Henry Scholarship program.

So in general, a school district *gains* money when a child enters the district, but with no change in costs, and on average, the gain is less than the total average per-student that the district spends, *regardless* of where the child comes from. Districts also *lose* money with essentially no change in their costs when a child leaves a district, but the district rarely loses even the average amount of money they spend per student.

A more technical issue has to do with the basic funding amount of \$3,080. This state-determined amount floats, depending on a variety of factors including total state appropriations, local revenues, dedicated revenues, and student numbers and characteristics. Depending on how an ESA law is constructed, and given the hold-harmless school funding provision, it is possible that students moving out of districts using ESAs could be double-counted, just as some students who transfer from one district to another are double-counted now under the hold-harmless. In that case, the basic funding amount will be lower (only slightly and nearly imperceptibly for only a few thousand children) and slightly less money would flow to *every* school district as a result of ESA transfers.

One more issue. The analysis above applies for any district of any size. Big Pasture has about 200 students and averages 15 students per grade level. The loss of one student and, perhaps \$7,000 has little impact (one-third of one percent) on its almost \$1.9 million in spending in 2014. The Oklahoma City school district could lose 2,000 students at \$7,000 each to ESAs for a total of \$14 million, but this would amount to less than 4 percent of that district's total 2014 spending, not a terribly big management challenge.

Endnotes

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<http://sde.ok.gov/sde/sites/ok.gov.sde/files/documents/files/FY16%20District%20Attendance%20and%20Membership.pdf>
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