

BUSTING ESA MYTHS

DR. MATTHEW LADNER





Which of these have you heard?

23 



School Choice will DESTROY rural districts



ESAs are BANKRUPTING the state of Arizona



ESAs have "No AcCoUnTaBiLiTy"





FIRST MYTH: CHOICE WILL DESTROY RURAL DISTRICTS





School Choice in Arizona

District Open Enrollment (1994)

Nation's Largest State Charter Sector (1994) at 22% of students

Scholarship Tax Credits (1997 expanded multiple times)

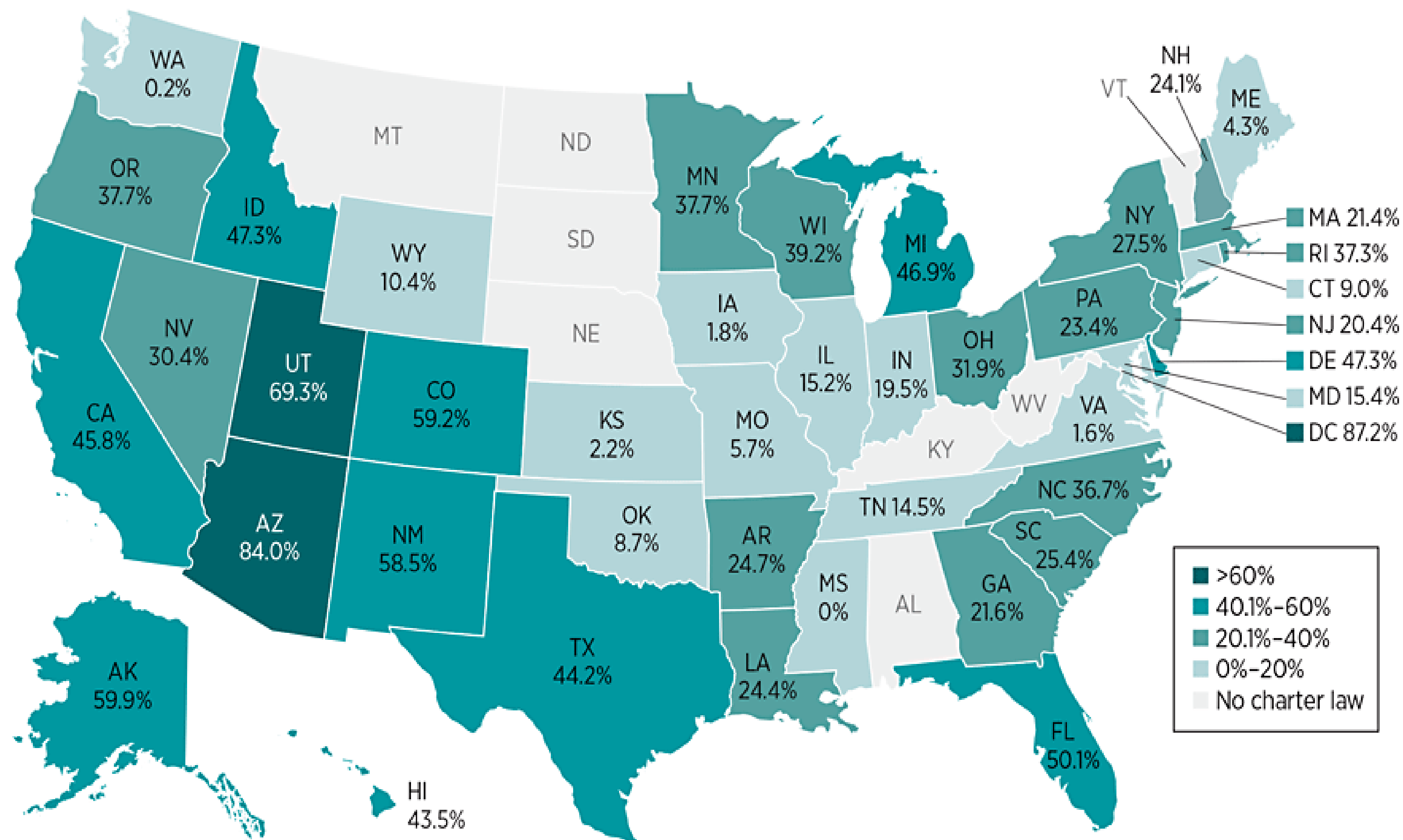
Empowerment Scholarship Accounts (2011, expanded to all K-12 students 2022)

State-funded micro-schools

Home-schooling

Percentage of Students with One or More Charter Schools Operating Within Their ZIP Code, 2015

Arizona has more rural charter schools (64) than the total number of charter schools in 19 states.



SOURCE: Diane Whitmore Schanzenbach, Megan Mumford, and Lauren Bauer, "Who Has Access to Charter Schools?" The Hamilton Project, March 17, 2016, https://www.hamiltonproject.org/papers/who_has_access_to_charter_schools (accessed November 7, 2022).

Arizona school districts have 200 more schools and 200,000 more students than and x4 the revenue they had in 1993...

...and the kids still play football on Friday nights!

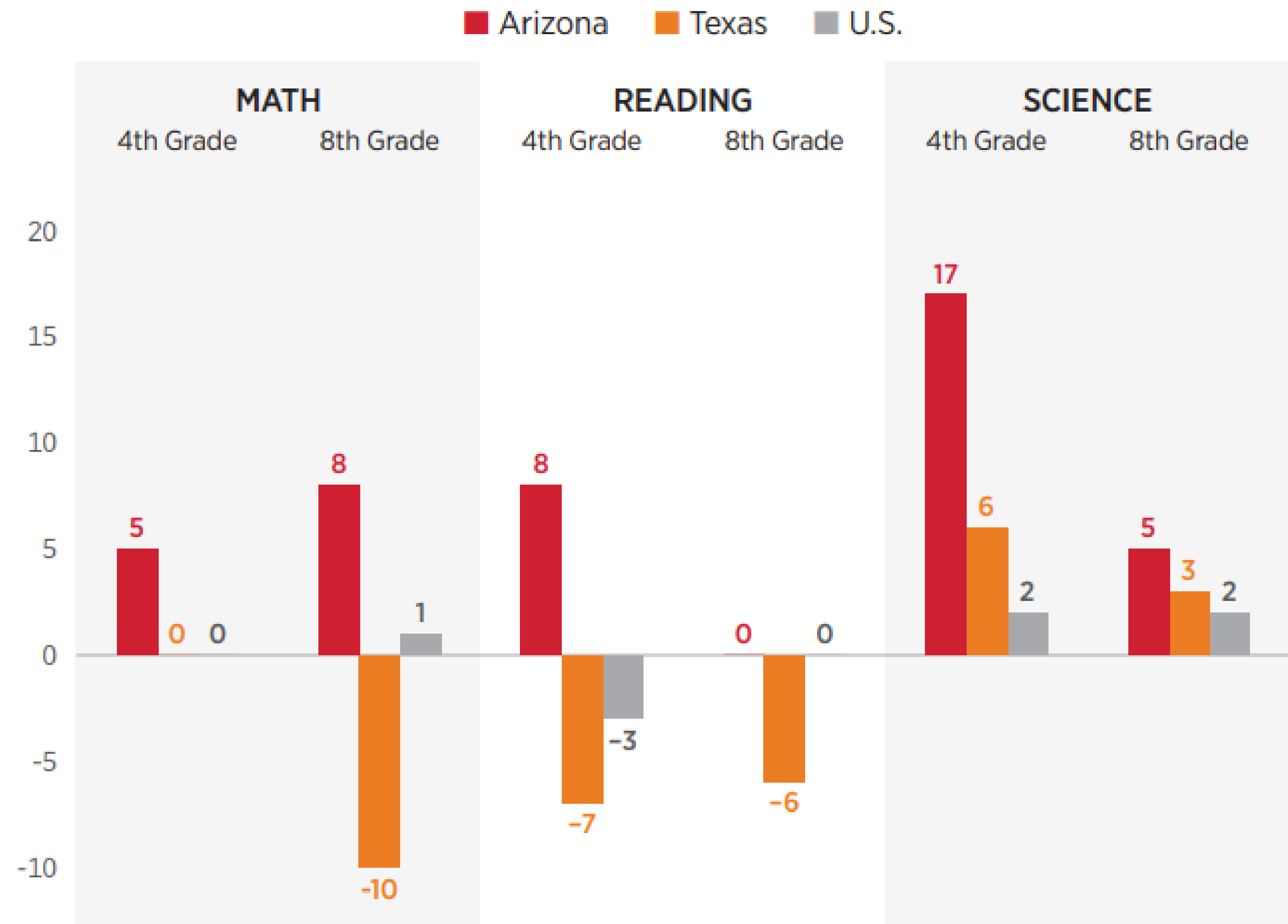


Arizona Rural Students Show Academic Gains

CHART 3

NAEP Trends for Rural Students, Pre-COVID: Arizona, Texas, and the United States

Figures are for 2007–2019 for math and reading, and for 2009–2015 for science.



SOURCE: National Assessment of Educational Progress, “NAEP Data Explorer,” <https://www.nationsreportcard.gov/ndecore/landing> (accessed August 4, 2023).

SECOND MYTH: ESAS ARE BANKRUPTING ARIZONA



Horne: State funding for education, including ESAs, has multi-million-dollar surplus

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Horne: State funding for education, including ESAs, has multi-million-dollar surplus Source of state budget crunch lies elsewhere

PHOENIX – State Superintendent of Public Instruction Tom Horne has released a report for all state education funding, including the Empowerment Scholarship Account Program, that shows a projected total surplus of more than \$28 million through the remainder of the 2024 state Fiscal Year that ends June 30.

Horne stated, "The myth that the ESA program is doing damage to the state's budget is thoroughly demolished. Importantly, 59 percent of current ESA students come from public school or are Kindergartners or preschoolers with disabilities who would normally be in public school, which would be a major cost to the state. Whatever budget issues state lawmakers are facing this year, they have not been created by the ESA program or any other aspect of basic state aid for education."

Horne added, "Critics who falsely claimed ESAs were the cause of the budget deficit erroneously counted the gross cost for each student without adjusting for the cost that would be incurred if those students were in public school. While approximately 75,000 students are in the ESA program, 1.2 million are in public schools, which means the ESA students are not a threat to those schools. ESAs give choice to parents at any income level whose child's needs are not being met in local schools, an ability rich parents have always had."

He continued, "Since taking office a year ago I have required that every expense request, no matter how small or large, be reviewed. Unlike my predecessor, we do not approve frivolous requests that have no educational purpose. I hired an auditor to oversee the finances and he is now the director of the entire program. In recent months we reviewed more than 250,000 orders, rejecting more than 12,000 of them. The fact there is a surplus in basic state aid, including the ESA program, demonstrate our commitment to good financial stewardship."

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Arizona ran a \$28,000,000 K-12 surplus while choice opponents claimed ESA created a deficit.

THIRD MYTH: ESAS HAVE "NO ACCOUNTABILITY"





The April 2020 Arizona Department of Education special audit found that the Department needs 21 staff for Program workload, should improve customer service and timely processing of Program applications, and better protect personally identifiable information. We made 26 recommendations to the Department, and its status in implementing the recommendations is as follows:

Status of 26 recommendations

Implemented	13
Implemented in a different manner	3
Partially implemented	1
In process	6
No longer applicable	1
Not implemented	2

We will conduct a 48-month followup with the Department on the status of the recommendations that have not yet been implemented.

Our work for this special audit found that concerns with debit card administration have largely been addressed. Specifically:

- Our review of all 168,020 approved transactions identified in the Department's Program account transaction data between October 31, 2018 and October 30, 2019, found only 1 successful transaction at an unapproved merchant totaling \$30.³⁵

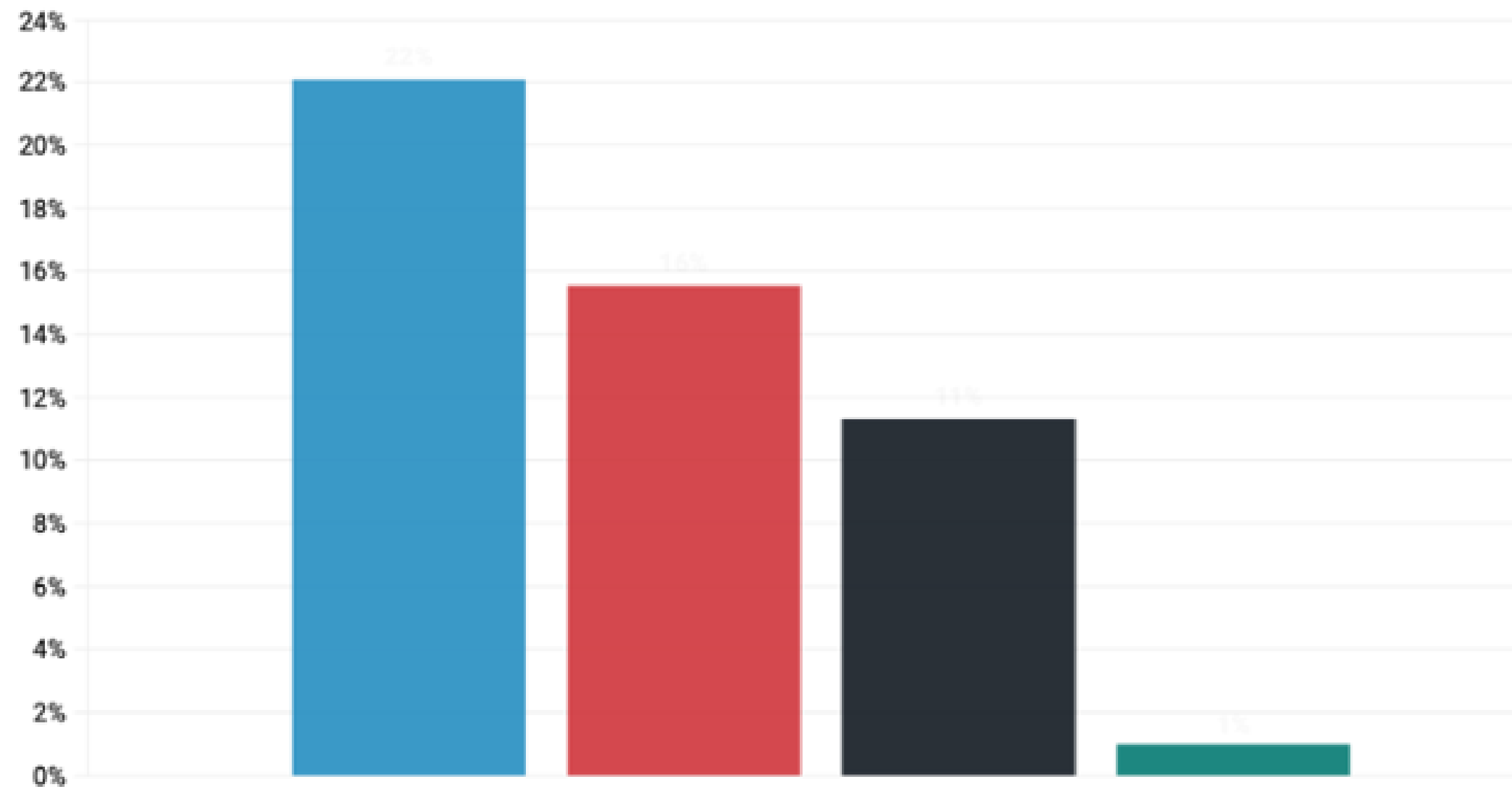
ESA misspending rate compares very favorably to the rates of programs supported by choice opponents.

Figure 4

Improper Payment Rates

While national Medicaid/Medicare improper payment rates and Arizona SNAP Payment Error Rates have been decreasing, there is still some level of misuse tolerated in these programs

■ Unemployment Insurance Improper Payment Rate, 2019-2022 ■ National Medicaid Improper Payment Rate, 2022
■ AZ SNAP Payment Error Rate, 2022 ■ ESA Rate of Apparent Misuse, 2018



Source: AZ Auditor General, US Department of Agriculture, Center for Medicaid Services



Missteps in ESA Implementation

Katherine Bathgate

- Senior Advisor for Education Strategy, State Policy Network
- CEO, *SchoolForward*



ed•u•ca•tion sav•ings ac•count (ESA)

noun

an account funded by a portion of state taxes set aside for education that families can use to customize their child's education through services such as tuition, tutoring, curriculum, and post-secondary preparatory services

“ I am so unbelievably grateful for this scholarship. I know there’s been a lot of unknown, but this has been the most amazing blessing for our family. Thank you to all those who made this possible for us! ”

— Utah Parent

“ We are not a wealthy family, we own a small business; because of the WV Hope Scholarship, we can purchase all necessary things for them to succeed. Not only the necessary items, but extra courses that fuel their creativity or curiosity are available to us now where they would never have been accessible before. ”

— West Virginia Parent

“ As a low-income family, we’ve been able to make our dream of homeschooling a reality without the financial strain that would otherwise come with it. [The] ESA allows us to afford essential supplies and curriculums, giving our daughter the opportunity to explore her passions in horsemanship and theatre. Most importantly, the program has enriched our family life by allowing us to spend more time together. ”

— Arizona Parent

“ Public school failed my son so I was grateful that this was an option. However, if I cannot use the funds that are in his account for curriculum, materials, etc. that he needs, then the ESA is failing my son as well. ”

“ How are we supposed to pay for stuff? I certainly don't have any extra funds in my budget to pay for anything. I don't want to put anything on a credit card and have to pay interest. If we are getting this scholarship because we are low income, how do they expect us to be able to use any of this money if we have to put our money on the line first? I feel as though I've been given a great opportunity that I can't actually use because I don't have any extra funds to put down first. ”

“ My wife and I decided to homeschool, and with the ESA, that has become possible. However, the delays associated with ordering through [the digital wallet] have made it challenging... we have had to wait over a month for nearly every order we have placed... Homeschooling families like ours are at risk of falling behind their peers that attend public school or private school. ”

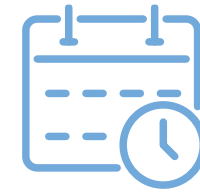
ESA Implementation Grade



HELP!



Challenges Families Face



LONG APPROVAL WINDOWS

Average approvals take anywhere from 1-21 days. Families have reported losing their spot in an education program for their child while waiting.



SLOW REIMBURSEMENTS

It can take 7-30 days depending on the state to receive a reimbursement. This is particularly hard on lower income families.



HIGHER COSTS OF GOODS & SERVICES

Parents have reported the costs of goods inside the closed marketplace are sometimes more expensive than regular retail.



HIGH TRANSACTION FEES

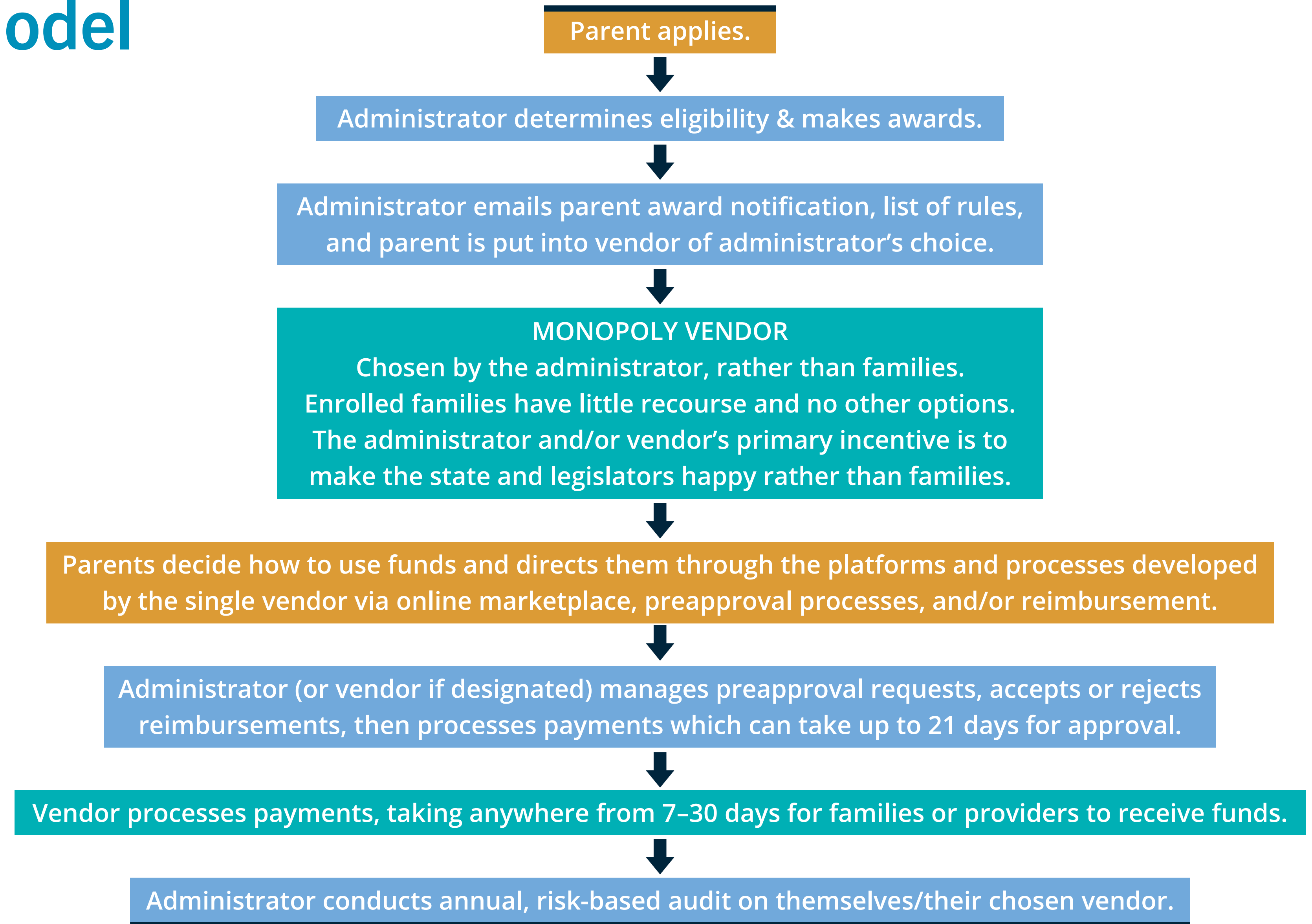
In some situations, families are losing 2.5% on transactions that could cost \$0.15. For an \$8,000 scholarship, that is \$200 lost.



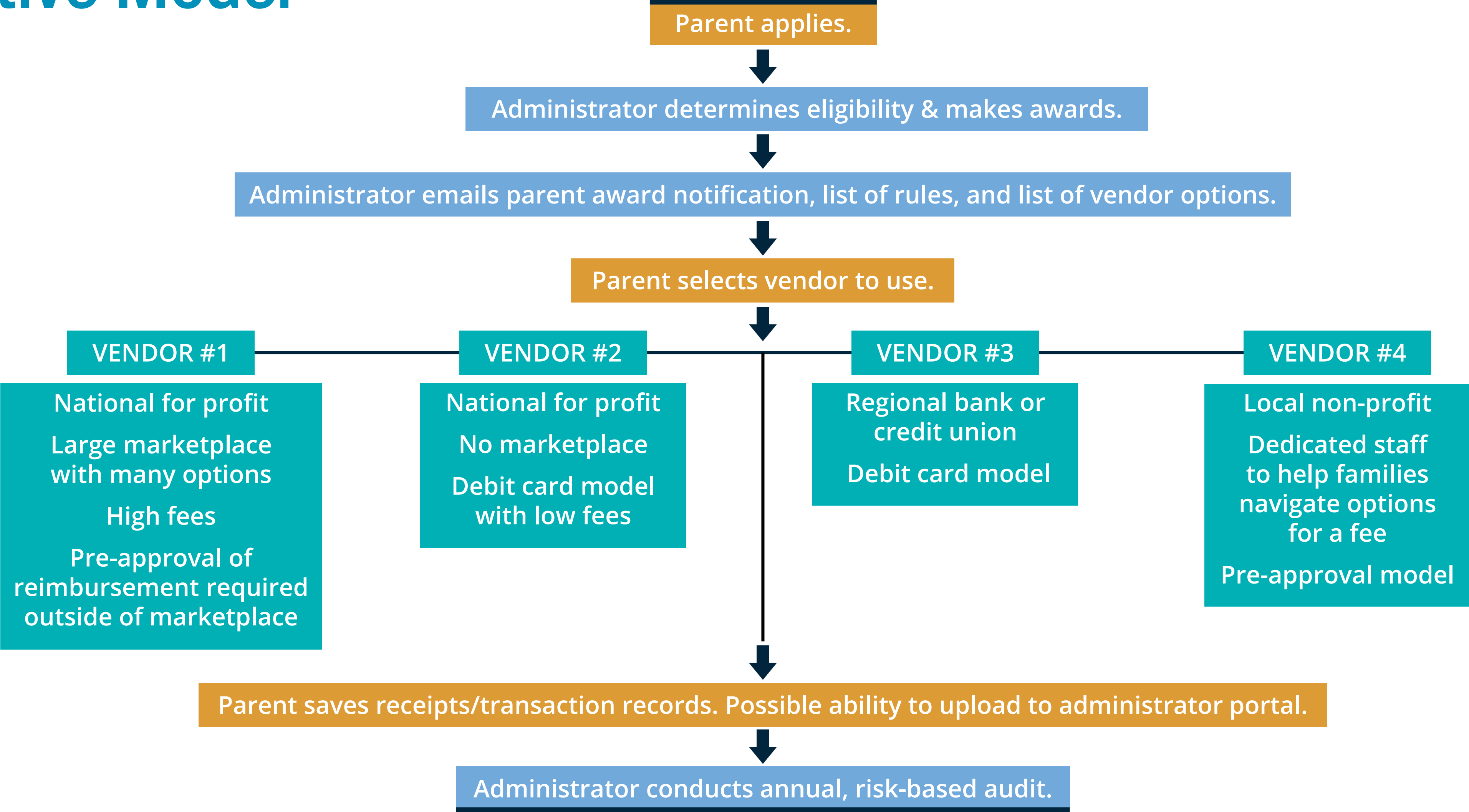
POOR CUSTOMER SERVICE

Whether it is a response from the administrator or the digital wallet vendor, families have reported poor customer service.

The Monopoly Model



The Competitive Model



Monopoly vs. Competitive Model

	MONOPOLY	COMPETITIVE
Client	The State	Families/Students
Number of Vendors	Allows only one vendor. Winner takes all.	Allows multiple vendors, creating competition for market share among enrolled families.
General vs. Specialized	Single vendor inevitably must be one size fits all and serve homeschoolers, online, private, and microschool families alike.	Vendors can specialize to meet specific needs of segments of the market. For example, a non-profit who becomes a vendor might choose to serve English Language Learner families.
Auditing	Administrator selects and is responsible for auditing the vendor/themselves.	Administrator must conduct audit on full program and is not auditing themselves, but rather the program as a whole, which includes multiple vendors.
Maximizing Freedom	Families are locked into whatever payment options the single administrator/vendor chooses. For example, only direct pay, no debit cards.	Multiple models can be employed, including marketplace and debit card options, providing more freedom to families.
Provider Experience	Providers are forced into one vendor and have little recourse if payments are slow, complicated, etc.	Providers can choose which vendors to partner with, improving their options and overall experience
Price Transparency	Vendors run exclusive marketplaces and can mark-up costs to families with no ability for families to seek cheaper goods or services elsewhere. Sole vendors can also impose unavoidable transaction fees.	Families can select both vendors and providers with the lowest cost items, services, and transaction fees.

POLICY OPTIONS



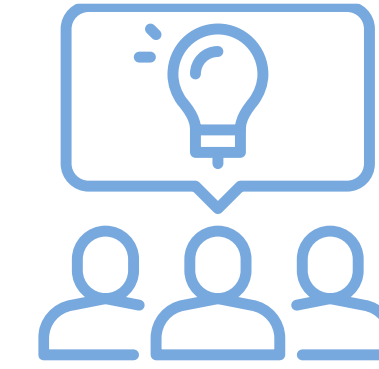
Policy #1

Allow all vendors meeting certain qualification to be a vendor.



Policy #2

Require administrators of the program to work with a minimum number of vendors.



Policy #3

Make it permissible for administrators to work with multiple vendors.

OTHER SOLUTIONS



SETTING ALLOWABLE IMPROPER PAYMENT RATES

Many government programs have high “improper payment” rates. Medicaid stands at 15% and unemployment benefits stand at 22%. While we shouldn’t let these numbers run wild, ESAs have achieved near 0% rates, but at very high administrative cost and significant burden to families using the ESAs.



ENCOURAGING DEBIT CARDS

Families – especially low-income families – do not always have the resources to pay for items up front and wait for reimbursement. Debit cards would allow them to pay for allowed K-12 expenses directly, instead of jumping through hoops or waiting on reimbursement. In addition, some have argued debit cards are more secure and less prone to fraud because transactions are more easily tracked.

Questions?

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