

The Public Policy
and Civil Society

S E R I E S

GRAND REFORMS IN THE GRAND CANYON STATE: EDUCATION SAVINGS ACCOUNTS BRING CIVIL SOCIETY TO LIFE IN ARIZONA

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The R Street Institute's Public Policy and Civil Society Series is a collection of case studies that demonstrate how policy can be used to energize non-governmental bodies. Each report will spotlight how government leaders turned to a diverse array of individuals, community-based organizations, nonprofits and/or local businesses to solve a social challenge, which differs from the traditional approach of creating a new centralized initiative run by a government bureaucracy. In total, these studies show how a variety of policy tools—including reduced regulations, new enabling language, tax credits and competitive grant programs—can be used to activate non-governmental bodies, which create an array of solutions tailored to local conditions. We would like to thank the Walton Family Foundation for its support of this series.

FOREWORD

In this important contribution to R Street's Public Policy and Civil Society Series, education scholar Lindsey Burke shows how Arizona's innovative "education savings accounts" program has fostered K-12 activity outside of the government. By allowing families to decide how to use state funds that would have otherwise been directed to existing district-run schools, the state has not only empowered families with choice, it has also encouraged civil society to play a larger role in the delivery and facilitation of K-12 services. This paper has many valuable lessons for those interested in using policy to catalyze non-governmental engagement in pressing issues, including how to monitor the use of public funds, limit regulations that could inhibit the emergence of a dynamic market, and ensure the program is big enough to influence non-profit and for-profit bodies. Education Savings Accounts demonstrate how a seemingly simple change in the distribution of government dollars can have a profound influence on families, communities and voluntary associations.

— Andy Smarick

INTRODUCTION

Arizona has been called the “Wild West” of education policy. Some use it as an insult; others as a badge of honor. Regardless of its intent, Arizona is distinct for its spirit of innovation and market-based education policies which, not incidentally, could be at the heart of the academic improvements achieved in recent years in the Grand Canyon State.

Two-and-a-half decades ago, Arizona was facing dismal educational outcomes. In 1992, when the federal government began administering the National Assessment of Educational Progress (NAEP) to obtain state-level student achievement data, just 28 percent of white students and 10 percent of Hispanic fourth grade students could read proficiently in the state. By 2013, that figure had increased to 42 percent for white Arizona fourth graders and 17 percent for Hispanic fourth graders (who represent a plurality of K-12 students in Arizona).¹ By 2019, that number had increased again to 44 percent for white students and 20 percent for Hispanic.² Moreover, between the 2009 and 2017 administrations of the NAEP, Arizona fourth- and eighth-grade students scored among the top 10 jurisdictions with the largest test score gains in math and reading.³ Over the same time period, far fewer children in the state were scoring below basic in math and reading in both fourth and eighth grade.⁴ Most recently, Arizona eighth graders saw a decline in reading from the 2017 to 2019 administrations of the NAEP, fourth grade math scores remained unchanged, fourth grade math scores saw statistically significant improvements, and eighth grade math scores remained unchanged. However, as education researcher Matthew Ladner points out, as one of just a handful of states to achieve improvement in eighth grade math and reading from 2009 to 2019, Arizona “stands as one of the few states showing progress over time.”⁵ Although there is still clearly room for improvement, the past two-and-a-half decades have enjoyed meaningful gains in educational achievement. But, what explains such growth?

¹ Matthew Ladner, “My Turn: Arizona Schools are Better than Ever (Really),” AZ Central, Oct. 2, 2015.

² National Center for Educational Statistics, “2019 Reading State Snapshot Report,” U.S. Dept. of Education, 2019.

³ “The Grand Canyon State Charts Progress on NAEP,” National Assessment Governing Board, June 21, 2019.

⁴ Michael J. Petrilli, “Education Policy Helped these States Beat the Socioeconomic Curve,” The Thomas B. Fordham Institute, July 24, 2019.

⁵ Matthew Ladner, “Student Achievement Scores are Mixed, but Arizona is Still Moving Up,” Chamber Business News, Nov. 1, 2019

Ladner explains that Arizona adopted several of the reforms put in place in Florida during Jeb Bush's time as governor (1999 – 2007), including assigning grades to schools and shifting funding incentives, such as providing, for example, performance bonuses to teachers. The state also adopted several school choice measures, including a tax-credit scholarship program and a robust charter school law allowing innovative, autonomous, public schools of choice to flourish. As Ladner explains, although a causal connection cannot be made between the policy reforms and gains in the state, six state-level NAEP exams were administered from 2009 to 2017 in fourth and eighth grade in math, reading and science, and Arizona is one of just two states to achieve statistically significant gains on all six tests.⁶

Although Arizona took many of its education reform cues from Florida, it blazed a new trail with its first-in-the-nation “education savings account” (ESA) program. Recognizing the need to provide customized learning options to children with special needs in particular, in 2011, Arizona policymakers gave families control over the state's portion of education funds allotted for their children. Families making use of ESAs would, instead, direct the state per-pupil funding to education services, products and providers that met their students' particular needs.



Overall, just 30 percent of Arizona fourth and eighth graders are proficient in reading today.

But much more can be done. Overall, just 30 percent of Arizona fourth and eighth graders are proficient in reading today—a figure that should catalyze continued reform. Moreover, per-pupil spending has doubled in real terms in Arizona since 1970.⁷ In order to foster ongoing improvements, the state has expanded access to its education savings account program nearly every year since its inception in 2011. And as this case study will show, the non-governmental civil society sector has responded in kind, embracing this new landscape of education choice and opportunity, and rising to the challenge of meeting the needs of families across the state.

⁶ Matthew Ladner, “School Wars: Return of the Nerdi,” *RedefinED*, Dec. 3, 2018.

⁷ “My Turn: Arizona Schools are Better than Ever (Really).”



THE SCHOOL CHOICE MODEL

FROM GOVERNMENT-DIRECTED SCHOOLING TO PARENT-DRIVEN EDUCATION

In 1955, Nobel Laureate economist Milton Friedman outlined the idea that the public financing of education need not require government delivery of schooling. In fact, the two could and should be separate. He operationalized this concept in the form of school vouchers, in order to “center attention [financing] on the person rather than the institution,”⁸ and contended that vouchers were “a means to make a transition from a government to a market system.”⁹ This theory undergirds much of the contemporary school choice movement, which urges a move away from a district-based model in which students are largely assigned to schools based on geographic boundaries, and toward programs that direct taxpayer funds (and/or private funds) to students themselves, which enables them to enroll in private schools and finance other education options that fit their particular needs. Today, 63 private school choice programs operate in 29 states, the District of Columbia and Puerto Rico.

⁸ Milton Friedman, “The Role of Government in Education,” in *Economics and the Public Interest*, ed. Robert A. Solo (Rutgers University Press, 1955), p. 14.

⁹ Milton Friedman, “Public Schools: Make them Private,” *The Washington Post*, Feb. 19, 1995, p. 1.

IMPACT OF SCHOOL CHOICE ON ACADEMIC OUTCOMES

As the number of voucher, tax-credit scholarship programs and education savings account options have increased over the past two decades, so too have the number of evaluations examining their effectiveness. To date, researchers have conducted 19 randomized controlled trial (RCT) evaluations of the impact of school choice on student academic achievement and attainment; 16 of which examined the impact on academic achievement (e.g. test scores), and three of which examined the impact on academic attainment (e.g. high school or college graduation). Among the 16 RCTs that examined the impact of school choice on academic achievement, 10 found positive impacts for some or all participants,¹⁰ four evaluations found neutral or null effects on academic achievement¹¹ and two evaluations have found statistically significant negative effects on academic achievement as a result of voucher use.¹² To date, researchers have also conducted five RCTs examining the impact of school choice on academic attainment, three of which find statistically significant positive effects for some or all students,¹³ and two which find null effects.¹⁴

¹⁰ See, e.g., P.J. Wolf et al., "School Vouchers and Student Outcomes: Experimental Evidence from Washington, DC," *Journal of Policy Analysis and Management* 32:2 (2013), pp. 246-270.; J.M. Cowen, "School choice as a latent variable: Estimating the 'complier average causal effect' of vouchers in Charlotte," *Policy Studies Journal* 36:2 (2008), pp. 301-15.; J.P. Greene, "The effect of school choice: An evaluation of the Charlotte children's scholarship fund program," *Civic Report* 12 (2000), pp. 1-15.; J.P. Greene et al., "Effectiveness of school choice: The Milwaukee experiment," *Education and Urban Society* 31:2 (1999), pp. 190-213.; C.E. Rouse, "Private school vouchers and student achievement: An evaluation of the Milwaukee Parental Choice Program," *The Quarterly Journal of Economics* 113:2 (1998), pp. 553-602.; William G. Howell and Paul E. Peterson, *The Education Gap: Vouchers and Urban Schools* (Brookings Institution Press, 2002); J. Barnard et al., "Principal stratification approach to broken randomized experiments: A case study of school choice vouchers in New York City," *Journal of the American Statistical Association* 98:462 (2003), pp. 299-323.; H. Jin et al., "A modified general location model for noncompliance with missing data: Revisiting the New York City School Choice Scholarship Program using principal stratification," *Journal of Educational and Behavioral Statistics* 35:2 (2010), pp. 154-73.

¹¹ See, e.g., M. Bitler et al., "Distributional analysis in educational evaluation: A case study from the New York City voucher program," *Journal of Research on Educational Effectiveness* 8:3 (2015), pp. 419-50; Eric Bettinger and Robert Slonim, "Using experimental economics to measure the effects of a natural educational experiment on altruism," *Journal of Public Economics* 90:8-9 (2006), pp. 1625-48.; Alan B. Krueger and Pei Zhu, "Another look at the New York City school voucher experiment," *American Behavioral Scientist* 47:5 (2004), pp. 658-98.; Ann Webber et al., "Evaluation of the DC Opportunity Scholarship Program: Impacts After Three Years," National Center for Education Evaluation and Regional Assistance, 2019.

¹² See, e.g., Jonathan N. Mills and Patrick J. Wolf, "The effects of the Louisiana Scholarship Program on student achievement after three years," *Louisiana Scholarship Program Evaluation Report No. 7, School Choice Demonstration Project*, June 26, 2017.; and Atila Abdulkadiroğlu et al., "Free to choose: can school choice reduce student achievement?," *American Economic Journal: Applied Economics* 10:1 (2018), pp. 175-206.

¹³ See, e.g., Wolf et al., pp. 246-270.; Matthew M. Chingos and Paul E. Peterson, "Experimentally estimated impacts of school vouchers on college enrollment and degree attainment," *Journal of Public Economics* 122 (2015), pp. 1-12. The third of these studies is an April 2018 draft version of an update to Chingos and Peterson's 2015 study.

¹⁴ See, e.g., Heidi H. Erickson et al., "The preliminary effect of the Louisiana Scholarship Program on college entrance," Association of Education Finance and Policy 43rd Annual Conference, 2018. Matthew M. Chingos et al., "The effects of the Florida Tax Credit Scholarship Program on college enrollment and graduation: An update," Urban Institute, 2019.

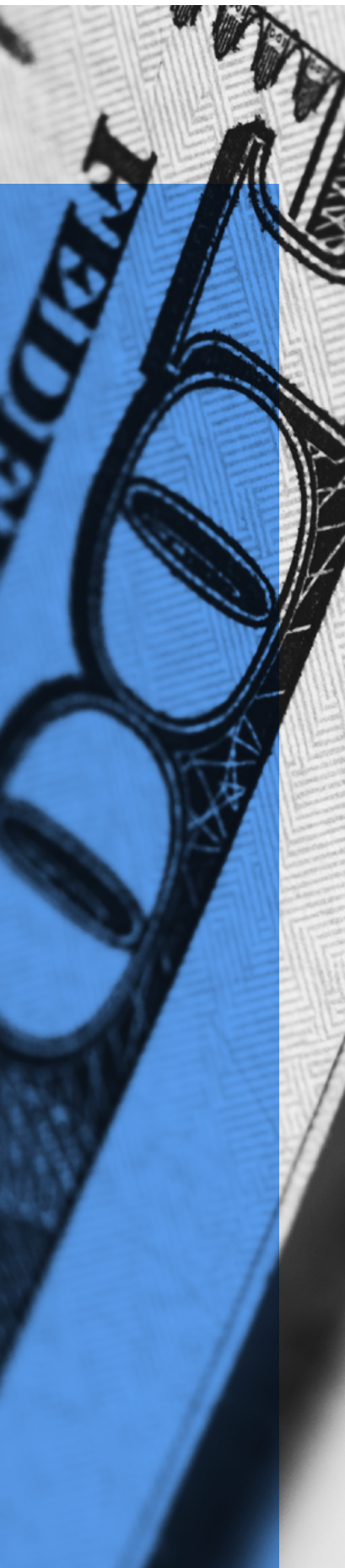


ESAS COME TO ARIZONA

Positive outcomes as a result of school choice program participation, coupled with advances in technology, created the conditions for a new, expanded form of education choice. And in 2005, a seminal paper published by Dan Lips at the Arizona-based Goldwater Institute offered a new way of delivering education to families: education savings accounts.¹⁵ The paper noted that although mechanisms such as school vouchers and tax credits provided much-needed school choice options to families, ESAs would allow them to direct their child's share of education funding to multiple education services providers and products, beyond just private school tuition, which would allow for complete customization of their child's education. In 2011, Arizona policymakers took note, as did Arizona Gov. Jan Brewer, who signed SB 1553 into law, creating the first-in-the-nation education savings accounts through the Empowerment Scholarship Account program. Since that time, five other states have followed Arizona's lead, and today ESA options of various sizes also exist in Florida, Mississippi, North Carolina, Tennessee and Nevada.¹⁶

¹⁵ Dan Lips, "Education Savings Accounts: A Vehicle for School Choice," Goldwater Institute, November 2005.

¹⁶ Nevada's ESA program is not currently funded as the result of a lawsuit alleging the program violated a provision in the state constitution regarding public education funding.



EDUCATION SAVINGS ACCOUNTS

ESAs are parent-controlled accounts that receive a portion (usually 90 percent) of what would have been spent by the state on a child's education in a district-run public school. Parents sign a contract with the Arizona Department of Education promising not to enroll the child full-time in a public school and agreeing to provide instruction for the child in grammar, mathematics, reading, science and social studies. At that point, the state awards the family its child's state per-pupil funding in the form of a pre-paid debit card, which enables the family to pay for any education-related service, product or provider of choice.

Funds are loaded quarterly onto the restricted-use debit card; the accounts receive the next quarter's funds once receipts for the prior quarter's expenses have been submitted to the state. Empowerment Scholarship Accounts are also subject to audits by the Arizona Department of Education, and the department can refer a substantial misuse of funds to the attorney general. In June 2016, the Arizona Office of the Auditor General conducted and published its first audit of the Empowerment Scholarship Account program. Overall, the auditor general found that the Arizona Department of Education has "established processes for distributing program monies and helping to ensure these monies are spent as required by statute, but should further strengthen its oversight of program spending."¹⁷ Among participants, the audit found approximately \$102,000 in misspending in 2015 (out of \$17.3 million in total ESA funding), which included expenses associated with some parents double-dipping (enrolling their child in a public school at the same time they were enrolled in the ESA program), and some purchases of unallowed items.¹⁸ Because the state is funding families instead of schools "where revenues and expenses are difficult to track [...] every penny is accounted for. With savings accounts, the state and taxpayers know exactly where and how money is spent."¹⁹

¹⁷ Debra K. Davenport, "Department Oversees Empowerment Scholarship Accounts Program Spending, but Should Strengthen its Oversight and Continue to Improve Other Aspects of Program Administration," State of Arizona Office of the Auditor General, June 2016, p. 4.

¹⁸ Ibid.

¹⁹ Jonathan Butcher, "Education Savings Accounts: A Path to Give All Children an Effective Education and Prepare Them for Life," Goldwater Institute Policy Report No. 253, Oct. 30, 2012, p. 4.

Participants can then harness these restricted-use accounts to pay for private school tuition, online learning, private tutoring, textbooks, curricula, education therapists, and numerous other services and products that are approved by the state.²⁰ In addition to parents being able to divvy up the dollars in their ESAs among multiple products and services—as opposed to just private school tuition—which is the primary distinction between ESAs and vouchers, account holders can also roll over unused funds from year-to-year, and can roll unused funds into a college savings account.²¹ During the 2013-14 and 2014-15 school years, Arizona families used their ESAs for all of the allowable expenses under state law. Although an estimated 83 percent of ESA expenditures went toward paying private school tuition, seven percent of ESA payments were made to private tutors, five percent went toward educational therapies and two percent went toward purchasing curriculum. Thirty-one percent of funds were unspent, rolling over to the next year in anticipation of future education-related expenses. Although it's unclear precisely why parents are saving funds in their ESAs, it is possible that many realize schooling becomes more expensive as their children make their way to the next grade level (for example, private school tuition is

TABLE 1: Education Savings Accounts—Student Eligibility Categories

Eligibility Category	Year Made Eligible
Children with special needs	2011
Students from failing “D-” or “F-” rated schools	2012
Adopted children and those in foster care	2012
Children in active-duty military families	2012
Incoming kindergarteners in eligible groups	2013
Children of fallen soldiers	2014
Siblings of existing ESA students	2014
Preschool children with special needs	2014
Native American children on tribal lands	2015
Student of a parent who is blind or deaf	2015

SOURCE: Data taken from the Arizona Department of Education. See: Butcher and Burke.

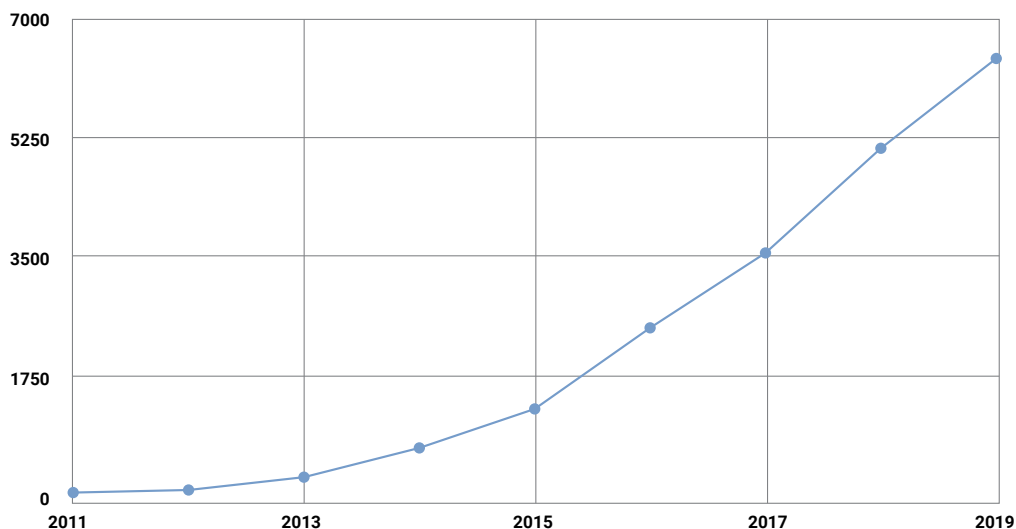
²⁰ For a detailed description of the program’s criteria and contours see: A.R.S. 15-2401, [Arizona Empowerment Scholarship Accounts](#), last accessed Nov. 15, 2019.

²¹ See: 15-2402(h), [Arizona Empowerment Scholarship Accounts](#).

typically higher in high school than elementary school); that they are simply saving for any unanticipated expenses in the future; or that the funding is above what they needed in a given year. Notably, approximately one-third of families used their ESAs to pay for multiple education-related services, providers and products—as opposed to private school tuition at a single school of choice—further customizing their child's education.²²

Today in Arizona, 6,422 students participate in the ESA program, using their accounts to finance tuition at dozens of participating private schools, to pay for private tutors, to access online courses and to receive special education therapies, among numerous other uses. Program participation has grown considerably since it was launched in 2011 with just 115 students.²³ In 2017, approximately 55 percent of participants were children with special needs, 12 percent were children from military families, 12 percent had previously attended a “D” or “F”-rated school, 7 percent were adopted or in foster care, 7 percent were siblings of current participants and 6 percent were Native American students on tribal lands.²⁴ The average ESA account was funded with approximately \$5,600 during the 2016-17 school year, a figure which increases to \$14,518 per account for children with special needs.²⁵

FIGURE 1: Education Savings Account Enrollment: 2011 – 2019



SOURCE: [EdChoice](#)

²² Jonathan Butcher and Lindsey M. Burke, “The Education Debit Card II: What Arizona Parents Purchase with Education Savings Accounts,” Friedman Foundation for Educational Choice, February 2016.

²³ “School Choice: Arizona – Empowerment Scholarship Accounts,” EdChoice, last accessed Nov. 7, 2019.

²⁴ Don Harris, “What Are Arizona’s Empowerment Scholarship Accounts,” Arizona Education News, Jan. 4, 2017.

²⁵ The increased amount for students with special needs are based on “weights” that are applied to take into account learning or physical impairments and to provide appropriate funding above a set base amount annually.

Max Ashton is one such student. In 2011, Max was a high school student living in Arizona and planning the next steps along his educational journey. When the Empowerment Scholarship Program was established that year, Max, who has been legally blind since birth, qualified and decided to take advantage of the program. He exited the public system and enrolled at Brophy College Prep, paying his private school tuition with his ESA. He was also able to get a number of ancillary services customized to his needs. As Max's father Marc explains:

A blind student in Arizona gets about \$21,000 per year to educate that student. We took 90 percent of that, paid for Max to get the best education in Arizona...plus all of his Braille, all his technology, and then we still had money left over [...] to put toward his college [tuition]. And so he is going to be able to go on to Loyola Marymount University [...] and do extremely well, because we were able to save money even sending him to the best school in Arizona over what the state would normally pay for.²⁶

Since that 2014 interview with Marc Ashton, Max did indeed go on to Loyola Marymount University, and used his leftover Arizona state K-12 per-pupil funds to pay his college tuition. This is a story that illustrates that customized education, directed by the parents and students themselves, enables non-governmental options to better serve families. And it does well to illustrate Milton Friedman's notion that the public financing of education need not require government delivery of services.

SUPPLY-SIDE RESPONSE

Managing a school choice program was not a foreign concept to Arizona's Department of Education when the Empowerment Scholarship Program came along in 2011. By that time, the state was already home to Lexi's Law, a tax-credit scholarship program for children with special needs, a corporate tax-credit scholarship program for children from low-income families and an individual income tax-credit scholarship program. In addition to managing these three school choice programs, the department also oversaw (and continues to oversee) the traditional public school system and the robust state charter school sector. An early adopter of charter schools, Arizona established the state's charter school law in 1994, and by the 2016-17 school year, had more than 185,000 students enrolled in 556 public charter schools.²⁷ Yet each of these options—

²⁶ Brittany Corona, "Education Savings Accounts: Enabling Customized Learning," CNSnews, Aug. 29, 2014.

²⁷ "Results," Arizona Charter Schools Association, last accessed Nov. 4, 2019.

the various scholarship programs, and the public and charter sectors—functioned in a manner familiar to a state agency: funds were either appropriated via formula to the public and charter sector based on enrollment, or they were provided to families in the form of a scholarship to attend a single private school of choice.

The introduction of the Empowerment Scholarship Program was therefore new territory for the agency. Applications had to be reviewed to verify that families met eligibility requirements, funds had to be distributed based on “weighted” categories on a quarterly basis;²⁸ receipts had to be collected and approved, and vendors and schools had to be officially recognized. As a result of the introduction of the ESA program, numerous new education services, products and providers were able to begin meeting the needs of Arizona families. The broad list of allowable expenditures is maintained by the state Department of Education, but services and products are now provided through a variety of non-profit and private entities.

TABLE 2: Education Savings Accounts—Allowable Uses

Products	Year Made Eligible	Approved Therapies	Tuition and Fees
Curriculum	Credentialed Private Tutors	Physical Therapy	Tuition and Fees for an Online Course or School
Supplemental materials for home instruction	Sylvan Tutoring Center	Occupational Therapy	Fees for Advanced Placement Tests
Textbooks	OnTrack Tutoring	Speech Therapy	Fees for Nationally Norm-Referenced Tests
Assistive technology	Kumon Math and Reading Center	Vision Therapy	Tuition or Fees for Postsecondary School
	Aqua Tots	Hand Therapy	Individual Classes at a Public School
	Physical Education Instructors	Music Therapy	Extracurricular Activities at a Public School
	Swimming Instructors	Equine Therapy; Hippotherapy; Therapeutic Riding	Tuition or Fees at Private School
	Driver's Education Instructors	Aquatic Therapy	
	Dance Instructors	Martial Arts Therapy	
	Music Instructors	Gymnastics Therapy	
	Art Instructors	Applied Behavior Analysis & Verbal Behavior Analysis	
	Drama Instructors	Art Therapy	
	Paraprofessions to assist the tutor or teacher	Recreational Therapy	
		Relationship Development Intervention (RDI) Therapy	
		Social Group Therapy	

SOURCE: Aggregated by author from Arizona Dept. of Education data. Available [here](#).

²⁸ The Arizona Dept. of Education uses the following formula to determine the ESA distribution for children with special needs: Base Amount + Estimated Per-Pupil Amount + Additional Weights = Estimated Award Amount.

PRIVATE SCHOOL RESPONSE

Notably, freeing-up resources and providing public education funds directly to families has catalyzed private school start-ups and campus expansions. Families used ESA funds at 87 different private schools during the program's inaugural 2011-12 school year—a figure that had risen to 149 different private schools by the 2014-15 school year.²⁹ During the 2018-19 school year, nearly 400 private schools and education service providers were serving the needs of ESA families. This figure is an estimate, as private school and provider information was parent-reported to the Arizona Department of Education.³⁰ Although this figure is approximate, it is an indication of a robust market of private schools and education service providers in the state.

Gateway Academy is one such example. Established in 2005, Gateway serves “twice exceptional” students who “are categorized as academically bright with a diagnosis of Asperger Syndrome; seek a college preparatory curriculum [...] and/or have a discrepancy between IQ and achievement on a standardized assessment.”³¹ At \$26,000 per year, this specialized private school was out of financial reach for most families. But, in the wake of the introduction of the ESA program, Gateway has had to expand to a larger building to accommodate the fact that their student enrollment has tripled in the last five years. According to Max McFadden, Director of Admissions for Gateway, the tripling in enrollment, from 40 students to 120 currently, “is all because of ESA,” he explains.³² Indeed, information about paying for tuition at Gateway Academy with an ESA is featured prominently on the school’s website.³³

The ability for families of children with special needs to be able to afford tuition at specialized private schools, thanks to the ESA, is a familiar refrain. When Jennifer Doucet’s son, who has autism, reached fourth grade, they realized the public school system could not address

²⁹ Butcher and Burke, p. 8.

³⁰ This data was provided, uncleaned, to Lindsey Burke in July 2019, from the Arizona Dept. of Education. Note: Multi-campus schools were counted as separate schools.

³¹ “Admissions,” Gateway Academy, last accessed Nov. 7, 2019.

³² Phone conversation between Lindsey Burke and Max McFadden, Director of Admissions, Gateway Academy, June 21, 2019.

³³ Available at: <https://gatewayacademy.us>.





his sensory needs: “We needed a program that understood him, that [we] could gear toward his needs, instead of him having to fit into someone else’s box.”³⁴ Shortly after Arizona’s ESA program was launched, they chose to enroll their son in Pieceful Solutions, the longest-running school in Arizona designed specifically to meet the needs of children with autism. As Jennifer details: “the ESA is the only reason we have been able to stay at [Pieceful Solutions]. Without a savings account, we would not be able to afford the care that Shawn needs.”³⁵ Indeed, 95 percent of families at Pieceful Solutions (now called PS Academy) use an ESA to pay tuition. Because of growing interest among families like Jennifer’s, and the ability to pay as a result of the ESA, Pieceful Solutions, which first opened in 2008, opened a second campus, and this fall (2019) will open a third location. As the school’s website states: “The number one goal of PS Academy is to offer what public schools can’t.”³⁶ The response from Arizona parents suggests they are doing just that.

All of this demonstrates that a wide variety of private schools and education service providers are now meeting the needs of Arizona families. Many participating private schools provide a religious or values-oriented education to students, including at participating Catholic, Lutheran, Adventist, Baptist and Presbyterian schools, as well as Jewish day schools and Hebrew academies. Families are also accessing Science, Technology, Engineering and Mathematics (STEM) schools, including those that specialize in math, engineering and coding, as well as private tutoring services. They are selecting into schools that follow a particular pedagogical style, such as Waldorf or Montessori schools, and they are using their ESAs for sports-oriented options, such as ballet and gymnastics academies, and to finance tuition at schools that specialize in serving students with autism and other special needs.

³⁴ Lindsey M. Burke, “The Education Debit Card,” *National Review*, Oct. 15, 2013.

³⁵ *Ibid.*

³⁶ “About,” Pieceful Solutions, last accessed Nov. 7, 2019.



CIVIL SOCIETY RESPONSE

In addition to the supply of new schools and service providers, the response of non-governmental civil society institutions in Arizona has created additional resources and supports for ESA families. Writing about the supply-side response to deregulation in education, Mike McShane points to the online flight- comparison websites that emerged in the decades following deregulation of the airline sector in the 1980s, which served as intermediary institutions for consumers, driving down ticket prices and providing consumer information. He notes that: “intermediary institutions can help decrease market friction,”³⁷ something emerging non-governmental entities in Arizona are beginning to do for the ESA market. Families can shop around for schools on websites like Niche.com and GreatSchools.org, examining school ratings, comments from other parents and government data on school performance. Although these websites are imperfect, they provide information about schools from both official sources and parent feedback.

Early into the ESA program in 2011, parents organically started a Yahoo! message board, on which they exchanged information about their experiences with different ESA vendors, products and providers, asked questions of one another about allowable uses of the accounts, shared tips about different schools, and discussed various success stories and challenges with the ESA process and program. The group, which largely consists of mothers of ESA students, remains accessible today to ESA-participating families only. There is also an Empowerment Scholarship Account Facebook group and events such as ESA “101s” held by non-profit organizations for prospective participants periodically throughout the year.

³⁷ Michael Q. McShane, “Hubs and Spokes: The Supply Side Response to Deregulated Education Funding,” in *Education Savings Accounts: The New Frontier in School Choice*, ed. Nat Malkus et al. (Rowman & Littlefield, 2017), p. 177.

CHALLENGES TO A ROBUST SUPPLY SIDE RESPONSE

In order for an ESA program to work well for families, a variety of schools, education services and product providers must be broadly available to participants. This supply-side response is critical for an ESA program to function well and maximize the benefit to students. Although the supply-side response in Arizona in the wake of its ESA program is clear, some challenges remain. In addition to the challenge of private school start-ups being “capital-intensive enterprise[s],”³⁸ a robust supply-side response in an education marketplace can be diminished by three overarching barriers: 1) established schools serve as a “default option” for families; 2) student eligibility spreads participation too thin across a given state, failing to produce concentrated, adequate demand; and 3) regulations can make it difficult for suppliers and new schools to enter the market.

The default schooling option has the advantage. At the most basic level, an immediate, robust supply-side response can be limited by engrained conceptions of schooling coupled with the market advantage enjoyed by the existing providers. Incumbents must overcome the reality that existing public, charter and private schools, as McShane has identified, “are both the default option for families and an already established sector.”³⁹ However, as he also notes, that advantage could dwindle over time,⁴⁰ particularly as existing options have to increasingly compete with new innovative options and deal with longstanding challenges, such as unfunded pension liabilities and school building maintenance.

Although families immediately took advantage of the ability to customize their children’s education through the unique structure of ESAs, when the program was launched in Arizona in 2011, two-thirds continued to use their ESA in a manner similar to that of a traditional voucher, using their ESA solely to pay tuition at a single private school of choice.⁴¹ A replication study published in 2016 found that customization rates

³⁸ Ibid., p. 150.

³⁹ Ibid., p. 147.

⁴⁰ Ibid.

⁴¹ Lindsey M. Burke, “The Education Debit Card: What Arizona Parents Purchase with Education Savings Accounts,” Friedman Foundation, August 2013, p. 2.



had declined, with nearly three-quarters of participants (72 percent) using their ESA solely for tuition at a single private school of choice during the 2014-15 school year.⁴² Although customization rates (which indicate that parents are using the accounts for things like online learning and private tutors) declined slightly, that decline may not tell us the full story about the evolution of the market of options. It could be the case that new private schools were emerging in Arizona over that time period (suggested by growth in private school participation from 87 schools during the inaugural 2011-12 year to an estimated 400 today) and/or that existing private schools were expanding their campuses or offerings to meet demand. Still, however, at the very least, the default schooling option of a brick-and-mortar private school continued to have the advantage in the market over à la carte customized ESA use.

DEMAND CONSTRAINTS AS A FUNCTION OF PROGRAM ELIGIBILITY

Current caps on ESA eligibility, which limit student participation, dampen what could be a much more robust supply-side response, as restricting eligibility to small, discrete classes of students—when those students are spread across the state—limits provider response. This is because demand is dispersed across a large geographic area.⁴³ Accordingly, it has been suggested that geographically concentrating eligibility, for example, in low-performing schools (which can cluster in a district) or those on tribal lands, could foster a more robust supply-side response in a given area in the state, and thus could “pack more of a supply-side stimulus punch.”⁴⁴ Indeed, it could also “create a deeper foundation for localized competitive markets for educational services.”⁴⁵

However, it should be noted that even if choice participants are concentrated in a given geographic area, regulations can diminish the supply of providers. For example, nearly 15 years after Congress enacted the D.C. Opportunity Scholarship Program, which provides vouchers to eligible children in a small geographic area (the 61-square mile District of Columbia), participation among private schools has declined, falling from a peak of 68 schools during the 2005-06 school year to just 48 schools in 2018-19. This is partly because each time the program, which began in 2004, has been

⁴² Butcher and Burke, p. 9.

⁴³ Nat Malkus et al., eds., *Education Savings Accounts: The New Frontier in School Choice* (Rowman & Littlefield, 2017), pp. 162-163.

⁴⁴ Ibid., p. 162.

⁴⁵ Ibid., p. 163.



“Create a deeper foundation for
localized competitive markets
for educational services.”

reauthorized, new government regulations have been added that require participating private schools to conform more to the public school system. Although the majority of the decline in participation can be directly attributed to school closures and charter conversions, some of these schools and others could have been meaningfully influenced by these new rules. For example, accreditation was one of the most frequently discussed concerns among school principals, and was largely seen as a time-consuming and costly process that outweighed the benefit of program participation.⁴⁶

Another major issue for school principals was the risk and volatility associated with program participation, due to the political nature of the congressional appropriations process. School principals noted that funding instability makes schools appear risky to banks and donors. Fear of future regulations was a frequent concern for participating school leaders, and nonparticipating private schools expressed considerable trepidation about future regulations, citing that concern as a reason for their nonparticipation; a finding consistent with prior research.⁴⁷ Overall, this suggests that principals will consider the costs and benefits of program participation and will decline participation if the costs exceed the benefits, and that school leaders generally have concerns about possible future regulations. And, these concerns likely hold true for entrepreneurs considering starting-up a school or education service in response to Arizona’s ESA program.

⁴⁶ Lindsey M. Burke, *Principal Perspectives on School Participation and Non-Participation in the D.C. Opportunity Scholarship Program: An Institutional Theory Analysis* (Diss., George Mason University, October 2018).

⁴⁷ See, e.g., Brian Kisida et al., “Views from Private Schools: Attitudes about School Choice Programs in Three States,” American Enterprise Institute, January 2015.



CIVIL SOCIETY RESPONSE TO ESAS IN THE FUTURE

Arizona families are currently leveraging intermediary institutions to shop around for schools and education service providers, and they are paying private tutors and other education vendors directly through Square, a device that turns an educational service provider's cell phone into a debit card terminal to receive payment directly. Jonathan Butcher suggests that mobile money, an increasingly popular tool for receiving and making payments via cell phone, pairs perfectly with the growing education savings account movement, and could add rocket fuel to the market.

States with ESA options currently use Visa debit cards (loaded with the state per-pupil funding that would have been spent in public school) or reimburse families for approved education expenses. Soon, however, states could make the transition to conducting all ESA payments and deposits on mobile devices.⁴⁸ This type of non-governmental option could relieve much of the administrative burden on the Arizona Department of Education. Currently in Arizona's ESA program, parents receive 90 percent of their

⁴⁸ See, e.g., Jonathan Butcher, "The Future of Money and Giving Every Child the Chance at a Successful Future," [The Goldwater Institute](#), 2016, p. 15.

child's state per-pupil funding in their ESA in a manner similar to a prepaid Visa card. After each quarterly deposit is made by the state Department of Education, parents can then swipe their debit cards at a terminal at their chosen private school or at an educational therapist's office. They can use their card to buy educational products and services, and can make purchases by entering their account information into PayPal, or by paying service providers directly through Square.⁴⁹

Moving forward, however, Arizona may consider mobile money options like BenefitWallet, an option the state of Nevada investigated when trying to launch an ESA program. ESA providers (tutors, online courses, educational therapists, etc.) first register with BenefitWallet and with the state. When a family then makes a purchase at an approved provider, BenefitWallet confirms the provider is registered with the state agency, and then requests funding from the state to complete the purchase. As Jonathan Butcher explains: "once merchants have registered with the state, payment is intended to be nearly automatic."⁵⁰ The intermediary institution component of such an approach is considerable: the payments are smooth and the ability to commit fraud or have an accidental mis-expenditure is reduced dramatically. Coupled with advances in ESA management like those in Florida—wherein the non-profit that administers the state's ESA has created a platform that allows families to shop for ESA services and providers via a closed online platform—the civil society response to the introduction of ESAs could soon very much mirror the type of intermediary institutions like flight website comparison shopping enabled by the airline deregulation of the 1980s.

As Arizona considers improvements, the state should also follow Florida's lead on overall program administration, and outsource program management to a third-party non-profit. Non-profit scholarship granting organizations, for example, have expertise in managing school choice programs, advertising to eligible families, growing awareness, and working closely with participating families. On the other hand, state agencies are constrained by the need to administer the public system, and thus may turn to the ESA program only as an afterthought. The sole purpose of non-profit scholarship-granting organizations is to manage and support education choice options, making them a good fit for program administration. Government agencies such as a state department of education or treasury could then provide program oversight, rather than outright management.⁵¹

⁴⁹ Ibid.

⁵⁰ Ibid.

⁵¹ ["School Choice: Arizona – Empowerment Scholarship Accounts."](#)

A close-up photograph of a person's face, with the lower half obscured by a white, textured cloth. The person's eyes are looking down and to the left. The background is dark and out of focus.

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Customized education, directed by the parents and students themselves, enables non-governmental options to better serve families.



CONCLUSION

Arizona's ESA program has not only catalyzed a robust civil society response in the Grand Canyon State, it has ignited an entirely new method of designing education choice programs. Today, states considering implementing such programs tend to introduce ESAs over their traditional voucher and tax-credit scholarship predecessors. Federal proposals to bring choice to military families and expand choice in the District of Columbia and for Native American children on tribal lands have taken the form of ESAs. Their flexibility, coupled with the invitation to non-governmental civil society actors to enter the market and serve ESA families, most likely mean they are the way of the foreseeable future for school choice.

Education will benefit enormously from bolstering that "vast social space between the individual and the national state—which is after all the space in which civil society actually exists."⁵² ESAs enable providers to fill that space, serving families and finally bringing K-12 education on par with the choice and customization we long ago came to expect in every other aspect of American life. For that, we have the Wild West to thank.

⁵² Yuval Levin, "The American Context of Civil Society," [Stanford Social Innovation Review](#), June 14, 2018.

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