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# A Universal Education Savings Account Proposal: Fiscal Implications and Model Legislation – Summary\*

Education Savings Accounts (ESAs) are state-funded and administered accounts that pay for educational services for school-age children as directed by their parents or legal guardians. Funds can be used for a variety of educational purposes, such as private school tuition, tutoring, books, and online materials. An incentive to economize is provided by allowing leftover ESA funds to be spent post-high school graduation on college and career education.

*The full paper provides more complete descriptions of the ESA proposal's basics, along with explanations of the reasoning behind them. In addition, it contains a model ESA bill drafted with Oklahoma statutes in mind.*

## Fiscal Impact of Proposed ESA Law

Long-term, the proposed ESA program could save the state over \$500 million a year. This is because the cost of the ESA (\$4,500) is substantially below the average variable cost of educating a child in a local district school (\$7,000). However, in the early years the ESA may cost the state over \$100 million as students currently enrolled in private schools heavily participate. The proposal includes an option to phase these students into the ESA program on a no-net cost basis.

A local public school district that gains a regular student sees total funding increase, although per-student funding declines. Conversely, an enrollment decline drops total funding, but increases funding on a per-student basis. This program would immediately reduce total funding for a school district when a child leaves for an ESA, but the district would still see per-student funding rise. Funding for bonded indebtedness would not be affected.

Most local school districts with declining enrollment due to this program will be able to reduce their variable costs quickly so their overall financial position will improve. However, very small

districts may be adversely affected. Thus, the proposal includes an option to make students in very small districts ineligible.

## Basics of Proposed ESA Law Eligibility

Any school-age child, kindergarten and above, eligible to attend an Oklahoma public school is eligible for an ESA. To participate, parents must sign a contract agreeing not to enroll the child in a public school.

## Funding

Individual ESAs will be entirely state funded at \$4,500 per year. This money will come from the state's general appropriation for formula funding of common schools. Parents may supplement this amount with their own money.

## Allowable ESA Expenses

- 1 Private school tuition,
- 2 Tutoring,
- 3 Educational materials (both print and online),
- 4 Traditional co-curricular and extra-curricular activities such as art, athletics, drama, music, student clubs, and other academic-related activities.
- 5 Educational service and extra-curricular activities voluntarily offered to ESA students by public schools.
- 6 Educational therapies (often used by special needs students),
- 7 College and career tuition for concurrent enrollment students,
- 8 Testing,
- 9 Post-secondary education (up to an age to be determined, at which time any remaining funds revert to the state).

## **Governance/Administration**

A five-person ESA Board will be created to administer the program. Accounts and account activity will be handled by the State Treasurer. The Oklahoma Department of Education will cooperate with the Treasurer and ESA Board in determining student status and enrollment in order to enforce the provisions of the ESA law.

## **Academic Accountability**

A student's parents must have the student tested yearly. The test shall be chosen by the parents from a list of nationally-recognized norm-referenced tests selected by the ESA Board. Students who fail to make adequate academic progress may lose their eligibility.

## **Financial Accountability**

The Board shall provide a registry for bonded vendors. The Board will also promulgate a detailed list of allowable expense items and services based on the basic list in the law.

All money will be paid directly to vendors. No money will be paid to the parents or close family.

Parents may not resell items purchased through the ESA except after they have been used and then only through approved

channels. Proceeds from such sale shall accrue to a child's ESA account.

Kickbacks for vendor to parent are prohibited. Violations may result in criminal prosecution.

## **Administrative Cost**

The Treasurer may deduct a maximum of 3 percent from each ESA in order to cover ongoing administrative costs of state agencies. Further, the Treasurer may borrow up to \$350,000 from the state in order to finance administrative startup costs within Treasury and ODE.

## **No-Net-Cost Option**

The total number of students from private schools allowed to participate is limited, based on a 35 percent ratio. For every 2 children currently in public schools who participate, one currently in private schools can participate, assuming funding is as proposed. The savings from 2 students coming from public schools is just nearly enough to cover the cost of one student from private schools. If more private school students apply than the ratio producing no net cost can allow, a lottery will determine which private school students can participate.

