

## Designing an Education Savings Account for Oklahoma

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 not 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 [opip.net/education.html](http://opip.net/education.html)

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**E**ducation 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 below that of the public schools. ESAs are a rapidly emerging idea that have already been “field tested” in Arizona and Florida. The concept is sufficiently developed to the point it can be launched at scale in Oklahoma.

ESAs allow teachers and schools to adopt new models of education. ESAs are particularly attractive as a policy innovation 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. It starts with an

overview of the current public school system and its finances, followed by an overview of private schools in Oklahoma. The paper then provides an analysis of major questions that need to be answered to design an ESA program, and concludes with specific policy recommendations.

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### Oklahoma Public Education

Total enrollment in Oklahoma public schools is 675,534.<sup>1</sup> The state system is organized by geographic districts. There are

Educational Savings Accounts are a major innovation in education finance. What should an Oklahoma ESA look like? Vance H. Fried gives us his views. Fried is Riata Professor of Entrepreneurship at Oklahoma State University, President of the 1889 Institute, and an Adjunct Scholar at the Cato Institute.

about 520 local districts.<sup>2</sup> Students are assigned to a district based on their place of residence. These districts then assign students to an individual school. The school to which a student is assigned is generally based on where they reside in the district. Parents rarely have a say in the school their child attends.

Each local district is a legal entity with an elected school board. The local district is responsible for running the schools in their district. Each district must comply with state laws and regulations of the State Board of Education. Often state law and regulations are detailed and substantially limit the local district’s operational autonomy.<sup>3</sup>

### Costs & Revenues

Most school spending is by the local districts. In 2013-2014, average district spending totaled \$9,547.21 per student.<sup>4</sup> See Table I. Variance between districts is usually no more than \$1,200.

Several expenses are not included in Table I because the money does not run through the local district. For example, state level overhead is paid directly by the state and not charged out to the districts. In addition, the state directly pays a portion of the pension cost for the district’s employees (\$61).<sup>7</sup> Considering all programs and expenditures, the public system annually spends about \$12,000 per student.<sup>8</sup>

Funding for the districts comes from state (61%),

**Table 1**  
School District Spending per Student<sup>5</sup>

Instruction	\$4,204.67
Support Services	1,816.74
Physical Plant	1,588.57
Debt Service <sup>6</sup>	735.05
Child Nutrition	491.64
Transportation	329.27
Miscellaneous—Operations	110.46
Miscellaneous—Other	252.82
<b>Total</b>	<b>\$9,547.21</b>

local (28%) and federal (11 %) sources.<sup>9</sup>

State funds are provided from dedicated tax revenues and annual appropriations. Local revenues come from property taxes. Revenues from most property taxes are used to fund annual operating expenses.<sup>10</sup> In addition, schools often use special property taxes to pay debt service for new buildings. Federal money is primarily targeted towards lower income students.

Property tax revenues go directly to the district where the property is located. 68% of state funds are allocated to the districts by the State Board of Education as “State Aid” with the other 32% tied to specific programs. “State Aid” for a school district is determined through a complex formula.<sup>11</sup> The core of the formula is that the district gets a set amount per pupil.<sup>12</sup>

The per pupil amount is a base amount (currently

<sup>1</sup> ADM. (Average Daily Membership). ADA (Average Daily Attendance) is 639,326.

<sup>2</sup> Annexations Consolidations & Changes Oklahoma State Board of Education (accessed March 3, 2013)

<sup>3</sup> E.g., see Standards of Accreditation for Oklahoma Schools: 2014-2015, [http://ok.gov/sde/sites/ok.gov.sde/files/documents/files/UPDATEaccreditation%20standards\\_2014.pdf](http://ok.gov/sde/sites/ok.gov.sde/files/documents/files/UPDATEaccreditation%20standards_2014.pdf)

<sup>4</sup> District spending here and in Table I is computed from data in “State Expenditure Details Based On All Funds Submitted by Districts: 2013-2014”, Oklahoma State Department of Education. [https://sdewebo1.sde.ok.gov/OCAS\\_Reporting/StateExpenditureDetails.aspx](https://sdewebo1.sde.ok.gov/OCAS_Reporting/StateExpenditureDetails.aspx)

<sup>5</sup> Total District Level Spending for All Districts/State ADM.

<sup>6</sup> Primarily to cover building bond issues.

<sup>7</sup> This does not include any unfunded liabilities accrued for the year.

<sup>8</sup> Jonathan Small, “At \$12,206 per student, Oklahoma’s total education revenues at an all-time high”, June 3, 2014, <http://www.ocpathink.org/article/at-12206-per-student-oklahomas-total-education-revenues-at-an-all-time-high>

<sup>9</sup> See page 11, 2014 OCAS District Revenue Report, Oklahoma State Department of Education. [https://sdewebo1.sde.ok.gov/OCAS\\_Reporting/docs/RevenueReportFromOcasStatewide2014.pdf](https://sdewebo1.sde.ok.gov/OCAS_Reporting/docs/RevenueReportFromOcasStatewide2014.pdf)

<sup>10</sup> For an explanation of the various funding sources see Oklahoma State Finance Technical Assistance Document: Sources of Revenue State Aid Formula Penalties/Adjustments, Oklahoma State Department of Education, Revised January 2014. <http://ok.gov/sde/documents/2014-01-14/technical-assistance-document>

<sup>11</sup> The detailed formula can be found in Oklahoma State Finance Technical Assistance Document: Sources of Revenue State Aid Formula Penalties/Adjustments, Oklahoma State Department of Education, Revised January 2014. <http://ok.gov/sde/documents/2014-01-14/technical-assistance-document>

<sup>12</sup> This may then be adjusted downward based on property tax collections for the district. The purpose of this adjustment is to diminish the funding gap between rich and poor districts. I.e. the more property tax the district gets, the less it needs money from the state.

\$3,035) which is then adjusted upward based upon grade level and any special characteristics of the student (see Table II). For example, a district gets \$6,071 for a bilingual kindergarten student from a low income family (3,035+759+1,518+759), \$4,674 for a gifted and talented 12th grader (3,035+607+1,032), and \$3,035 for an average 5th grader.

**Table 2**  
State Aid Add-Ons<sup>13</sup>

Grade	\$\$	Special Categories	\$\$
Pre-K	910	Low Income <sup>14</sup>	759
K	1,518	Bilingual Family	759
1-2	1,062	Gifted	1,032
3	155	Learning Disability <sup>15</sup>	1,214
4-6	0	Autism	7,284
7-12	607	Deaf-Blind	11,533

### Oklahoma Private Schools

There are approximately 130 accredited private schools in Oklahoma with a total enrollment over 30,000.<sup>16</sup> Many are Catholic schools owned by their Diocese. The others are mostly independent, non-profits. While accreditation is not required, almost all private schools in Oklahoma are accredited. The legal benefit of accreditation is that grades and courses can be transferred directly into the public schools.

The State Board of Education has delegated the task of accrediting private schools to several different independent accrediting associations.<sup>17</sup> If a school is accredited by one of these associations, then it is accredited by the State Board. The most prominent are the Oklahoma Conference of Catholic Schools Accreditation Association and The North Central Association Commission on Accreditation and School Improvement. North Central is also the accrediting association for Oklahoma’s higher education institutions.

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 schools.

There is significant excess capacity at many private schools. They can add students without having to add space or employees.<sup>18</sup>

Private school tuition varies dramatically by school. Table 3 shows tuition at a sample of schools around the state. A few charge substantially more than the public schools spend per student, but most charge less, dramatically less in some cases. This is particularly true in the earlier grades.

The cost gap between private schools and public schools is even more dramatic when one includes

**Table 3**  
Private School Tuitions<sup>19</sup>

School	Location	Elementary	High School
Okahoma Christian School	Edmond	\$6,850	\$8,700
Lawton Christian	Lawton	4,075	4,910
Saint Philip Neri	Midwest City	5,127	NA
Community Christian	Norman	4,000	4,450
Children’s House Montessori	Norman	5,850	NA
Bishop McGuiness	Oklahoma City	NA	12,100
Casady	Oklahoma City	14,080	18,525
Christ the King	Oklahoma City	6,255	NA
St. John Christian Heritage Academy	Oklahoma City	3,200	NA
William Bradford Christian	Pryor	4,025	4,100
Hope Christian Academy	Skiatook	3,800	NA
Sunnybrook Christian	Stillwater	4,500	NA
Holland Hall	Tulsa	14,623	18,531
Monte Casino	Tulsa	9,800	NA
Saint Catherine	Tulsa	4,882	NA
Victory Christian	Tulsa	5,723	6,240

Catholic school tuition is for non-Catholic students. Tuition for Catholic students is generally at least \$1,000 lower than shown above; \$3,500 lower at Bishop McGuiness.

online schools. Table 4 is a sample of accredited online schools.

**Table 4**  
Virtual School Tuitions

School	Elementary	High School
A Beka	\$795	\$845
James Madison	1,324	1,324
Keystone	2,095	2,095
SevenStar	2,645	2,645

## An ESA for Oklahoma

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

1. How can the money be spent?
2. How much money does a student receive?
3. Who is eligible?
4. How is the program administered?

### How can the money be spent?

An Oklahoma ESA needs to allow parents to spend for:

1. Private school tuition
2. Tutoring
3. Educational materials (both print and online)
4. Co-curricular and extra-curricular activities such as art, athletics, drama, music, student clubs, etc.
5. Educational therapies (often used by special needs students)
6. College tuition for concurrent enrollment students
7. Testing

Parents would be allowed to allocate funds among these eligible expenses any way they see fit. Any left overfunds would carry over into the next year. Upon graduation, unspent funds could be used for higher education.

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Some question whether tuition at unaccredited schools, church affiliated schools, and/or high tuition schools should be covered. Arizona excludes unaccredited schools. While arguments can be made to include unaccredited schools, this isn't an issue in Oklahoma. The accreditation process is well-established and has not been controversial.

However, there is one potential problem. 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.<sup>20</sup> This problem is easily solved by including schools which are in the process of accreditation with one of the approved accrediting groups.

From the standpoint of good program design, any accredited private school should be allowed to participate. However, Oklahoma's Constitution includes a "Blaine" provision. Arguably it prohibits some religious schools from inclusion in an ESA. A case on this issue is now before the State Supreme Court.<sup>21</sup> The ESA should include as many schools as possible consistent with the Court's decision.

While most privates spend less than the publics,

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<sup>13</sup> Determined annually based upon state funding available.

<sup>14</sup> This is state money. Other money for disadvantaged students comes from the Federal government.

<sup>15</sup> This is the lowest level of learning disability. There are several other categories with blind/deaf being the highest.

<sup>16</sup> Enrollment on unaccredited schools is unavailable, but is believed to be minimal. A list of accredited schools is available from the Oklahoma Private School Accreditation Commission website, opsac.org

<sup>17</sup> This is done through the Oklahoma Private School Accreditation Commission, a consortium of accrediting associations. See opsac.org.

<sup>18</sup> Based on author's conversations with various private school leaders.

<sup>19</sup> As reported on the various school's websites.

<sup>20</sup> It may take longer than one year with some accrediting agencies.

<sup>21</sup> See Kim Archer, "Student voucher law unconstitutional due to 'no-aid-to-religion' provision, judge rules", Tulsa World, [http://www.tulsaworld.com/news/education/oklahoma-county-judge-declares-lindsey-nicole-henry-law-unconstitutional/article\\_ea454f83-4684-5b66-8c4d-efefe13fa69f.html](http://www.tulsaworld.com/news/education/oklahoma-county-judge-declares-lindsey-nicole-henry-law-unconstitutional/article_ea454f83-4684-5b66-8c4d-efefe13fa69f.html), or "Lindsey Nicole Henry Scholarship opponents fall short with court ruling", Official Blog of Oklahoma State Rep. Jason Nelson, August 29, 2014, <http://www.jasonnelson.org/2014/08/lindsey-nicole-henry-scholarship.html>

a few spend substantially more. They charge high tuitions to reflect extra spending. Some taxpayers may object to the State “subsidizing posh schools for the rich”. Given the relatively limited number of students enrolled in these more expensive schools, this isn’t a policy problem. However, if allowing these schools to participate causes political problems, they can be eliminated from participation with minimal impact to the overall program. Simply exclude tuition at private schools charging more than the state spends (\$12,000). These schools could still take an ESA student if they give scholarships reducing that student’s tuition below \$12,000.

Arizona requires tutors to have a bachelor’s degree if they want to participate. This excludes some who are very qualified to tutor but do not have a college degree. 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.

Adequately monitoring tutors in an ESA program simply requires registering as a vendor, and perhaps posting a small surety bond. To avoid fraud, tutoring expenses should not be allowed for tutoring provided by a close relative of the student. Beyond that, tutoring should go on as it always has.

Transportation costs might also be included as a valid expense item. However, including them can make 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 because it is a payment to a parent, not a third party. Parents should not be reimbursed for transportation costs. However, costs of transportation if provided by a school, tutor, etc., might be included.

### How much money does the student receive?

The amount of funding per student needs to be high enough to make it possible for anyone to attend a private school. In particular it should be high enough to allow low income students to participate without their parents having to pay a significant amount out of their pockets. A

comparison of the current state aid formula (Table II) with private school tuition (Table III), shows that State Aid is around private tuition for K-8, well below what many privates charge for 9-12, and much higher than online tuition.

A low income first grader’s ESA will have enough money (\$4,856) to fully cover tuition at many private schools. At some schools there would be money left over for before school and after school care. ESA funding at the level of the State Aid Formula is sufficient for students attending private elementary schools.

On the other hand, high school students may have difficulty finding an affordable private school. A low income high school student would have \$4,401 available to spend. Some schools charge close to this, but at many the gap between tuition and the ESA would be \$2,000-4,000. 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. across the board.

The supply of low-tuition high schools will increase as ESAs increase demand. Existing schools with excess capacity may be able to cut tuition yet see their total revenues rise due to increased enrollment. Further, new schools will likely enter the market with operating models built to allow low tuition.

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 with at least \$3,500 left over. They can save much of this money for college.

### Savings to the State

From the state’s perspective, funding ESAs at 100% of State Aid results in significant savings.

The state saves from a reduction in spending made outside of “State Aid”. The state would not be paying health or pension benefits for private school

employees or tutors (\$608)<sup>22</sup>, transportation (\$319), or book allowance (\$50).

Real pension savings may be much greater than is shown based on the state and district financials. They only reflect cash that is put into the Oklahoma Teacher's Retirement System. The state has historically underfunded the teacher's pension fund. It is estimated unfunded pension cost accrued annually are \$1,600 per student.<sup>23</sup>

For further savings, the state might reduce funding to 80 or 90% of State Aid. If an ESA gets 80%, then the state would save 20%. So if State Aid was \$4,400, then the state immediately saves \$880 per student.

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**Per student savings to the state would be in the \$1,000—3,000 range for every student who switches to an ESA from the public schools**

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Per student savings to the state would be in the \$1,000—3,000 range for every student who switches to an ESA from the public schools. Actual total savings may be significantly greater, but much of the savings remains at the district level under the current funding formula. While the districts would not receive state aid for ESA students, the amount they receive from property taxes would be largely unaffected. So per student funding for the public schools actually goes up as students use ESAs to leave the system.

### Who Is Eligible?

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 the ESA program. Some argue this level of universality will harm the public schools by diverting dollars away from public schools to private schools and tutors.<sup>24</sup>

It is true dollars are diverted, but so are students.

As public schools lose students, their costs go down. Fewer students means fewer teachers, fewer administrators, fewer books, etc. Most education costs are variable costs which can be adjusted up or down based on enrollment. The major exception is building related costs.

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Revenues will not drop as rapidly as cost. The district will not receive State Aid for ESA students in their district, but will continue to receive local property tax revenues.<sup>25</sup> Their operating funding per pupil will actually increase as they lose students. In addition, districts with outstanding building debt will continue to receive all the property tax revenues dedicated to bond payments.

Public schools may also argue they cannot compete with private schools and tutors because of the numerous restrictions placed upon them by the State. If so, the solution is to loosen state regulation of the districts. Rather than try to block ESAs, public schools should seek waivers from the State Board of Education for policies they feel are restrictive.

Indeed, a healthy ESA system strengthens the public schools' argument for less state control over their operations. Why should the state need significant control over the local public schools if students are not forced to attend them? If the money follows the student to the school of their choice, public or private, then extensive state control at the school level is unnecessary.

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<sup>22</sup> Computed from 2014 OCAS District Revenue Report, pp.1-3, Oklahoma State Department of Education. [https://sdewebo1.sde.ok.gov/OCAS\\_Reporting/docs/RevenueReportFromOcasStatewide2014.pdf](https://sdewebo1.sde.ok.gov/OCAS_Reporting/docs/RevenueReportFromOcasStatewide2014.pdf)

<sup>23</sup> Steve Anderson, "Public School Results at Elite Prep-School Prices", Perspective, January 2010:4-7, Oklahoma Council of Public Affairs.

<sup>24</sup> Benjamin Scafidi, "School Choice Saves Money for State. School Districts' Budgets", Perspectives, June 2014:4-8, Oklahoma Council of Public Affairs.

<sup>25</sup> Only State Aid is allocated by the formula. Property tax revenues go directly to the District.

Clearly all students currently attending public schools should be eligible. However, making students who currently attend private schools eligible is a different issue. These students aren't costing the state anything now. Making them eligible is an increased cost to the State. Financial prudence requires assuming most of the 30,000 students currently attending private schools would immediately participate in an ESA if made eligible. If average cost was \$4,000, that is \$120 million dollars or 2% of current state pre-K-12 education spending.

Long term this might be funded by the savings created when students switch from public to ESAs. If average savings per switching student were \$2,000 and average aid to new students was \$4,000, it would take the cost savings from two switching students to cover one student already in a private school. So to cover the 30,000 students currently in privates would require 60,000 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 is from employee benefits and would not be available in the year of the switch.

Thus, without additional state appropriations, ESA eligibility should be limited to students who attended an Oklahoma public school last year, students starting pre-K, and perhaps move-ins from out-of-state.

### How is the Program Administered?

The Office of the State Treasurer should be custodian of the accounts and primarily responsible for their administration. The State Board of Education also has a role. The Board needs to inform the Treasurer as to whether a child is eligible

to enroll in a public school. Further the State Board needs to inform the Treasurer as to the amount of money that should be placed in a student's account. This requires knowing the student's Grade Level Weight and Student Category Weight (e.g., is the student economically disadvantaged?) The State Board already has the process in place to make these determinations for students attending a public school.

Management of the accounts is a straightforward task utilizing a debit card that directly pays the vendor without cash ever passing through the parent's hands. This dramatically decreases the ability of the parent or service provider to cheat the system. Further, only paying to registered vendors reduces the risk of improper payments. Overall, use of a debit card and vendor registry provides a robust electronic paper trail for audit purposes. For additional protection, vendors might be required to put up a surety bond.

One area of potential abuse is a parent buying unnecessary print textbooks or electronic equipment and then reselling them. E.g. a parent uses a child's ESA to purchase five computers, resells them on EBay, and pockets the cash. This can be solved two ways. First, simply don't include the purchase of electronics or print textbooks (students could still rent them for the year). Less strict is to allow their purchase, but prohibit their resale.

The other main concern is parents colluding with an education provider. E.g., at the parent's direction, the ESA pays a tutor \$2,000 for tutoring services. The "tutor" takes the \$2,000 and kicks back \$1,500 to the parent. This behavior needs to be expressly prohibited.

## Conclusion

Oklahoma should immediately create an ESA program. It should provide participants with annual funding equal to 100% of State Aid. All students who are not currently enrolled in Oklahoma public schools should be eligible. If funding permits, students currently attending private schools or homeschooling should also be eligible.





