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# THE EDUCATION DEBIT CARD

What Arizona Parents Purchase with  
Education Savings Accounts

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Lindsey M. **Burke**

AUGUST 2013

Friedman  
Foundation

*For  
Educational  
Choice*

## About the Friedman Foundation for Educational Choice

The Friedman Foundation for Educational Choice is a 501(c)(3) nonprofit and nonpartisan organization, solely dedicated to advancing Milton and Rose Friedman's vision of school choice for all children. First established as the Milton and Rose D. Friedman Foundation in 1996, the Foundation promotes school choice as the most effective and equitable way to improve the quality of K-12 education in America. The Friedman Foundation is dedicated to research, education, and outreach on the vital issues and implications related to school choice.

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# Table of Contents

Executive Summary .....	1
Introduction .....	3
The Need for Choice .....	3
The Efficacy of Choice: What the Research Shows.....	5
Academic Outcomes .....	5
Academic Attainment .....	6
Competitive Benefits for Public Schools .....	6
Increased Student Safety and Parental Satisfaction.....	6
School Choice: A “Win-Win” .....	7
The Mechanics of Arizona’s Empowerment Scholarship Accounts .....	7
Financial and Academic Accountability .....	8
Participation Rates and Resources Available to Families.....	9
Data Collection .....	10
What Types of Educational Options are ESA Families Utilizing? .....	11
How are Families Using ESA Funds?.....	11
Private School Tuition.....	11
Online Learning.....	11
Curriculum.....	12
Do ESA Families Purchase Private Tutoring and Education Therapy?.....	12
Tutoring .....	12
Special Education Services/Therapies.....	12
Do ESA Families Consider “Opportunity Costs” with ESA Funds? .....	13
Education Customization with Empowerment Scholarship Accounts.....	13
Changing Lives: ESA Parent Responses .....	13
“Has the Empowerment Scholarship Account changed the educational options you have access to?” .....	14
“Do you believe you’re able to customize your child’s educational experience thanks to the ESA?” .....	14
The Way Forward: A Road Map for State Policymakers and Researchers.....	15
Conclusion .....	16
Notes .....	19
About the Author .....	21

# List of Figures

- Figure 1: Education Spending vs. Achievement.....4
- Figure 2: Growth in Empowerment Scholarship Account Eligibility.....9
- Figure 3: Distribution of Empowerment Scholarship Account Funds ..... 11
- Figure 4: Percentage of Empowerment Scholarship Account Funds  
Used for Single vs. Multiple Educational Options, September  
2011 to March 2013 ..... 12
- Figure 5: Percentage Distribution of Empowerment Scholarship  
Account Expenditures, September 2011 to March 2013.....12
- Figure 6: Percentage of Empowerment Scholarship Account Funds  
Spent and Unspent .....13

# List of Tables

- Table 1: Empowerment Scholarship Account Funding Distributions  
by Disability Category .....8

## Executive Summary

As parental choice in education takes root in more communities throughout the U.S., education savings accounts (ESAs) have taken on greater importance as the funding mechanism for customized learning. This is especially true in Arizona. The state's version of ESAs, known as Empowerment Scholarship Accounts, has enabled families to completely tailor their children's educational experience. It also is a "critical refinement" of economist Milton Friedman's original vision of school choice through vouchers.<sup>1</sup>

With Empowerment Scholarship Accounts, Arizona has created a model that should be every state policymaker's goal when considering how to improve education: funding students instead of physical school buildings and allowing that funding to follow children to any education provider of choice. Such control over education funding ensures parents have access to options that meet their children's unique learning needs and ultimately can move beyond the worthwhile goal of school choice to choice among education service providers, courses, teachers, and methods.

Arizona's ESAs allow parents of certain students to withdraw them from their public or charter schools and have 90 percent of the funds the state would have spent on them deposited into Empowerment Scholarship Accounts. When ESAs were first enacted in 2011, the option was available only to parents of children with special needs. A year later, eligibility was extended to active-duty military families, foster children, and parents with children in public schools graded D or F under the state's accountability system. In June 2013, the Empowerment Scholarship Accounts were expanded further to include incoming kindergarten students who meet the eligibility requirements.<sup>2</sup>

Parents can use Empowerment Scholarship Account funds to pay for the following education-related expenses:

- private school tuition and fees;
- education therapy services and aides;

- textbooks;
- private online learning courses;
- Advanced Placement (AP) exams, norm-referenced achievement tests, and college admission exams;
- tutoring;
- curriculum;
- contributions to a 529 college savings plan;
- college tuition;
- college textbooks;
- ESA management fees; or
- individual public school classes and programs.

Parents can "roll over" unused Empowerment Scholarship Account funds from year to year, saving unspent funds for future education-related expenses. The rollover option "creates an incentive for parents to judge all K-12 service providers not only on quality but also on cost."<sup>3</sup> ESAs are the only education choice policy to date that affords consideration of "opportunity costs," which encourage families to pursue the best education for the best value to maximize their ESA dollars.

To determine exactly how Arizona families are utilizing their Empowerment Scholarship Accounts, the Arizona Department of Education provided the Friedman Foundation for Educational Choice with a data set containing the expenditures of families participating in the program. This paper examines the data to determine:

1. the types of educational options families are purchasing as a result of an ESA;
2. whether families are using ESA funds to send their children to a single educational institution such as a private school or using Empowerment Scholarship Account dollars for a variety of education-related services;
3. whether families take advantage of private tutoring and education therapy, allowable under ESA statute; and
4. the extent to which families are saving Empowerment Scholarship Account funds for

future education-related expenses or college costs, and whether it appears that the ESA option encourages families to take “opportunity costs” into consideration, pursuing the best education for the best value.

In Arizona today, families are using their Empowerment Scholarship Account dollars for all of the allowable uses under state statute, and they are financing a variety of education-related goods and services. Hundreds of families are able to finance private school tuition at more than 80 private schools, thanks to the Empowerment Scholarship Accounts. Families are choosing a wide variety of private schools for their children, including single-sex schools, schools dedicated to children with autism, parochial schools (Catholic, Protestant, and Jewish), Montessori schools, and Waldorf academies.

Though the bulk of Empowerment Scholarship Account spending is dedicated to private school tuition—secular and parochial—thousands of dollars are being used to pay for private tutors, online learning, therapy, and curricula. Although roughly 66 percent of families appear to use their Empowerment Scholarship Accounts in a manner similar to a traditional school voucher (paying private school tuition), many families are using their ESAs to customize their children’s educational experience.

Of the 316 families participating from 2011 forward, 109 (34 percent) chose to use their ESA funds for multiple education options. That included attending a private school of choice while supplementing that education with additional curricula, tutoring, or therapies, or combining educational services and providers that included no private school tuition.

## Key Findings

- Roughly 66 percent of Empowerment Scholarship Account recipients appear to use their funds in a manner similar to a traditional school voucher.
- 207 families were able to finance private school tuition at 87 private schools.

- 109 families (34 percent) used their funds for multiple educational options.
- Seven families used their Empowerment Scholarship Account funds to finance online learning options.
- 47 families used their ESAs for private tutoring.
- 39 families chose to use a portion of their funds to finance curriculum.
- 62 families accessed education therapy and services via ESA funds.
- Unspent funds suggest families are saving and “rolling over” a significant portion of the ESA funds, likely in anticipation of future education-related expenses.

It is clear families will use their share of education funding in multiple ways to meet the unique needs of their children, when given funding flexibility and choice.

Education savings accounts provide a path forward for states wishing to design robust education choice options that allow for complete customization of a child’s pre-K-12 educational experience. ESAs facilitate the transition from financing schools to funding students, empowering parents with control over their children’s share of education funding. As such, they can and should be given strong consideration by state policymakers interested in creating a truly student-centered, choice-based education system.

## Introduction

Education savings accounts (ESAs) have taken on greater importance as the funding mechanism for customized learning. In 2011, Arizona Gov. Jan Brewer signed SB 1553 into law, creating Empowerment Scholarship Accounts.<sup>4</sup> Arizona's first-in-the-nation ESA option empowers parents with complete control over their eligible child's share of state education funding—90 percent of what the state would have spent on him or her in the public system. Parents sign a contract with the Arizona Department of Education promising not to enroll the child full-time in a public school. To receive the funding, parents can then use ESA funds to pay for a variety of education-related expenses, such as private school tuition, online learning, and private tutoring, allowing them to completely customize their children's educational experience.

To determine exactly how Arizona families are utilizing their Empowerment Scholarship Accounts, the Arizona Department of Education provided the Friedman Foundation for Educational Choice with a data set containing the expenditures of families participating in the program. This paper examines the data to determine:

1. the types of educational options families are utilizing as a result of access to an ESA;
2. whether families are using funds to send their children to a single educational institution such as a private school or using Empowerment Scholarship Account dollars for a variety of education-related services;
3. whether families take advantage of private tutoring and education therapy, allowable under ESA statute; and
4. the extent to which families are saving Empowerment Scholarship Account funds for future education-related expenses or college costs, and whether it appears that the ESA option encourages families to take opportunity costs into

consideration, pursuing the best education for the best value to maximize their ESA dollars.

Of the 316 families participating from 2011 forward, 109 (34 percent) chose to use their Empowerment Scholarship Account funds for multiple education options. That included attending a private school of choice while supplementing that education with additional curricula, tutoring, or therapy, or combining educational services and providers that included no private school tuition payments.

Based on the data from the Arizona Department of Education, it is clear families will use their share of education funding in multiple ways to meet the unique needs of their children when given funding flexibility and choice. It is also clear that a one-size-fits-all approach, created by the typical assignment-by-ZIP Code public education system, does not allow for the type of customization from which so many children would benefit.

As various evaluations have shown, educational choice improves academic outcomes, increases graduation rates, and elevates parental satisfaction.<sup>5</sup> Whereas school choice options like vouchers and tax credits are an empowering and effective means of providing choice for children, education savings accounts create the most flexible learning options possible. They are especially effective in helping families tailor their children's educational experience and are a "critical refinement" of economist Milton Friedman's original vision of school choice through vouchers.<sup>6</sup> For states that want to move toward logical, student-centered education systems and truly empower families, ESAs provide the path forward.

## The Need for Choice

The goal of parental choice in education is to provide access to environments that foster academic excellence, open the doors to options that fit individual student learning needs, and ensure the equality of opportunity that makes up so much of the American Dream. Education savings accounts achieve that goal

by empowering parents with the ability to direct their children’s share of education funding toward environments emphasizing academic excellence—or to fund a combination of options appropriate for their children. ESAs open the doors to an education that is uniquely tailored to a child’s individual needs by enabling a parent to direct funds to multiple education providers, instead of relegating the child to a government-assigned, brick-and-mortar public school. ESAs create an educational environment that ensures the equality of opportunity that lays the groundwork for a child to reach his or her full potential.

ESAs create the conditions necessary to refashion the nation’s K-12 education system in a way that recognizes the unique learning needs of every child—a long-overdue reform.

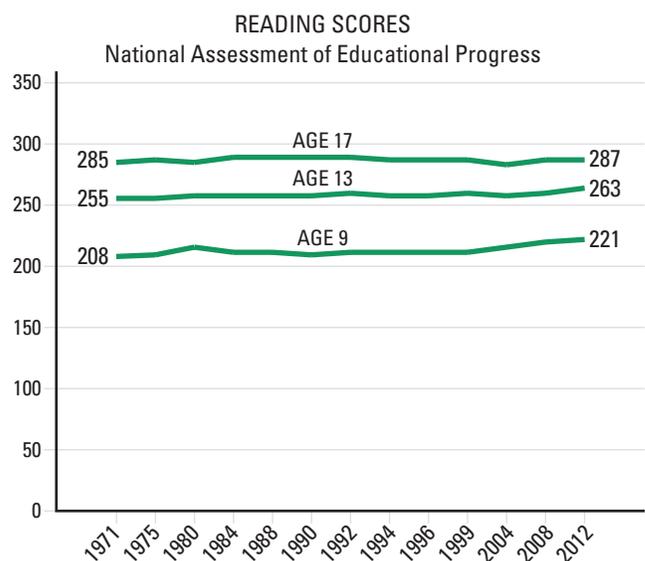
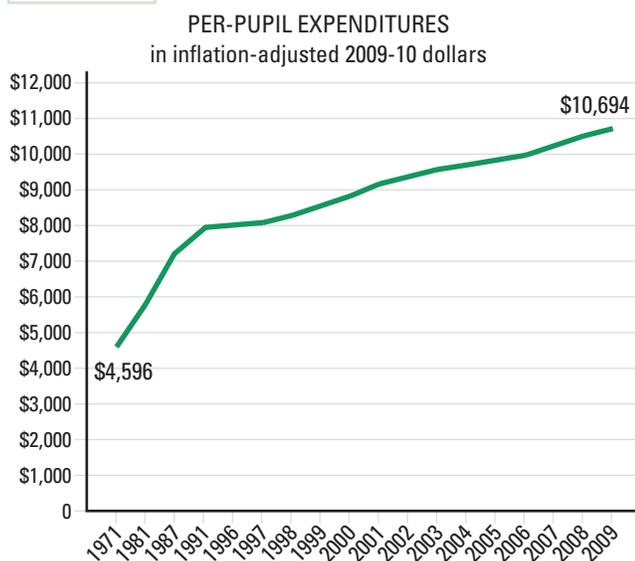
Two years ago, the proliferation of school choice options and innovations like education savings accounts prompted *The Wall Street Journal* to label 2011 “The Year of School Choice.” This expansion comes at a time when educational options are desperately needed. The monopolistic public education system in the United States has failed generations of children and left too many ill-prepared to be productive citizens and reap the benefits of a free society.

For example, the Trends in Academic Progress study—published by the U.S. Department of Education’s National Center for Education Statistics in 2013—found today’s high school seniors are no better off than the high school seniors of 1973.<sup>7</sup> In both math and science, 17-year-old students have made no gains since the early 1970s. The study did find some gains for nine- and 13-year-old students along with a narrowing of the achievement gap over time from the 1970s to today. However, significant gaps remain.

The bulk of the narrowing happened prior to the 2000s, with little progress over the past decade. White students continue to outpace black and Hispanic students by 21 percentage points or more (on a 500-point scale) in reading at all three age categories measured. The mathematics achievement gap between white and minority students also has narrowed since 1973, but white students continue to outpace black and Hispanic students by 17 percentage points or more for all three age groups.

And notably, for nine-, 13-, and 17-year-olds, the percentage of students “below the grade typical for their age” increased from 1971 to 2012.

**FIGURE 1** Education Spending vs. Achievement



Note: Spending figure for 2009 is most recent available. Source: U.S. Department of Education, National Center for Education Statistics

There are other indications that performance in our nation's K-12 education system is less than optimal. Today, slightly more than three-quarters of students graduate high school—a figure effectively unchanged for disadvantaged children since the 1970s.<sup>8</sup> As lackluster as that figure is, in some of America's largest cities fewer than half of all students graduate.<sup>9</sup>

For students who do graduate, too many leave high school without adequate numeracy and literacy skills. Forty percent of fourth graders are at grade level in math, a figure that drops to 35 percent by the time they reach eighth grade. For both fourth graders and eighth graders, just 34 percent nationally are proficient in reading.<sup>10</sup>

Also, just 17 percent of low-income fourth graders and eighth graders (qualifying for the Free and Reduced-Price Lunch program) are proficient in reading.<sup>11</sup>

Even in what are traditionally thought of as the higher-performing suburban public schools, academic achievement is tragically low. Researcher Jay Greene, endowed chair and head of the Department of Education Reform at the University of Arkansas, along with researcher Josh McGee found “out of the nearly 14,000 public school districts in the U.S., only 6 percent have average student math achievement that would place them in the upper third of global performance.”<sup>12</sup> Greene and McGee go on to note “People generally think they have escaped the ills of urban public education by moving to the suburbs, they don't usually think that only one or two suburbs actually produce excellent results.”<sup>13</sup>

Clearly, too many children are confined to schools that fail to ensure they achieve a level of content mastery that will prepare them to be successful in life.

## The Efficacy of Choice: What the Research Shows

In stark contrast to the assignment-by-ZIP Code system of government schools that is failing to adequately prepare millions of students, school

choice has a proven track record of success. As shown below, school choice has led to improved academic outcomes, higher graduation rates, and increased student safety. It has increased parental satisfaction with their child's academic and social development as well as satisfaction with their child's school overall. Moreover, it allows parents to access options that meet their children's unique learning needs.

School choice also introduces more reasonable accountability on the public education system, helping not only students who exercise school choice, but also students who remain in public schools.

### Academic Outcomes

Researcher Greg Forster conducted an analysis of existing empirical research on school choice for the Friedman Foundation. Forster examined all of the existing “gold standard” evaluations of school choice programs conducted as of 2013. As it pertains to empirical studies, “gold standard” evaluations utilize random-assignment experiments to disentangle influences such as demographics, school type, and other intangibles from student academic outcomes. “Random assignment generates high confidence that factors other than the one being studied—the ‘treatment’—are not influencing the results.”<sup>14</sup> Students are divided into treatment and control groups, separated through a random lottery process. In the case of experimental studies on the effect of school choice, students in the treatment group represent the students participating in school choice options.

In his analysis of the gold-standard evaluations of school choice programs, Forster found that 11 of the 12 random-assignment studies found a positive impact on academic outcomes. Not a single evaluation of a school voucher program had a negative effect on student academic outcomes.<sup>15</sup> Forster also learned that out of the 23 empirical evaluations conducted on the impact of school choice on academic outcomes at public schools, 22 found school choice had a positive impact on public schools, with no study finding a negative impact on public schools.<sup>16</sup>

## Academic Attainment

School choice also significantly increases graduation rates, boosting the chance a student will complete high school. In 2010, education researcher Patrick Wolf, endowed chair in school choice at the University of Arkansas, published an evaluation of the Opportunity Scholarship Program in Washington, D.C., which provides vouchers to low-income children to attend private schools of choice. Wolf found that students in the control group who were offered a voucher but did not necessarily use it had a graduation rate 12 percentage points higher than that of students who were not offered a voucher. For those students who were offered a voucher and used it to attend a private school of choice, graduation rates were 21 percentage points higher than those of students who were not offered a voucher. The bottom line: 70 percent of students who were not offered a voucher graduated high school; 82 percent of those offered a voucher but who did not necessarily use it graduated high school; and an impressive 91 percent of voucher users graduated high school. The study results demonstrated that, all else being equal, it was voucher use that led to statistically significant increases in graduation rates.<sup>17</sup>

In addition to the evaluation of the D.C. Opportunity Scholarship Program, researchers examined the impact of the Milwaukee Parental Choice Program (MPCP) on participating students' academic attainment. A March 2011 evaluation published by lead researcher John Witte of the University of Wisconsin-Madison found that 69 percent of Milwaukee Public School students graduated high school on time, compared with 76.6 percent of their MPCP peers. Notably, students who remained in the choice program for all four years of high school saw their graduation rate climb to 94 percent. Not only did Milwaukee Parental Choice participants have significantly higher graduation rates, they also enrolled in college at higher rates and had higher levels of academic attainment than their public school peers had.<sup>18</sup>

It is difficult to overstate the importance of graduating high school. Patrick Wolf notes that high school graduation is the "Holy Grail of educational interventions in the inner city," and that high school

graduates earn higher wages, live longer, are less likely to be convicted of a crime, and experience lower rates of unemployment than students who fail to graduate high school. "If a program boosts the graduation rate, and does nothing else, it's a success."<sup>19</sup>

## Competitive Benefits for Public Schools

In addition to the positive impact on student achievement and attainment, school choice also places important competitive pressure on the public system. An evaluation of Florida's John M. McKay Scholarships for Students with Disabilities Program found that as more private schools began participating in the program, the competitive pressure placed on nearby public schools actually improved academic outcomes for students with disabilities who remained in the public system—not just those who received a voucher.<sup>20</sup> Similar positive impacts from competitive pressure were found in an examination of the Florida Tax Credit Scholarship Program. Researchers reported that as a result of competitive pressure placed on the public schools from the tax-credit scholarship program, math and reading achievement increased for public school students, which "provide[d] a first piece of evidence that public schools responded to the threat of losing students to the private schools via the voucher program."<sup>21</sup>

## Increased Student Safety and Parental Satisfaction

Parents in the D.C. Opportunity Scholarship Program reported thinking their children's new private schools were safer than their former public schools, rating the private schools significantly better in terms of safety than did parents in the public system. For many parents in the D.C. Opportunity Scholarship Program, school safety was paramount. For the first two years after enrolling in the voucher program, parents' primary concern was school safety. However, after about two years, and once they were confident their children had safe school environments, parents' concerns shifted to academic outcomes.<sup>22</sup>

In the Milwaukee Parental Choice Program, calls from choice schools to the police department are lower than in traditional public schools. According to School Choice Wisconsin, a nonprofit dedicated to the advancement of vouchers, “Taking into account enrollment differences, police calls to [Milwaukee public schools] occur at a notably higher rate than at independent charter schools or at schools in the [Milwaukee Parental Choice Program]. The [Milwaukee Public School] call rate per pupil in 2007 is more than three times that at schools in the [Milwaukee Parental Choice Program].”<sup>23</sup> Believing their children are in safe environments and seeing improvements in academic outcomes might be at the root of why numerous evaluations dating to the 1990s have found that school choice options significantly increase parents’ satisfaction with schools their children attend.

## School Choice: A “Win-Win”

Returning to Forster’s analysis of the empirical evidence on school choice, gold-standard evaluations find, on the whole, that choice benefits students, parents, schools, and taxpayers: “...[T]he empirical evidence consistently shows that choice improves academic outcomes for participants and public schools, saves taxpayer money, moves students into more integrated classrooms, and strengthens the shared civic values and practices essential to American democracy.”<sup>24</sup>

## The Mechanics of Arizona’s Empowerment Scholarship Accounts

Arizona’s version of education savings accounts (ESAs), known as Empowerment Scholarship Accounts, allows parents of certain students to withdraw them from their current public or charter school and have 90 percent of their state funds deposited into an ESA. When Empowerment Scholarship Accounts were first enacted in Arizona in 2011, the option was available only to parents of children with special needs. A year later, in 2012, eligibility was extended to active-duty military families, foster children, and parents with children

in public schools rated D or F.<sup>25</sup> In June 2013, the Empowerment Scholarship Accounts were expanded further to include incoming kindergarten students who meet the eligibility requirements.<sup>26</sup>

Once a parent chooses to withdraw his or her child from the public system, the parent must sign an arrangement contract with the Arizona Department of Education agreeing to provide instruction for the child in grammar, mathematics, reading, science, and social studies. The parent also agrees not to enroll the child in a public school or charter school.<sup>27</sup> Parents then receive 90 percent of the funds the state would have spent on their children in the public system, with the money deposited onto a debit card that is restricted to paying for education-related services. Deposits in their Empowerment Scholarship Accounts are made quarterly, based on calculations conducted by the Arizona Department of Education to determine a child’s per-pupil allocation. The Arizona Department of Education transfers funds to the treasurer each quarter, and funds are then deposited into families’ ESAs.<sup>28</sup>

The amount distributed into a family’s Empowerment Scholarship Account depends on child-specific factors. Children in active-duty military families, underperforming schools, or foster care will receive approximately \$2,845 per year (90 percent of the state per-pupil allocation of \$3,162).<sup>29</sup> The 2013 expansion increases the average award from approximately \$3,000 to \$5,300.

Children with special needs receive significantly larger distributions weighted according to their disability. The average base amount ranges from \$1,500 to \$3,700, and is added to a child’s estimated per-pupil amount. The Arizona Department of Education uses the following formula to determine the ESA distribution for children with special needs:

$$\text{Base Amount} + \text{Estimated Per-Pupil Amount} + \text{Additional Weights} = \text{Estimated Award Amount}^{30}$$

The following is a portion of a chart produced by the Arizona Department of Education detailing estimates of ESA funding for children with special needs:

**TABLE 1** Empowerment Scholarship Account Funding Distributions by Disability Category

Disability Category - Definition	Weight	Estimated Per-Pupil Amount
HI: hearing impaired	4.771	\$15,785
MD-R, A-R, and SMR-R: students with multiple disabilities, autism, and severe mental retardation placed in resource programs	6.024	\$19,931
MD-SC, A-SC, and SMR-SC: students with multiple disabilities, autism, and severe mental retardation in a self-contained program	5.833	\$19,299
MD-SSI: students with multiple disabilities and severe sensory impairments	7.947	\$26,293
OI-R: students with orthopedic impairments in a resource program	3.158	\$10,488

Source: "Approximate Funding Levels: Empowerment Scholarship Accounts," Arizona Department of Education, accessed July 30, 2013, [www.azed.gov/esa/files/2011/12/approximate-funding-levels.docx](http://www.azed.gov/esa/files/2011/12/approximate-funding-levels.docx).<sup>31</sup>

During the 2011-12 school year, the average Empowerment Scholarship Account award was \$13,600.<sup>32</sup> That average is likely to decrease during the 2013-14 school year when the additional three categories of students—children from D and F schools, children from active-duty military families, and foster children—are eligible to enroll and will receive an average ESA distribution closer to \$3,000 annually.<sup>33</sup>

ESA funds do not constitute taxable income.<sup>34</sup> Parents can use their ESA funds for the following education-related expenses:

- private school tuition and fees;
- education therapy services and aides;
- textbooks;
- private online learning courses;
- Advanced Placement (AP) exams, norm-referenced achievement tests, and college admission exams;
- tutoring;
- curriculum;
- contributions to a 529 college savings plan;
- college tuition;
- college textbooks;
- ESA management fees; or
- individual public school classes and programs.

In addition to the above uses, parents can “roll over” unused Empowerment Scholarship Account deposits from year to year, saving unspent funds for future education-related expenses. The rollover option “creates an incentive for parents to judge all K-12 service providers not only on quality but also on cost.”<sup>35</sup> ESAs are the only education choice policy to date that

affords consideration of opportunity costs, which encourage families to pursue the best education for the best value to maximize their ESA dollars. Although Arizona’s Empowerment Scholarship Accounts allow numerous education-related expenses to be covered, the state specifically prohibits parents from using their ESAs to pay for computers, transportation, or school supplies like paper and pens.

Once a student graduates from college, or in the event four years pass after high school graduation and funds have not been used at a postsecondary institution, the student’s ESA is closed and unused funds return to the state.<sup>36</sup>

## Financial and Academic Accountability

The ESA option makes public education more accountable—and responsive—to parents, as parents now have the option to leave the public system with their Empowerment Scholarship Account funds if assigned public schools aren’t meeting their children’s needs. Parent accountability affects the supply side of the education choice equation. Families choose to enroll their children in a particular private school or utilize an array of education-related services, and if they’re unhappy with the quality of services received, they simply can take their children and ESA funds to another education provider. Schools and service providers become responsive to the ability of families to choose freely among education options, working hard to retain students by meeting their learning needs.

Accountability for academic outcomes also lies directly with the parents, who are empowered to choose options that fulfill their children’s unique needs and goals. When policymakers first implemented the ESAs, they were careful to strike a balance between academic freedom and “the public’s interest in ensuring all children using taxpayer funds for education receive an adequate education.”<sup>37</sup> Therefore, parents are required to ensure their children receive instruction in grammar, reading, math, social studies, and science, at a minimum.

Fiscal accountability was ensured through oversight by the Arizona Department of Education and the Arizona Department of Revenue. Specifically, Empowerment Scholarship Account funds are distributed to a parent’s account quarterly, with each quarter’s distribution being allocated after a family has submitted receipts for educational expenses to the Arizona Department of Revenue from the preceding quarter. That is, a family cannot receive its Empowerment Scholarship Account dollars for quarter two before submitting proof that quarter one’s allocation was spent on educational services or products allowable under program statute. In the event funds are used to pay for an ineligible expense, the next quarter’s payment is withheld, and could be used to rectify the preceding quarter’s misuse of funds.

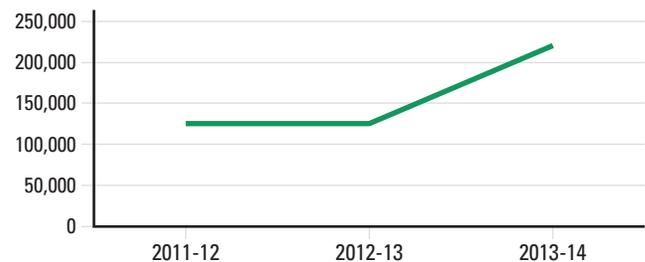
Empowerment Scholarship Accounts are also subject to audits by the Arizona Department of Education. While the department can withhold a subsequent quarter’s payment and use funds to correct any spending on non-approved items, in the event the department finds evidence of fraudulent account use, the department can refer a substantial misuse of funds to the attorney general.<sup>38</sup>

Supervision by both the Arizona State Treasurer’s office and the Arizona Department of Education provides the type of fiscal oversight necessary to ensure the ESA option is accountable to taxpayers. 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.”<sup>39</sup>

## Participation Rates and Resources Available to Families

In September 2011, Arizona’s Empowerment Scholarship Account program started with a modest enrollment of 153 students with special needs. A year later, enrollment had grown to include more than 300 children with special needs.<sup>40</sup> Gov. Jan Brewer’s 2012 expansion of the ESAs extended eligibility to more than 220,000 Arizona students, including 125,000 children with special needs, 87,000 children in underperforming public schools (rated D or F), 11,500 children of active-duty military families, and any additional foster children.<sup>41</sup> Those newly eligible students may begin taking advantage of the ESA option during the 2013-14 school year.

**FIGURE 2** Growth in Empowerment Scholarship Account Eligibility



Source: Jonathan Butcher, “Education Savings Accounts: A Path to Give All Children an Effective Education and Prepare Them for Life,” The Goldwater Institute, Policy Report No. 253, October 30, 2012, at [http://goldwaterinstitute.org/sites/default/files/PR253ESAsPathToAllChildren\\_0.pdf](http://goldwaterinstitute.org/sites/default/files/PR253ESAsPathToAllChildren_0.pdf)

For the more than 362 families currently enrolled, ESAs have provided potentially life-changing educational options. Many private schools are well equipped to meet the needs of students with disabilities, which is perhaps why Florida’s voucher program for students with special needs is so popular. More than 23,000 Florida children with disabilities attend private school using vouchers.<sup>42</sup>

When children with special needs have access to educational choice, they are more likely to receive the types of services needed to ensure success in school and be in an environment that is conducive to their unique needs. Researchers Jay Greene and Greg Forster

examined the experiences of children in Florida’s John M. McKay Scholarships for Students with Disabilities Program and found:

The average satisfaction level for current McKay participants is 92.7 percent for their McKay schools, as opposed to 32.7 percent for the public schools they previously attended. Their average class size dropped from 25.1 students per class in public school to 12.8 students per class in McKay schools. Only 30.2 percent report that their public schools provided all required services, while 86.0 percent report that their McKay schools provide all the services they promise to provide. And students are far less likely to be bothered or assaulted by other students because of their disabilities in McKay schools than in public schools—46.8 percent were bothered often and 24.7 percent were assaulted in public school, compared to 5.3 percent bothered often and 6.0 percent assaulted at McKay schools. Current participants also saw a drop in students reporting behavior problems at school, from 40.3 percent in public school to 18.8 percent in McKay schools.<sup>43</sup>

Empowerment Scholarship Accounts give parents access to private educational options that have the potential to produce the types of positive benefits found in the McKay program, while also providing access to online learning, educational therapy, and tutoring.

The recent growth in ESA eligibility has brought with it an active ESA parent group. ESA families developed a Yahoo! message board through which “member” parents can share ideas, information, and their experiences with the Empowerment Scholarship Account program. As of March 30, 2013, 161 active members on the parent message board posted 365 messages during March alone.<sup>44</sup>

Arizona’s Empowerment Scholarship Accounts are providing a level of educational customization that was previously unavailable to the vast majority of Arizona families. In the following pages, this report examines the extent to which parents are using the flexibility ESAs provide to create a tailored educational experience for their children.

## Data Collection

As previously explained, the Arizona Department of Education (ADE) provided the Friedman Foundation for Educational Choice with a data set containing the expenditures of families participating in the Empowerment Scholarship Account program. ADE provided the data so the Friedman Foundation could examine and understand how families currently participating in Arizona’s ESA program are using their ESAs and the types of educational options they are choosing. The data show whether parents are using their ESA funds as they would a traditional school voucher to enroll their children in private school or if they are divvying up the money to pay for different education-related options and services.

The data were examined specifically to answer the following questions:

1. What types of educational options are families utilizing as a result of access to an ESA?
2. How are families allocating their ESA dollars? Are families using funds to send their children to a single educational institution such as a private school, or are they using ESA dollars for a variety of education-related services?
3. Do families take advantage of private tutoring and education therapy, allowable under ESA statute?
4. Unused ESA funds can be “rolled over” from year to year, and can even be rolled into a college savings account. To what extent are families saving ESA funds for future education-related expenses or college costs? Does it appear that the ESA option encourages families to take opportunity costs into consideration, pursuing the best education for the best value maximize their ESA dollars?

The ADE provided both aggregated and disaggregated data on ESA use, which has allowed for a robust look at how this innovative school choice option is meeting the needs of families.

## What Types of Educational Options are ESA Families Utilizing?

Families are using their ESA dollars for all of the allowable uses under ESA statute and are financing a variety of education-related goods and services. Although the bulk of ESA spending is dedicated to private school tuition—including both secular and parochial private schools—thousands of dollars are being used to pay for private tutors, online learning, therapy, and curricula materials.

## How are Families Using ESA Funds?

Although most families—roughly 66 percent—appear to have used their ESAs in a manner similar to a traditional school voucher (paying private school tuition), many families used their ESA dollars to customize their children’s educational experience.

### Private School Tuition

Based on disaggregated data provided by the Arizona Department of Education, 207 of the 316 families participating in the ESA program during the 2011-12 school year, and during the first quarter of the 2012-

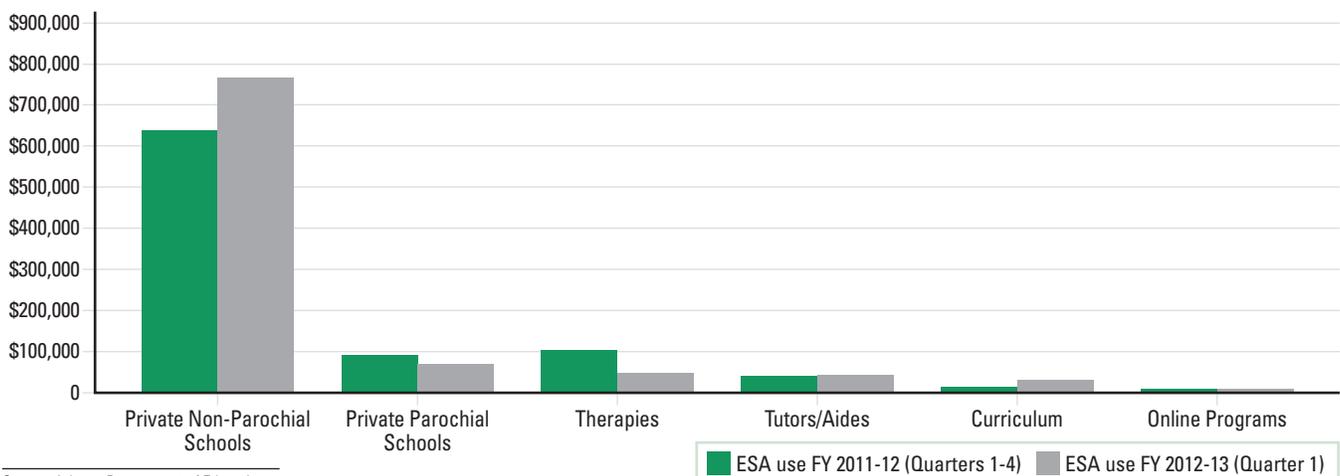
13 school year, used their ESAs only to pay tuition at a private school.<sup>45</sup> Those families chose to use their funds like a voucher—paying private school tuition (along with associated fees and any ESA bank fees). In all, those 207 families were able to finance private school tuition at 87 private schools. Families are choosing a wide variety of private schools for their children, including single-sex schools, schools dedicated to children with autism, parochial schools (Catholic, Protestant, Jewish), Montessori schools, and Waldorf academies (which separate child development into three stages).<sup>46</sup>

Some 109 families used their ESA funds for multiple educational options. Although that may have included a portion of their funding going to private school tuition, those families used some part of their ESAs to cover private tutoring, therapy, curricula materials, and/or online educational options. Examples of such “customizing” families are given later in this report.

### Online Learning

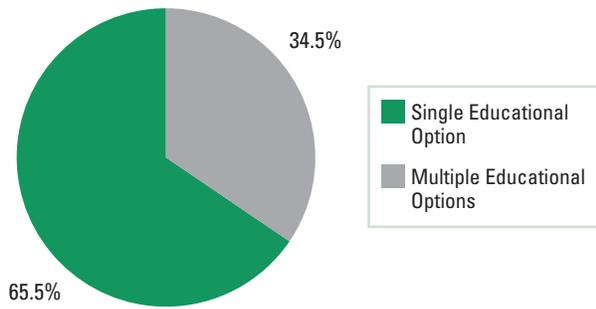
Since its inception in 2011, seven families have used their Empowerment Scholarship Account funds to finance online learning options, for a total of \$1,343. The number of families using funds for such options is likely to grow next year with the significant expansion in eligibility.

**FIGURE 3** Distribution of Empowerment Scholarship Account Funds



Source: Arizona Department of Education

**FIGURE 4** Percentage of Empowerment Scholarship Account Funds Used for Single vs. Multiple Educational Options, September 2011 to March 2013



Source: Arizona Department of Education

### Curriculum

Thirty-nine families chose to use a portion of their Empowerment Scholarship Account funds to finance curriculum, for a total of \$60,299. Although those families are not technically homeschooling families—their children were enrolled previously in the Arizona public school system—the purchase of curricula demonstrates they could be tailoring their children’s educational experience similar to that of a homeschooling student.

## Do ESA Families Purchase Private Tutoring and Education Therapy?

Yes. The data provided by the ADE show that families are utilizing their ESAs to secure tutoring and therapy services for their children.

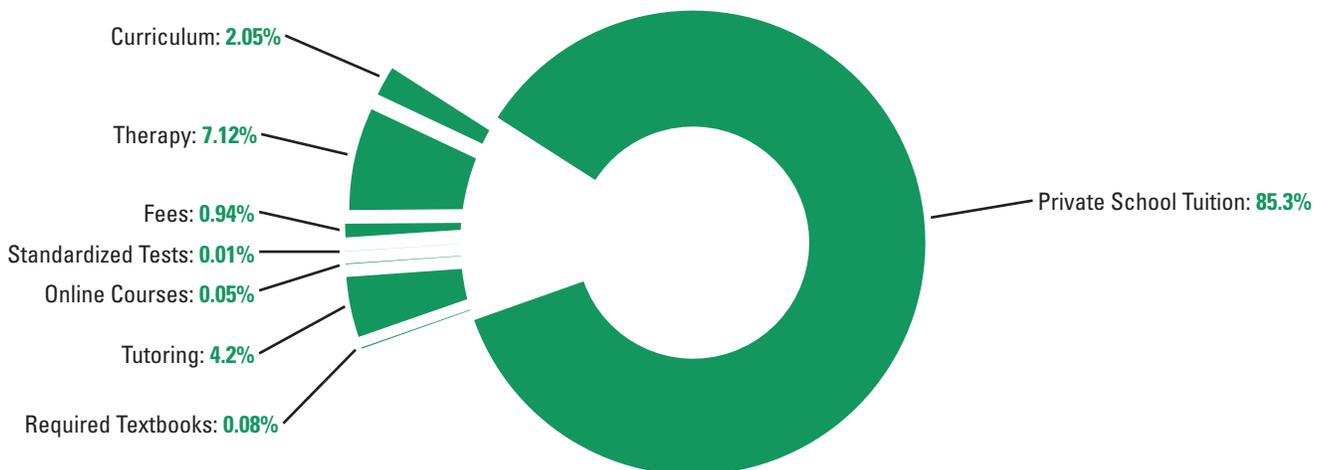
### Tutoring

Since 2011, 47 families have used their Empowerment Scholarship Accounts for private tutoring, for a total of \$122,140. For some families, using a combination of private tutoring and customized curriculum has proved more effective at meeting the needs of their children.

### Special Education Services/Therapies

A significant number of families are using their ESA funds to help pay for special education services and therapies. Of the 316 families, 62 used their ESA funds to access therapy and services for their children. In all, those families spent \$209,205 on therapy and special education services from the 2011-12 school year to March 2013.

**FIGURE 5** Percentage Distribution of Empowerment Scholarship Account Expenditures, September 2011 to March 2013



Source: Arizona Department of Education

## Do ESA Families Consider “Opportunity Costs” with ESA Funds?

Based on aggregated data provided by the ADE, during Fiscal Year 2012 (the 2011-12 school year), 190 students were awarded Empowerment Scholarship Accounts, out of 422 that applied. Arizona awarded \$1,576,167 in ESA funds to participating families. Of that total, \$905,155 was spent by participating families, with \$671,012 remaining unspent (an allowable use as families are permitted to roll over unused funds from year to year). Enabling families to save unspent Empowerment Scholarship Account funds provides a powerful financial accountability feature. Whereas traditional school vouchers must be spent in their entirety, ESAs foster demand-side pressure for education providers to offer more cost-efficient educational services by creating an incentive for parents to shop for education services based in part on cost.

During the first quarter of Fiscal Year 2013 (the 2012-13 school year), 244 students were awarded ESAs. Of those, 115 students were active ESA participants from the 2011-12 school year, and 187 were active during the first quarter of Fiscal Year 2013, bringing total student ESA enrollment to 302 during the first quarter of the 2012-13 school year. Arizona awarded \$1,302,863 to ESA recipients during the first quarter of 2013, of which parents spent \$964,991 and saved \$337,871. The ADE notes that \$1,239,057 will be distributed to participating families during the second quarter of 2013, and estimates total ESA spending to be just short of \$5.2 million for the year.<sup>47</sup>

During Fiscal Year 2012, \$671,012 in ESA funds remained unspent; during the first quarter of Fiscal Year 2013, approximately \$337,871 in ESA funds was unspent. This suggests families are saving and rolling over a significant portion of the ESA funds, in anticipation of either near-term or long-term future education-related expenses.

## Education Customization with Empowerment Scholarship Accounts

The data provided by the ADE show that many families are using their ESA funds to create a customized learning experience for their children. Of the 316 families participating from 2011 forward, 109 chose to use their funds for multiple educational options. Some 34 percent of families appear to be using their Empowerment Scholarship Account dollars to customize their children’s education. That could include attending a private school of choice while supplementing with additional curricula, tutoring, or therapy, or could include a combination of educational services and providers with no private schooling option.

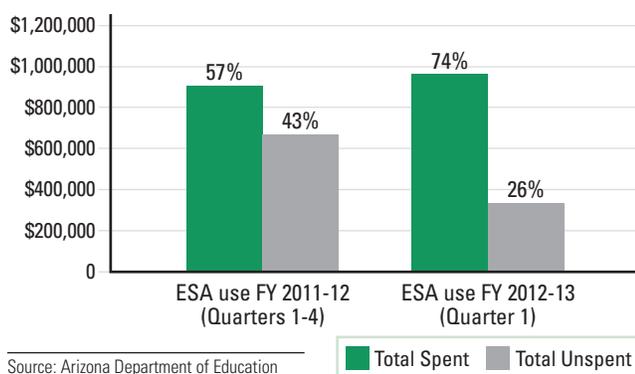
Based on the data from Arizona’s Empowerment Scholarship Accounts, it is clear families will use their share of education funding in multiple ways to meet the unique needs of their children, when given funding flexibility and choice.

What is also clear is that a one-size-fits-all approach, created by the traditional assignment-by-ZIP Code public education system, does not allow for the type of customization from which so many children would benefit.

## Changing Lives: ESA Parent Responses

The following responses were given to questions posed to parents in the ESA Yahoo! message board.

**FIGURE 6** Percentage of Empowerment Scholarship Account Funds Spent and Unspent



Source: Arizona Department of Education

The Yahoo! group is composed of parents who share ideas, information, and their experiences with the Empowerment Scholarship Account program. Responses from parents were provided via email.

### **“Has the Empowerment Scholarship Account changed the educational options you have access to?”**

**Parent 1:** “Absolutely. My son was in a (public school) classroom with 12 other kids who all but him had behavior problems. The teachers spent all day with the other kids trying to control their behavior. He is now in a private school...such a better environment.”

**Parent 2:** “The ESA program has given our family more options in education. My son has autism and had been in an autistic classroom in the public school system since he was in preschool. We are homeschooling him now. While the homeschooling requirement of expenditures is somewhat restrictive we are able to buy curriculum he would not have gotten in public education.

“We also can buy many different kinds (of) curriculum in the same subject, which help greatly in mastering certain subjects like math and language. The one-on-one [experience] of homeschooling education in a nurturing environment is really the biggest game changer. Also, public school had become all about behavior plans and ABA (Applied Behavior Analysis) even though my son did not have behavior problems.”

### **“Do you believe you’re able to customize your child’s educational experience thanks to the ESA?”**

**Parent 1:** “Yes, he is getting exactly what he needs when he needs it.”

**Parent 2:** “We gear his education around his needs and abilities; it is all personalized to what he can do, how he learns, what his interests are. Some days we have low-comprehension and low-performance times,

but we work harder on the days where all the gears of his brain are clicking. I cannot make my child into a neuro-typical child but I can help him and nurture his learning so that he can be a contributing member of society, educated and able to feel good about who he is and what he can do.

“He has improved several grades in reading and comprehension and also is now at grade level in many benchmarks in math and science. Everything we do is personalized to his needs and learning style. The ESA has made (that) financially possible. The dollars also have paid for some therapy for him. It is hard to ascertain how much therapy really helps him. It doesn’t do any harm but it is harder to measure its success. One of the positive things about our controlling the therapy and who the therapist is means if it isn’t working we can go somewhere else or try something else. We are no longer tied down to bad therapist(s) and abusive techniques and even ineffective teachers. This is a huge plus in our method of nurtured learning and teaching a child to love learning and be respectful.

“We are grateful to get the ESA funds. Even with the restrictions and hurdles of the program it has been of great benefit and value in our journey to educate our son in a design and method that is effective to his needs.”

Those responses provided by parents on the Yahoo! message board mirror the stories gleaned from parent interviews.<sup>48</sup> (The following names have not been fictionalized.)

“The public school system has no ability to handle Sean’s sensory needs. If there are too many kids in a classroom, he gets fidgety and becomes a distraction. His ability is not at the same grade level as the other students, so he was either forced to a level that is way above his ability or way below. The stress sets him off. We needed a program that understood him, that could gear toward his needs, instead of him having to fit into someone else’s box.... [Pieciful Solutions offered] smaller class sizes, and people that understand autism. They know the difference between when he is acting out

and he really does not understand something. They understand his social differences. They understand his sensory needs. When he is getting overwhelmed with something, or something just doesn't make sense to him, they know how to work around that or how to flip him to a different subject.... The ESA is the only reason we have been able to stay at [Pieciful Solutions]. Without a savings account, we would not be able to afford the care that Sean needs." - **Jennifer Doucet, mother of seventh-grade ESA recipient Sean**

"I use Zach's ESA funds for other things than just tuition. Because Zach is more on the moderate to severe functioning level, his funding can be used more broadly. I have a private tutor for Zach, and I can use the (ESA) funds for that. With the ESA, I can actually go out and buy things for our home program, such as additional speech tools." - **Kym Wilbur, mother of eighth-grade ESA student Zach**

"Two years ago, before the ESA program, Nathan spoke with a lot of jargon. A lot of real words mixed in a sentence with jargon and a lot of mixed responses.... That language barrier was really causing him not to learn well in public school. As much as he enjoyed it, he wasn't learning anything.... I mean, two years ago we weren't even sure if we were ever going to have a conversation with him.... The only reason this is possible is because we could find programs that meet his needs with ESA funds." - **Amanda Howard, mother of second-grade ESA recipient Nathan**

## The Way Forward: A Road Map for State Policymakers and Researchers

Education savings accounts provide a promising path for state policymakers wishing to design robust, expansive educational choice options that allow for complete customization of a child's pre-K-12 educational experience. Families taking advantage of Arizona's first-in-the-nation Empowerment Scholarship Accounts are

using their funding flexibility to direct their children's education in a highly customized manner:

- Roughly 66 percent of Empowerment Scholarship Account recipients appear to use their funds in a manner similar to a traditional school voucher.
- 207 families were able to finance private school tuition at 87 private schools.
- 109 families (34 percent) chose to use their funds for multiple educational options.
- Seven families have used their Empowerment Scholarship Account funds to finance online learning options.
- 47 families have used their Empowerment Scholarship Accounts for private tutoring.
- 39 families have chosen to use a portion of their funds to finance curriculum.
- 62 families used their Empowerment Scholarship Account funds to access education therapy and services for their children.
- Unspent funds suggest families are saving and rolling over a significant portion of the ESA funds, likely in anticipation of short- and long-term future education-related expenses.

The findings presented in this paper should aid school choice program design and state-level policymaking. State policymakers and researchers who want to create the type of customization that education savings accounts provide should:

1. Fund children, not physical school buildings. Education savings accounts facilitate the transition from funding schools to funding students, empowering parents with control over their children's share of education dollars. Although Arizona's Empowerment Scholarship Accounts are geared toward children with special needs, students in D or F schools, dependents of active-duty military families, and kids in foster care, policymakers who want to implement effective educational choice options should make ESA dollars universal and available for any education-related purpose, including private school tuition, private tutoring, online learning courses, or education-related services. Parents also should be allowed to roll over

unused ESA dollars from year to year or to save ESA funding for college tuition.

2. Understand that the data from Arizona have significant implications for policy design in states across the country by demonstrating that families will avail themselves of a multitude of learning options when given the ability to direct their children's share of education funding.
3. Pursue opportunities for further research. As the Empowerment Scholarship Accounts program grows in coming years, researchers can further survey families on the types of educational options they are financing with their ESAs and better understand the extent to which they are customizing their children's educational experience. Families also can be surveyed to evaluate the level of parental satisfaction with the Empowerment Scholarship Accounts option.
4. Support alternatives to the traditional public school model, such as statewide online learning programs and virtual charter schools. Students should then be allowed to use ESA funds at any number of online learning providers.

## Conclusion

When parents are able to choose where their children attend school or the education service providers they use, they are happier with their children's educational experience.<sup>49</sup> School choice also leads to increases in academic achievement and graduation rates. Parents should have the freedom to finance different education options with their share of education funding in a flexible manner that allows for customization.

"Assumption of responsibility by government for financing education does not require that education be delivered in government-run institutions," wrote Milton Friedman. "Education spending will be most effective if it relies on parental choice and private initiative—the building blocks of success throughout our society."<sup>50</sup>

Arizona's Empowerment Scholarship Accounts do just that, and help re-imagine what "public education" means, shifting to a funding mechanism that educates children without confining them to government-run schools.

Education savings accounts help maximize school choice for families by giving them direct control over their children's share of education funding. One of the greatest benefits of education savings accounts is the ability to customize a child's education. The funding in an ESA can be directed to multiple education providers simultaneously, an option that could become increasingly powerful as online learning proliferates. Online learning is growing in popularity among parents who want access to the best teachers and courses available, and who want educational flexibility and customization. As Terry Moe and John Chubb write in their celebrated book "Liberating Learning":

"[Technology] replaces the dead hand of monopoly with the dynamism of diversity and competition. It replaces the sameness of the traditional classroom model with a vast range of innovative learning alternatives. It replaces the 'one-size-fits-all' approach to students with powerful new ways of customizing schooling to the needs and interests of each individual."<sup>51</sup>

Educational choice options like ESAs place competitive pressure on public school systems to improve and meet the needs of students. When families have options, public schools must meet the needs of children or risk losing enrollments—and hence dollars—creating a strong incentive for improvement. Moreover, choice has been shown to improve academic outcomes, significantly increase graduation rates, and positively affect parental satisfaction with their children's educational experience. ESAs are a "critical refinement" of Milton Friedman's first vision of school choice through a voucher system and should be given strong consideration by state policymakers interested in creating a truly student-centered education system.<sup>52</sup>

Arizona has created a model that other states should consider: funding children instead of physical school buildings and allowing funds to follow children to

any educational provider of choice. Such control over education funding ensures families have access to options that meet their children's unique learning needs and move beyond the worthwhile goal of school choice to choice among education service providers, courses, teachers, and methods. That level of customization brings American K-12 education into the 21st century and ensures no child is relegated to the limited effectiveness of the existing monopolistic system that is all too prevalent in states across the country.



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## About the Author



Lindsey M. Burke researches and writes on federal and state education issues as the Will Skillman fellow in education policy at The Heritage Foundation. Burke focuses on two critical areas of education policy: reducing federal intervention in education and empowering families with education choice.

Burke's commentary, research, and op-eds have appeared in various newspapers and magazines including *The Washington Times*, *National Review Online*, *The Atlantic*, *Time*, and *Newsweek*. She has spoken on education reform issues across the country and internationally, and has appeared on numerous radio and television shows including CNN and Fox News.

Burke holds a bachelor's degree in politics from Hollins University in Roanoke, Virginia, and a master of teaching degree in foreign language education from the University of Virginia.

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If research adheres to proper scientific and methodological standards, its findings can be relied upon no matter who has conducted it. If rules and methods are neither specified nor followed, then the biases of the researcher or an organization may become relevant, because a lack of rigor opens the door for those biases to affect the results.

The author welcomes any and all questions related to methods and findings.

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