

# EdChoice Policy Toolkit

## ESA Financial Accountability: Reimbursements, Debit Cards or Online Platforms?

### QUESTION

What is the best way to ensure that ESA funds are used only for qualifying expenditures?

### ANSWER

Online platforms like those developed by ClassWallet and SAP Ariba provide the highest level of financial accountability with the least amount of bureaucracy. They also have the potential to empower parents with useful information about educational products and services they are considering.

School vouchers are fairly straightforward to administer: the state cuts a check to a family that then signs it over in its entirety to their child's school. With education savings accounts (ESAs), by contrast, families can customize their child's education using an untold number of education providers—a la carte classes from local schools or colleges, tutors, textbooks, online classes, homeschool materials, educational therapy and so on. Ensuring that the ESA funds are only used for eligible expenditures requires a more complex system than a traditional school voucher program. So far, states operating ESA programs have tried three different financial accountability models: reimbursements, debit cards and online platforms.

#### *Reimbursements*

Under a reimbursement model, ESA families use their own money to purchase educational goods and services, then submit their receipts for reimbursement. The advantage of this model, which Florida used initially, is that the state only reimburses valid expenses. However, this comes with at least two major downsides. First, with each family making dozens or even hundreds of educational expenditures, the reimbursement model requires a very staff of administrators to pore through all the reimbursement submissions. Second, and more importantly, it erects a significant barrier to low-income families who have to front the money. Of the three models, the reimbursement model is the most bureaucratic and least user-friendly.

#### *Debit Cards*

Some states, like Arizona during the first several years of its ESA program, issue families with debit cards tied to restricted-use bank accounts, similar to health savings accounts. This means that families can directly access their ESA funds when necessary, without needing to front the money.

If there are enough users, then the system can use product codes to ensure that the debit cards can only be used for eligible expenditures. However, if there aren't a sufficient number of users, product codes are not cost effective. In such a case—as in Arizona—the program would only use merchant category codes, which would limit purchases to vendors that sell approved products and services. However, since those vendors might also sell non-approved products or services, this model still requires submitting receipts to prevent fraud or accidental misuse. In Arizona, the state's auditor general found that only about 1 percent of ESA funds were misspent, an improper payment rate far below most government programs.<sup>1</sup>

## *Online Platforms*

The newest and most promising form of financial accountability is the online platform. These platforms allow users to purchase eligible educational goods and services online, similar to Amazon, including via mobile apps. The platforms are built and hosted by third-party vendors like ClassWallet in Arizona and Tennessee or SAP Ariba in Florida. Since the platforms only allow the purchase of eligible products and services, this model provides the highest form of financial accountability. Moreover, it is much more cost-effective than the other models because it does not require a huge staff to pore over innumerable receipts.

In addition to financial accountability, online platforms also have great potential to provide greater academic accountability. Just as on Amazon and similar websites, ESA families could provide reviews about their personal experience with the products and services they purchased in order to provide other ESA families with valuable information. As it is, research finds that educational choice policies induce parents to seek more information about their educational options.<sup>2</sup> Over time, such information sharing would help direct families toward higher-quality educational goods and services, creating a strong incentive for education providers to constantly improve.

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<sup>1</sup> Matt Beienburg, "The Public School Benefits of Education Savings Accounts: The Impact of ESAs in Arizona," Goldwater Institute, August 13, 2019, [www.goldwaterinstitute.org/az-esa/](http://www.goldwaterinstitute.org/az-esa/).

<sup>2</sup> Michael F. Lovenheim and Patrick Walsh, "Does Choice Increase Information? Evidence from Online School Search Behavior," *Economics of Education Review*, vol. 62, pages 91-103, [www.nber.org/papers/w23445](http://www.nber.org/papers/w23445).