

EdChoice Policy Toolkit

Administration: Nonprofits and State Agencies

QUESTION

Which agency or institution is best positioned to run an education savings account program?

ANSWER

Ideally, ESA programs would be administered by nonprofits or third-party vendors with oversight by the department of revenue or treasurer.

When crafting a new policy, careful consideration must be given to which government agency will have the primary responsibility for the policy's administration and oversight. The ideal institution will have the competence, incentives and autonomy necessary to effectively run the program. Based on years of experience with education savings account (ESA) programs administered by different agencies and nonprofits in three states, the most successful arrangement appears to be when the ESA program is administered by a nonprofit or third-party vendor with oversight by the department of revenue or treasurer.

Competence and Experience

ESA programs could potentially have tens of thousands or even hundreds of thousands of participants, which could translate into millions of transactions annually. Programs of this scale require administrators with the experience and competence to oversee so many transactions while providing quality service and accessibility to users and ensuring financial accountability for the taxpayer. State education agencies tend not to have this sort of expertise. By contrast, state departments of revenue or state treasurers tend to have copious experience administering or overseeing highly complex, large-scale programs with vast numbers of accounts and transactions, such as Medicare. Additionally, states often contract with private, third-party vendors to manage user accounts.

In some cases, a nonprofit scholarship organization might administer the ESA program. For example, the most effective ESA program is currently in Florida, where the vast majority of the accounts are administered by the nonprofit Step Up for Students. When the ESA law was enacted, Step Up was already granting tens of thousands of tax-credit scholarships annually. It is now working with SAP Ariba to build an online platform for ESA families to purchase educational goods and services, track their expenses and account balance, and learn from the experiences of other ESA families via their ratings of goods and services purchased through the platform.

Aligned Incentives

The effective implementation of a policy requires that the institution implementing it is invested in its success. However, regulatory agencies are often subject to regulatory capture. For example, the Interstate Commerce Commission was created in the late 1800s to regulate the railroads, but it was eventually captured by the railroad industry and used to erect barriers to entry for potential competitors to the railroads, like buses or trucks. Likewise, bureaucrats at state education agencies tend to identify with the school system that they are charged with overseeing and have been known to erect barriers to competition. Even when the head of the department is an elected official or political appointee who supports educational choice, often the rank-and-file bureaucrats—including those charged with implementing the program—do not. Instead, educational choice programs tend to be seen as a distraction from their mission at best or anathema to it at worst.

Nonprofit scholarship organizations, by contrast, tend to be staffed with people who are supportive of educational choice because they are dedicated to the mission of the organization. They are in a much better position to effectively implement an ESA program than a state education agency because their mission and incentives are aligned with the success of the ESA program.

State departments of revenue and treasury departments occupy a middle ground in terms of incentives and mission alignment. On the one hand, they tend not to have any particular affection for educational choice. On the other hand, because they do not directly oversee the district school system, they tend not to be subject to regulatory capture. Moreover, because they have a general interest in the programs they oversee being well run, they can still be a good fit for the role of administrator or overseer.

Autonomy and Flexibility

A well-functioning ESA program needs an administrator that is nimble and responsive. Government bureaucracies, however, have a well-earned reputation for being slow and constrained. The differences in how the ESA programs in Arizona and Florida have been administered are instructive. For several years after the ESA was enacted, the Arizona Department of Education struggled to meet the needs of ESA families and applicants.¹ For example, the department only offered information sessions and application assistance in English only during the typical 9-5 government hours, required that applications be faxed or mailed, and took a long time to answer parent phone calls if they were answered at all. One year, just a couple weeks before applications were due, the department's fax machines ran out of ink (in part due to the numerous 100+ page applications which included students' individualized education plans) which may have prevented some families from applying on time. Although the department has significantly improved, there is still plenty of room for additional improvement.

By contrast, Step Up for Students has proved to be nimble and responsive ESA administrator. From the outset, Step Up offered information sessions and application assistance in English and Spanish on nights and weekends in addition to regular business hours. Applications can be submitted online and their staff is highly responsive to calls and questions via a chat box on their website. As a nonprofit, Step Up has the autonomy and flexibility needed to achieve its mission. For most nonprofits, staffing decisions do not require legislative approval, employee hours are not subject to highly constraining union rules, and replacing the ink cartridge in a fax machine does not require a requisition form authorized by two managers.

Different states will have different needs, capacities and political structures. What works well in one state might not work in another. But policymakers in every state should learn from the experiences of those states that have implemented ESA policies and try to structure their own programs in such a way that they will be administered by a competent and experience institution with properly aligned incentives and the necessary autonomy and flexibility to implement the program well. Generally speaking, that will entail having a nonprofit or third-party vendor administer the program with oversight by the department of revenue or treasurer.

¹ Julio Fuentes, "Our View: 3 simple fixes could make ESAs worth the effort," The Arizona Republic, August 13, 2014, www.azcentral.com/story/opinion/op-ed/2014/08/13/empowerment-scholarship-account-fixes/14018439/.