

TO: Lisette Flores, Chief of Staff, House Democratic Caucus
Paulino Valerio, Chief of Staff, Senate Democratic Caucus
FROM: Will Gaona, Deputy Chief of Staff, Office of the Governor
RE: Updated ESA FY 2024 Cost Projections
DATE: July 21, 2023

Key Findings

- New estimates indicate the ESA voucher program may cost taxpayers up to \$943,795,600 annually, resulting in a potential \$319,795,600 General Fund shortfall in FY 2024.
- The ESA voucher program increases costs to the General Fund. More than 50% of ESA voucher funding represents a newly incurred cost to the State due to new applicants that were previously enrolled in private school, homeschooling, or were attending non-state aid schools prior to transferring.
- ADE has failed to respond to the Governor's Office requests for additional information and background on their methodology and breakdown of current enrollment numbers.
- Spending on ESA vouchers could account for 53.25% of all new K-12 education spending in the FY 2024 budget going towards only 8% of Arizona students.

Introduction

From day one, we understood the need to increase transparency and accountability of the new ESA universal voucher program, warning that the voucher program jeopardized not only the ability to adequately fund public school students, but also other vital state functions, like public safety, healthcare, and transportation infrastructure. As background, in FY2023 the State of Arizona diverted more than \$746.7 M in private school subsidies through universal ESAs and STOs. This significant increase was fueled by the expansion of the universal voucher program.

In the FY 2024 Enacted Budget, we negotiated additional reporting requirements of the program. The FY 2024 Enacted Budget appropriated \$624.0 M for 68,380 students enrolled in the ESA program based on ADE enrollment data, an increase of \$150.0 M from the FY 2023 Enacted Budget and an average ESA award amount of \$10,414.

As you are aware, on May 30, 2023, ADE submitted new FY 2024 estimates for the ESA voucher program to JLBC.¹ The Governor's Office has reached out to ADE to learn and seek clarity on their methodology as it is not outlined in the one-page report. ADE has not responded to this request to date.

In response to ADE's May 30th report, we updated ESA voucher program estimates for FY 2024. We now estimate that the total cost of the ESA voucher program may cost taxpayers up to \$943,795,600, resulting in a potential \$319,795,600 General Fund shortfall in FY 2024.

Updated FY 2024 ESA Voucher Growth

Updated estimates calculated by our office² score the total cost of the voucher program for FY2024 at a preliminary cost of up to \$943,795,600 based on the calculation of 97,580 students participating in the program. The Governor's office relies on assumptions regarding parental behaviors towards the ESA program, private school capacity³, homeschool growth⁴, the student weight distributions, 11.9% projected

¹ According to A.R.S. § 15-2403 (H) ADE is required to report to JLBC on the ESA program. ADE's May 30th report to JLBC projects that an additional 31,620 students will enroll in the ESA program by the end of FY 2024— a 46.2% enrollment increase above the FY 2024 Enacted Budget. ADE projects a total cost of \$900.0 M in FY 2024 to fund 100,000 students. This increase is \$426.0 M above the FY 2023 program cost and \$276.0 M above the Enacted Budget.

² The analysis is based on June 5th total ESA enrollment figures of 58,462 students and uses Quarter 1 and Quarter 2 FY 2023 student weight composition breakdowns to estimate the weighted student count of ESA enrollees.

³ Using existing estimates of the Arizona private school population, the Governor's office applied an updated 10% capacity figure on private school capacity.

⁴ Home schooling estimates present a challenge in terms of forecasting as there are no capacity limits on student enrollment. Data from the National Home Education Research Institute published data indicating that when accounting for the Covid-19 outlier years, average yearly growth of homeschooling is roughly 3% to 8% year over year.

share of non state aid districts, and other factors. Efforts to further promote the program by ADE may also affect enrollment increases. According to recent reporting⁵, Superintendent Horne spent over \$600,000 in broadcast marketing for the ESA program in June 2023.

We understand that fall enrollment numbers will provide a clearer picture of the impact to the FY 2024 Enacted Budget and the potential shortfall.

ESA Vouchers Cost Taxpayers More Money

In the report, ADE falsely asserts that “students that are enrolling now are coming from the public school system, which in the end saves the State money because the empowerment scholarship accounts are funded at a lower percentage than the state aid for a pupil in the public school system.” This generalized premise is misleading.

The passage of universal ESAs includes non-state aid district students, existing private school students, and homeschool students, all of which did not previously receive any State funding. This represents an estimated 40,400 students who would be funded fully through the General Fund under the updated projections.

As illustrated in Table 1, we agree that there is an increased cost to the State when a student leaves a public district school and enrolls in the ESA voucher program. This occurs because the ESA award amount is based on the state funding provided to charter school students, which is higher than the state funding provided to district school students and includes students that were never previously funded through state General Fund.

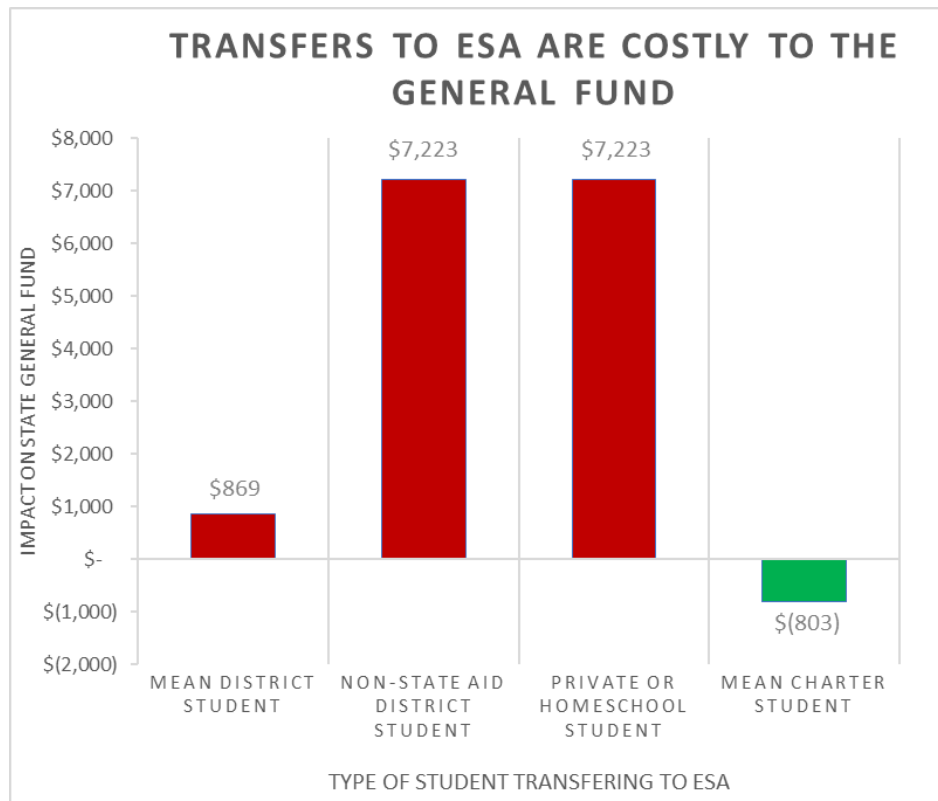


Table 1⁶

⁵ <https://azcapitoltimes.com/news/2023/06/07/ade-recently-spent-600k-to-advertise-esa-program/>

⁶ Per the Q2 FY 2023 ADE ESA report. Data is post FY 2023 Enacted Budget figures. All figures are estimated averages based on available data. Awards include Base Support Level, Additional Assistance, applicable Teacher Experience Index, and individual student Group A and B weights.

Table 2 further demonstrates that the ESA universal voucher program is a new expense incurred to the State General Fund. The Governor’s Office asserts that there is no cost savings from students leaving the public school. In fact, more than 50% of the funding is newly incurred funding due to students that were already enrolled in private school, homeschooling, or were attending non-state aid schools prior to transferring.

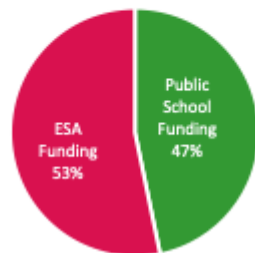
Table of Projected ESA Program Costs Under Different Scenarios				
	Total	Number of Students	New General Fund Costs	
FY 2024 Enacted Budget Amount	\$ 624,000,000	68,380	\$ 343,107,300	
Governor's Office FY 2024 Projection	\$ 943,795,600	97,541	\$ 518,947,400	

The "New General Fund Costs" column represents OSPB's analysis of General Fund spending for the program that does not have an offset from students leaving the public school system. This is mainly composed of students that were already enrolled in private school or home schooling or were attending non-state aid schools prior to transferring.

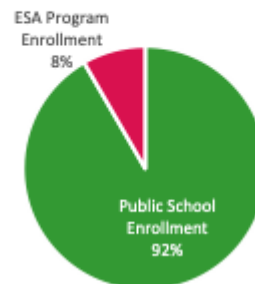
Table 2

The ESA program is unaccountable and overfunded. Table 3 represents the percentage of new education spending spent on the ESA voucher program and the percentage of total students participating in the program in FY 2024. We know that public schools continue to overwhelmingly be the first choice of parents in Arizona, yet Table 3 shows that 53.25% of all new spending on education in Arizona in FY2024 is going to only 8.4% of students. This imbalance jeopardizes the availability of all new school funding for public schools as the ESA voucher program siphons General Fund dollars.

FY 2024 New Ongoing Education Spending



Breakdown of Student Population Funded Through State Dollars



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Table 4

Universal Vouchers Lack Transparency and Accountability

We negotiated and enacted a balanced budget prior to ADE’s May 30th report being released. The new growth projections threaten to unbalance the bipartisan budget agreement. Until ADE engages honestly and provides requested data to address the growth and costs of the voucher program, our Office is committed to producing reliable projections to ensure we have the necessary data to safeguard our State’s financial future. We will continue to work with your caucuses to collaborate on solutions that curtail the program as well as increase oversight and accountability. These solutions may could include:

- 1. Setting academic testing requirements for schools that accept ESA funding**
Require that students take an annual academic assessment such as the statewide assessment.

⁷ Table 4 is based on updated ESA projections from the Governor’s Office. These costs are limited to new ongoing costs and the \$300,000,000 one-time Base Support Level infusion.

2. Creating audit authority for schools that accept ESA funding

Establish an audit team in the Office of the Auditor General to identify and prevent fraud, conduct audits and monitor qualified schools to determine the percentage of Arizona empowerment scholarship account monies that are spent in the classroom by the qualified school.

3. Fingerprinting parity

Require ESA vendors to meet the same fingerprinting requirements as certified and non-certified educators who work in public schools.

4. Requiring universal voucher applicants to attend a public school

Require students to attend a public school prior to being eligible to enroll in the ESA voucher program.

Next Steps

The Hobbs Administration will also continue to push to increase oversight and accountability of the ESA voucher program as well as rein in unsustainable spending.

We are closely monitoring the growth of the ESA voucher program and will continue to communicate and strategize with you and your leadership teams after July 31st enrollment numbers are released. We have not received communication about the first meeting of the legislative ESA ad-hoc committee nor its future meeting cadence. Additionally, we are exploring a formal records request to ADE and will keep you informed.