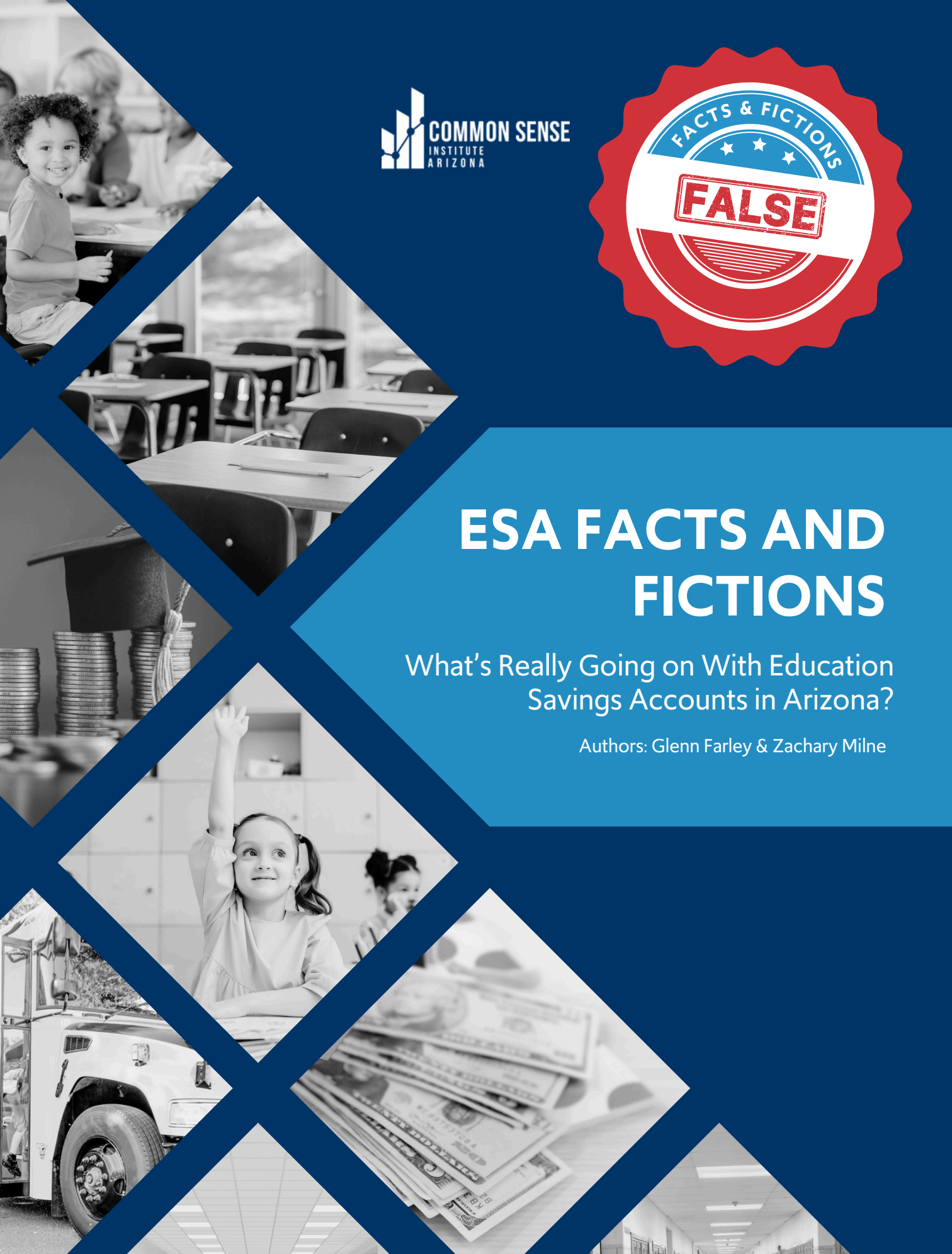


ESA FACTS AND FICTIONS

What's Really Going on With Education Savings Accounts in Arizona?

Authors: Glenn Farley & Zachary Milne



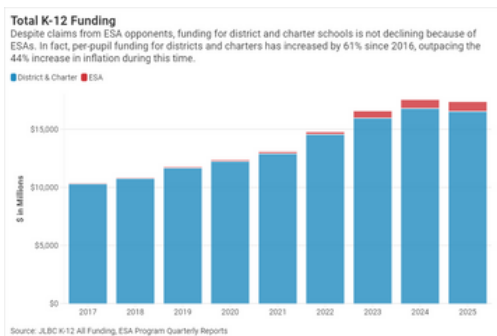
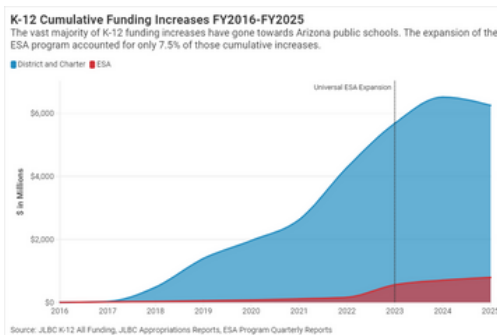
Fiction

Policymakers are cutting Public Education to Pay for the ESA Program

“Has that per pupil spending increased measurably for the public or charter schools at the same time that the universal school vouchers were put into place?...But yes, no that funding for public schools has not increased.”^[i]

Key Facts

- **K-12 Funding is up 60%:** Between FY 2016 and FY 2025, public K-12 funding in Arizona has increased more than \$6.3 billion.^[ii] ESA funding has increased just \$792 million over this period; just 11% of all new K-12 funding has gone to the ESA program.
- **\$15,100:** Arizona today spends more money per-pupil in public school than it ever has: over \$15,000. Even after accounting for the runaway inflation of the past two years, inflation-adjusted spending per student is up 30% since FY2016.
- **-23,500:** Over the past five years enrollment in Arizona public schools has fallen by more than 23,000 students. Funding – total and per-pupil – has continued going up, though. Today policymakers are allocating more money to educate fewer public-school students.
- Had public school funding in Arizona grown only at the rate of enrollment and population since 2016, total funding today would be 21% less than it is – **for an annual savings of over \$3.5 billion.**



B O T T O M L I N E

Arizona’s public school funding investment has grossly exceeded inflation, enrollment growth, and ESA funding. While it is true that relative rankings do not show much change in Arizona’s national position, this is because every state has been increasing public school funding in recent years – while at the same time seeing enrollment declines. These two facts are inflating every state’s per-pupil-funding numbers simultaneously, fixing their relative positions.

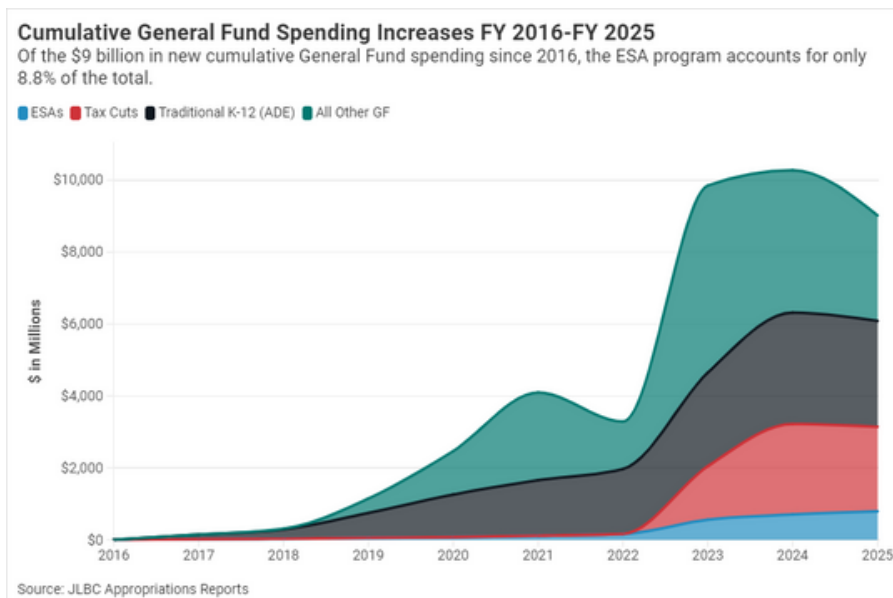
Fiction

ESA's are Bankrupting the State

“Arizona’s voucher experiment has since precipitated a budget meltdown. The state this year faced a \$1.4 billion budget shortfall, much of which was a result of the new voucher spending.”[iii]

Key Facts

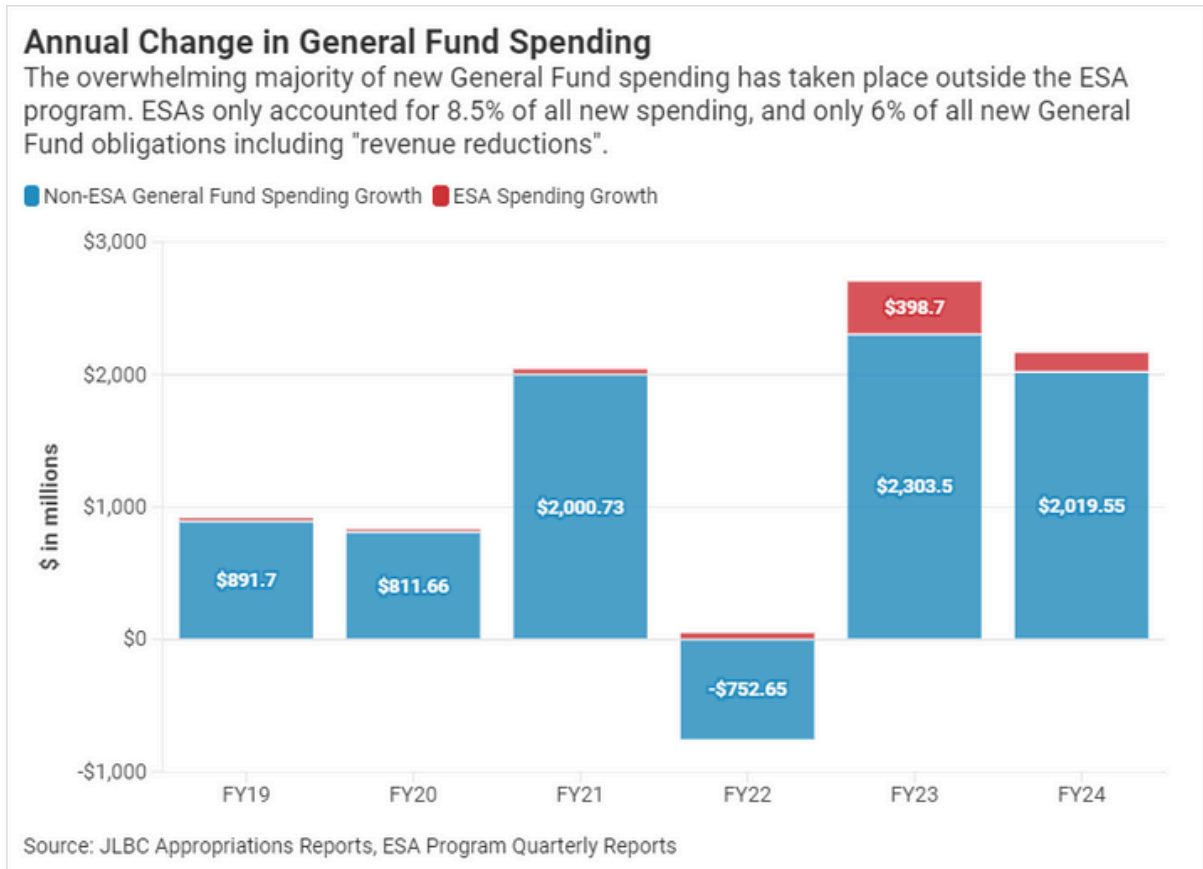
- **\$4.5 billion cash surplus:** After ten years of persistent deficits, between FY2017 and FY2022 the State General Fund accumulated billions in cash and structural surpluses. **More than \$2 billion remained even after universal ESA expansion.**
- **\$7.5 billion in new spending:** In just 2 years (FY23 & FY24) policymakers increased annual General Fund spending by **nearly \$5 billion (+39%)** and **allocated another \$2.5 billion to “revenue reductions”**.
- **6% of all new spending:** Of the \$7.5 billion in new spending commitments, the universal ESA program accounts for only 6% of the total. There’s been \$1.3 billion in new funding for public schools since ESA expansion.
- Had policy makers limited General Fund spending growth to 4.4%/year (~\$600M annually), the State would still have a \$5 billion surplus.[iv]
- This situation isn’t unique to Arizona or states with new universal ESA programs – California has turned a \$100 billion surplus into a \$68 billion deficit, for example. On average, state budgets grew 30% over the past three years.[v]



Fiction

ESA's are Bankrupting the State

Key Facts Continued



B O T T O M L I N E

Unprecedented revenue growth during and after the pandemic (fueled by runaway inflation and federal spending largesse) enabled nearly every state - not just Arizona - to accumulate massive cash surpluses and dramatically increase funding. This precipitated the current and ongoing nationwide state fiscal imbalance, and it has little to do with universal ESA's.

Fiction

ESA's are More Expensive than Traditional Public Schools

“Arizona school vouchers cost taxpayers more per student, but Republicans say they don't.”[vi]

Key Facts

- **\$14,857 vs. \$7,311:** All in, the per-pupil funding for a traditional public school student in Arizona is \$14,857 as of 2023, versus the \$9,523 per-pupil funding for the average ESA recipient – including students with disabilities – and \$7,311 per-pupil for those enrolled in the universal program.[vii] Even ignoring federal funding, a public-school student costs Arizona taxpayers about \$13,000.
- **4.6%:** Total ESA enrollment accounts for 6.3% of Arizona's student population, but consumes just 4.6% of all K-12 funding in the state.[viii]
- **Opponents often exclude local funding from the comparison of public and ESA funding, but this is misleading.** K-12 funding levels are largely determined by an equalization formula, and any funding that cannot be raised through local property taxes is covered by the State (and General Fund). Because State General Fund is the “payor of last resort” for all education funding in Arizona, on the margin, any student from a state-aid district – which includes about 93% of K-12 students[ix] – is approximately fully State-funded.[x]
- **According to JLBC, two-thirds of all public school funding is tied to (per-pupil) formulas** – so-called “fixed costs” are less than a third of all funding.
- **The State considers total and projected enrollment growth when allocating funding for new schools and other non-formula lines** – fewer kids is likely to lead to lower State-level non-formula “fixed” costs, too.
- **Districts are not required to tie capital funding requests to specific enrollment projections, and this can lead to overbuilding even as enrollment declines[xi]** – but it is a problem with how the state allocates capital funding generally.

Fiction

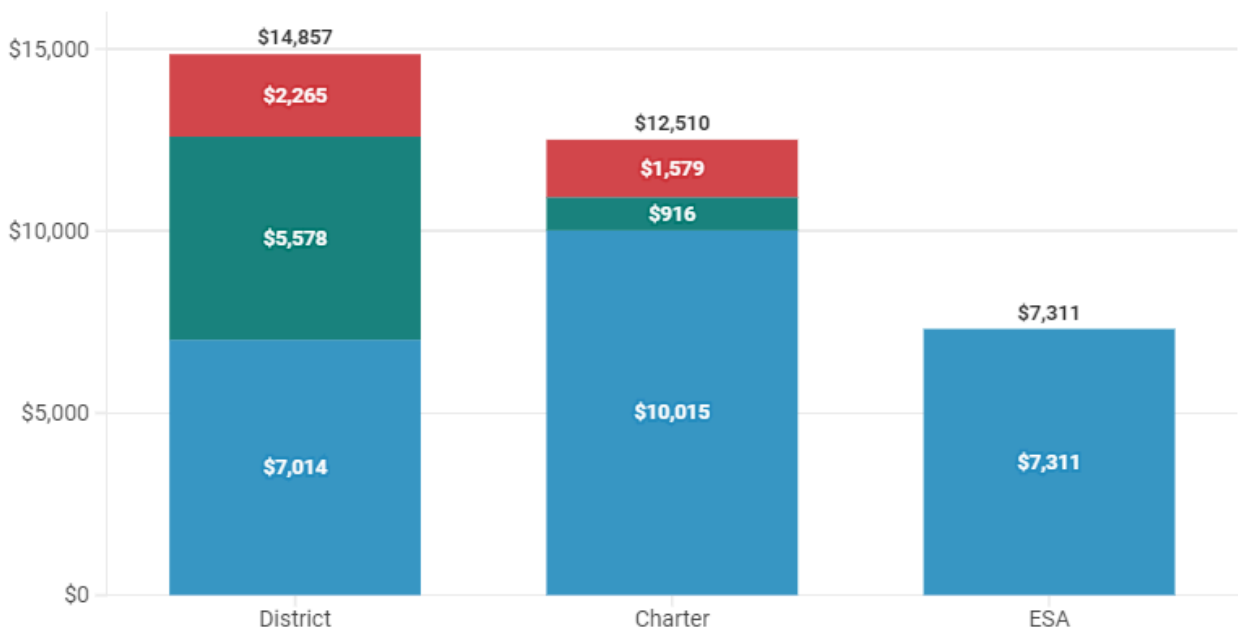
ESA's are More Expensive than Traditional Public Schools

Key Facts Continued

Differences in Per-Pupil Funding

District school students receive over \$2,000 more than Charter students. ESAs receive 90% of Charter school per pupil Equalization formula funding and forego all other funding sources.

■ State Funding ■ Local & Other Funding ■ Federal Funding



Source: JLBC Funding Variation (2023), CSI estimates • Most but not all "State Funding" comes from the General Fund. Note that while this is true for the average student, it may not be true on the margin - typically, the State General Fund is the "payor of last resort".

B O T T O M L I N E

No matter how the funding is sliced, Arizona taxpayers fund traditional District school students at a much higher amount than other students. This is true regardless of gimmicks – federal funds, fixed costs, etc. And on the margin, its mostly true for the General Fund too.

Fiction

ESA's are Driving Public School Enrollment Decline

“On a larger level, the new law also speeds up the same sort of death spiral that has afflicted public schools across the country, by steadily draining funds away from public education... the money to cover children who leave public schools in coming years will be deducted from public school budgets.”[xii]

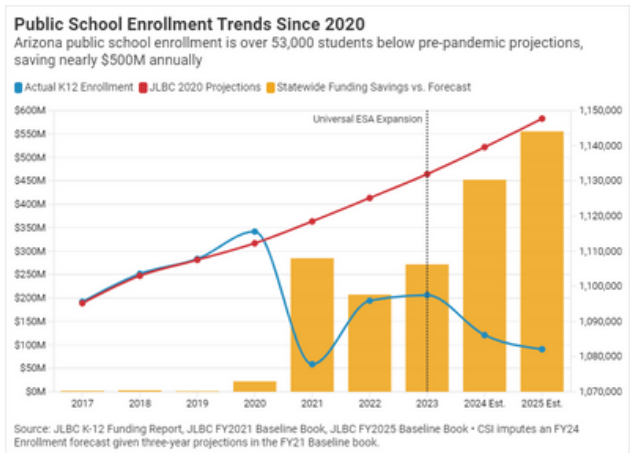
Key Facts

- **Traditional public school enrollment in Arizona is stuck in a transition and long-term decline.**

This decline accelerated during the pandemic and is independent of the universal ESA program (2022).

- **2010-2011:** The state's largest-ever public Kindergarten class entered the school system in 2010 and is graduating now. **The incoming District Kindergarten class is 25% smaller today than it was 14 years ago.**[xiii]

- Following extended school closures and a collapse in confidence in the public school system [xiv], **enrollment in Arizona public schools fell by 40,000 kids in 2021, prior to the creation of the ESA program.** Today, combined public school enrollment is 53,000+ kids below expectations.
- **Enrollment growth isn't coming back – even if ESA's were repealed tomorrow.** For two years in a row, Census data shows Arizona's school-aged population declining. Based on a review of Census and State Demographer data, CSI projects the total number of school-aged kids in Arizona will fall by 10% over the next 10 years.
- **Among these fewer students, there is more interest in school choice.**[xv] Private school parents are increasingly more satisfied than public school parents.[xvi]



BOTTOM LINE

Traditional District public school enrollment has been slowly declining in Arizona for years.

This decline has accelerated and because of demographic decline and changing attitudes will continue – no matter what happens to the universal ESA program.

Fiction

ESA's Only Benefit Wealthy, Urban Students

"More proof that Arizona's universal voucher scam is designed to benefit the rich." [xvii]

Key Facts

- **Lower-income, nonwhite students struggle the most in the traditional District school system:** Nonwhite and low-income students have lower graduation rates, receive more suspensions and expulsions, and generally perform worse than their peers in the traditional District school system. [xviii]
- **Novel education options – like micro schools – are cheaper and more diverse than the traditional private school system.** While the space has grown rapidly since the pandemic, its decentralized nature makes data sparse. However, evidence suggests these schools are significantly cheaper and much more diverse than traditional private schools. [xix]
- **Black Mother's Forum – just one small Arizona microschool – operates two locations that have served over 150 students since 2021; 100% use ESA, 90% are nonwhite, and most are low-income. According to the Forums CEO, without the universal ESA program, these schools would not exist.**
- **Based on a review of ESA and Census data, CSI estimates half or more of ESA recipients homeschool or microschool.** While private school households earn more than public school households, homeschool households earn even less on average than public school families. [xx] CSI estimates this population makes up about half of all ESA recipients. [xxi]
- **Based on ESA enrollment data, the proportion of rural vs non-rural students who use an ESA is nearly identical (4.5% non-rural vs. 4.3% rural).** [xxii] Rural households are more likely to homeschool than urban families.
- **Most school-aged kids are in the suburbs and higher-income ZIP codes:** Claims about ESA families that don't account for this may not be reliable. Half of all kids live in the wealthiest third of Arizona ZIP codes. The bottom half of Arizona ZIP codes by household income have only a third of all kids.

B O T T O M L I N E

Since the pandemic, demand for traditional District public schools has fallen nationwide – among broad demographic groups. ESA's help satisfy that demand but they do not create it. For micro schools especially, evidence suggests the demand is often coming from minority and lower-income families.

Fiction

There's No Accountability in Arizona's ESA Program

"Arizona's universal ESA voucher program stands out as both the most expansive and least accountable nationwide, lacking any financial oversight, academic accountability, or student safety." [xxiii]

Key Facts

- **Transparency:** Program regulators, Arizona state policymakers, and the public know far more about the details of ESA-related transaction activity than they do for similar programs (or for the public school program).
- The Department of Education tracks and pre-approves individual transactions using ESA funds; **there is no equivalent system in place for other K-12 money.**
- **Reporting:** The Department regularly reports on specific expenditure activity, audit and performance review results, and other program details to the Legislature and State Board of Education. There is no equivalent regular reporting by the Department of expenditures by public schools. [xxiv]
- **Accountability:** Parents and students are required by law to use ESA funds for academic purposes – including at least “a portion” of the monies on reading, grammar, math, social studies and science. Private schools are accredited and regulated by various bodies. Though newer and maturing, micro school standards and certifications are developing through organizations like the National Microschooling Center and National County for MicroSchool Education. School-choice parents are discerning in their educational choices. [xxv]
- **Safety:** There is no evidence that private- or home-schooled students are less safe than traditional District public school students. In fact, research shows that students in private schools enjoy a broadly safer environment than traditional public school students. [xxvi]
- **Efficiency:** Because of aggressive oversight by state regulators, it takes 22 days to approve any transaction in the ESA program.

Fiction

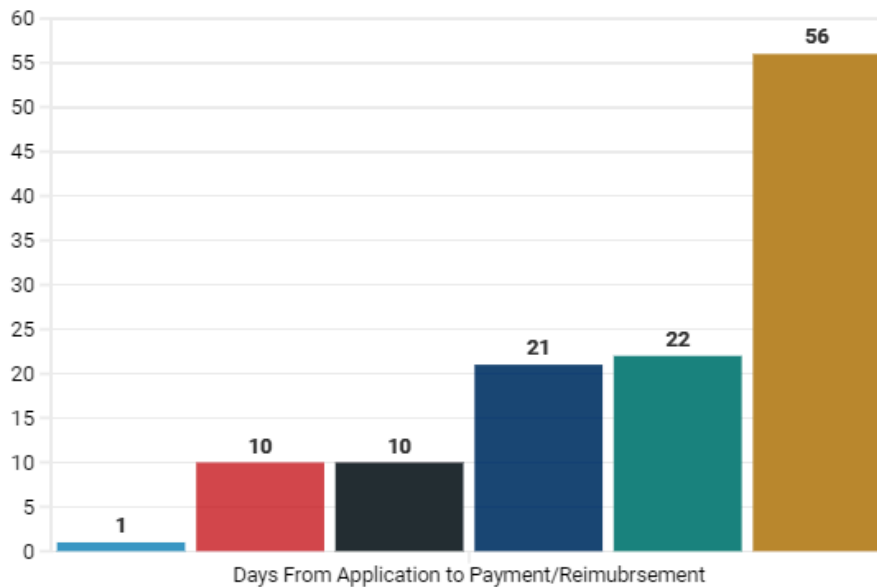
There's No Accountability in Arizona's ESA Program

Key Facts Continued

Average Payment & Reimbursement Times

In general, comparable programs provide refunds or payments to taxpayers faster than the ESA program - which can take from 12 to 29 days.

■ SNAP ■ Unemployment Insurance Benefits ■ Medicaid Prior Authorization ■ Federal Income Tax Refunds
■ ESA Reimbursements (FY2024 Avg.) ■ State Income Tax Refunds



Source: Dept of Revenue, Dept of Economic Security, Dept of Education • ESA reimbursement times are sourced from the Dept. of Education's two most recent ESA Quarterly Reports. The Q4 value is a weighted average of reimbursed and rejected processing times.

B O T T O M L I N E

While it is probably true that the Arizona ESA program is the most expansive in the country, the program is far more accountable and transparent than comparable programs. In fact, the program is overburdened – excessive oversight hampers the efficiency function of Arizona's ESA program (and not the other way around).

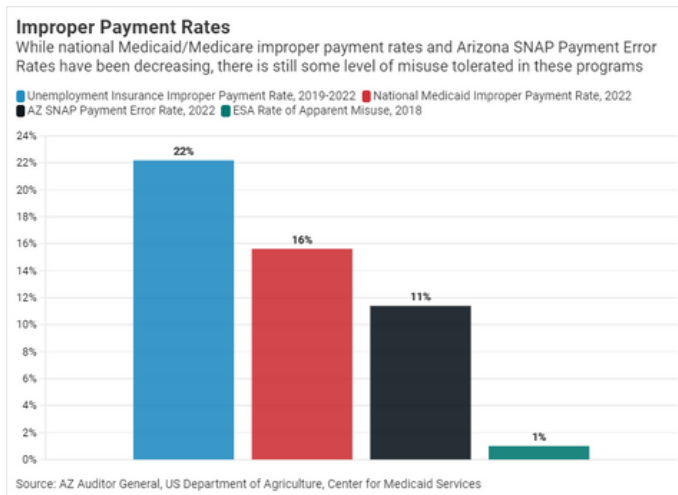
Fiction

ESA's are Subject to Rampant Fraud & Abuse

"I think it starts with the Legislature that passed legislation that doesn't have controls. It starts with educators who don't care about fraud, waste or abuse, or they would have put some guardrails on this program." [xxvii]

Key Facts

- **\$2 billion+**: The scope of Medicaid billing fraud in Arizona revealed by a single investigation into pandemic-era relaxed program standards. [xxviii]
- **\$2.3 billion**: Arizona's share of estimated pandemic-era fraudulent U.S. Unemployment Insurance payments. [xxix]
- **About \$650,000**: The sum-total of all specific, public allegations of ESA fraud CSI identified to-date, since universal eligibility expansion. [xxx] [xxxi]
- **In general, researchers and public benefits programs administrators acknowledge a fundamental trade-off between program accessibility and vulnerability to waste** – in any public benefits program. [xxxii]
- **For example, over the last five years, federal administrators of the nation's largest public benefits programs directed or encouraged states to relax accountability standards** – accepting increasing waste, fraud, and abuse in exchange for greater program access.
- **By suspending legal eligibility checks for enrollment, Medicaid enrollment grew by 40% during the pandemic.** [xxxiii] At its peak, over 20 million Americans were receiving Unemployment Insurance payments in 2020 – from an average of about 2 million typically. States were encouraged to "prioritize speed over eligibility".



B O T T O M L I N E

There are specific statutory requirements governing the use of ESA monies – including guidelines on permissible expenditures and a requirement that ADE conduct random and regular audits to ensure compliance. Within that framework, the program has been able to run well, especially compared to similar programs.

A full list of sources and references is available at our website at www.commonsenseinstituteus.org/arizona/research/education/esa-facts-and-fictions