

Nearly Half of Universal Voucher Applicants from Wealthier Communities as Total Private School Subsidies in State Reaches \$500 Million

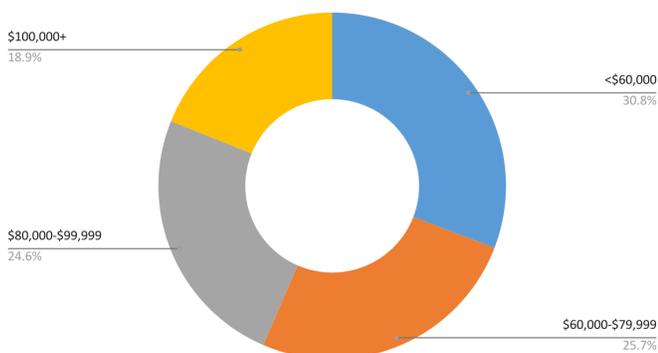
Universal Vouchers Primarily Benefit Wealthier Households

The Grand Canyon Institute (GCI) has analyzed the zip code distribution of applications for the new universal Empowerment Scholarship Account (ESA) voucher program that Gov. Ducey signed into law in July. Zip codes were provided by the Arizona Dept. of Education for universal voucher applicants through Sept 27, 2022. The total number of universal voucher applicants numbered 12,149. An additional 696 applications for the prior version of the ESA program were also received and are not part of this analysis. Last month [GCI evaluated details of the program](#), including academic impacts. Academic impacts were also part of a [2018 GCI report](#).

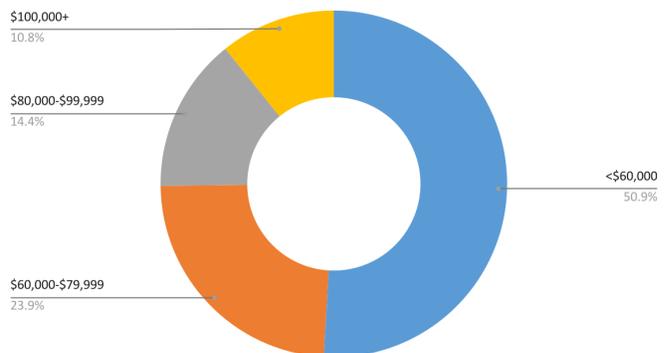
GCI compared the distribution of applications to both the median household income in the zip codes of applicants as well as to the distribution of K-12 students using data from the 2020 [American Community Survey](#) by the U.S. Bureau of the Census.

As noted in the graphs below, nearly half of all applications come from parents or guardians residing in zip codes that have a median household income of \$80,000 or more, more than 30% greater than the state’s median income. These represent the wealthiest quarter of students in the state (gold and silver parts of the graphs).

Universal ESA Applications by Zip Code's Median Household Income



Arizona K-12 Students by Zip Code's Median Household Income



By contrast, parents or guardians in zip codes with a median household income less than \$60,000 which comprise just over half the students in the state, represent not quite one-third of all applications (blue section).¹

These results belie the claim that the program was primarily designed for average and lower income families. Rather, similar to the [flat tax passed by the legislature](#), the primary beneficiaries of this government policy are wealthier families.

Total Private Subsidies \$500 Million (\$60 Million from Universal ESAs)

Arizona has extensive subsidy programs for private schools. Dollar-for-dollar tax credit donations to private [Student Tuition Organizations amounted to \\$250 million in FY2021](#) from individuals and corporations. In addition, the existing ESA program which serves a large number of students with disabilities was on track to cost [the state at least \\$190 million](#) plus administrative costs for FY2023 based on program growth. Collectively private school subsidies likely cost at least \$440 million since tax credit data was less current.

Universal voucher access looks to add \$60 million to that number **so the total reaches half a billion dollars.**

The Arizona Department of Education reports that about 75% of applicants are not in public school, meaning these students are already attending private schools, being home schooled, or just entering schooling. At a cost of about \$7,000 per voucher this equates to a cost of \$63 million,

The remaining 25% of applicants are currently attending public district or charter schools. If they are attending district schools then if they are from a wealthier area, this would mean a net cost to the general fund since under the equalization formula those areas rely primarily on local property taxes, not state funding. Whereas if they reside in lower income areas, a modest savings to the general fund would occur, since the voucher formula is 90% of the funding formula for public schools.

If the student attended a charter school, [which GCI finds is more likely to be the case from its past analysis](#), then a larger savings would accrue since charters are fully funded by the state and also receive about \$2,000 in charter additional assistance per student.

GCI assumes a modest net savings from the 25% currently enrolled in a public district or charter schools.

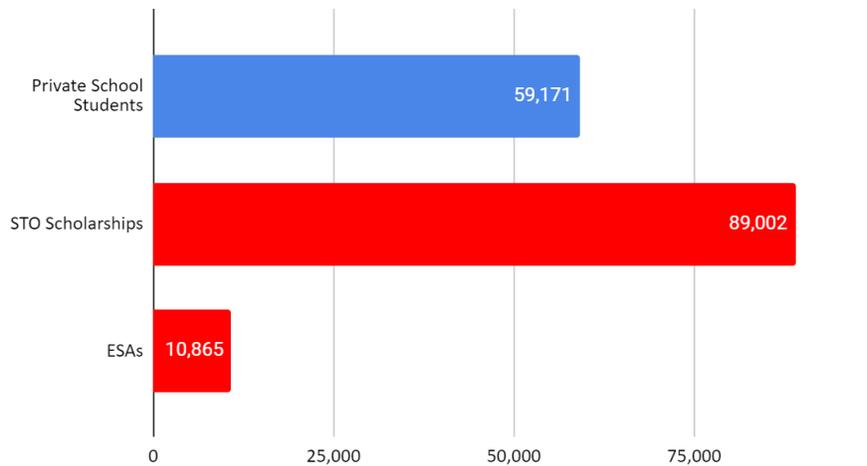
¹ ADE redacted application numbers from about 200 zip codes with 20 or fewer applicants, but provided the total applications—so 409 came from these redacted zip codes. GCI identified 16 from out of state and set those aside. All of the redacted zip codes estimated to have multiple applications had median household income data looked up and a sample of those estimated to have 1 application were looked up. 3.25 was assigned to 91 redacted zip codes presumed to have more than 1 application.

The estimated total cost of \$60 million is higher [than the \\$33.4 million projected by the Joint Legislative Budget Committee for FY2023](#), though in line with its cost estimates for FY2024. The 12,000 applicants are more than double what the Joint Legislative Budget Committee projected of about 5,800.² The JLBC estimate though was very rough. The JLBC saw the program doubling in year two, which is why the cost estimates for FY2024 match up with likely costs for FY2023 based on current applicants.

STO scholarship awards are likely to rise in order for them to stay more competitive with the universal ESAs and because the number of scholarships may decline. New users of the ESAs who formerly contributed to an STO may cease that practice (it was common for STO donors to suggest recipients), but since it costs them nothing, they may persist.

Risk of Misuse Rises Significantly

STO Scholarships Plus ESAs Exceed Private School Students
(2019-2020)



Arizona has two private school subsidy programs, a completely private Student Tuition Organization based scholarship system that is funded by individual and corporate donations for which recipients earn dollar-for-dollar tax credits as well as the Empowerment Scholarship Account vouchers funded by the legislature.

Two potential issues that might fall under the general category of fraud—whether pursued civilly or more likely with internal enforcement—relates to violations of the ESA contract. These occur if an ESA recipient were to misspend monies or double dip by receiving an STO scholarship simultaneously in violation of the contract. Since ESAs go through the Department of Education, students are well tracked. An audit process is designed to prevent misspent dollars. [As GCI noted last month](#), already a number of permitted expenses are questionable. But with a wider program that expands to

² JLBC projected 5% of three estimated groups to enroll in FY2023. The sum of those estimates was 5,800.

homeschool, such oversight may be more challenging. Parents or guardians accepting ESAs sign a contract where they also agree not to accept an STO scholarship. However, the state does not track recipients of STO scholarships outside [broad aggregate reporting to the Arizona Department of Revenue](#). It has been evident for a number of years that many parents or guardians seek and receive scholarships from multiple STOs, such that [in 2019-2020 about 90,000 scholarships](#) were awarded to around [50,000 private school students who were not receiving an ESA voucher](#) (see diagram above). While some parents or guardians may not currently be in compliance with this restriction, the narrower scope of ESA eligibility limited that opportunity. However, with universal vouchers, the potential that a parent or guardian might attempt to double dip rises significantly and an effective mechanism to catch when that occurs does not appear to exist.

For more information, contact: Dave Wells, Research Director, Grand Canyon Institute, at DWells@azgci.org or at (602) 595-1025, Ext. 2.

The Grand Canyon Institute (GCI) is a nonpartisan, nonprofit organization dedicated to informing and improving public policy in Arizona through evidence-based, independent, objective, nonpartisan research. GCI makes a good faith effort to ensure that findings are reliable, accurate, and based on reputable sources. While publications reflect the view of the Institute, they may not reflect the view of individual members of the Board.