



Cost of the Universal ESA Voucher Program

In a new analysis, the Grand Canyon Institute (GCI) estimates a \$332 million cost to the state's General Fund in FY2024 (July 2023-June 2024) for the universal component of Arizona's Empowerment Savings Account (ESA) voucher program based on a student's school of origin. Using recently released Arizona Department of Education (ADE) projections, in FY2025 that net cost will rise to \$429 million.

Prior estimates of the impact of Arizona's ESA voucher program have focused on the entire program based on data made available by ADE which does not disaggregate universal and other types of vouchers, i.e., for disabled students.

In subsequent reports, GCI will analyze how the money was spent.

GCI's results are largely consistent with the [Learning Policy Institute's](#) estimate released this February, though GCI had access to a broader set of data, so was able to refine that estimate. Overall, GCI finds the gross cost of the total ESA program to be \$700 million in FY2024. Universal vouchers had a gross cost of \$385 million. However, when costs were estimated net of the school of origin—charter schools, district schools, or neither—the net cost of the universal ESA program is \$332 million. The school of origin matters as the state general fund partially funds district schools, but fully funds both charter schools and ESA vouchers.

\$332 million represents more than half of the projected state budget shortfall in FY2024 (\$650 million) and is on pace to represent two-thirds of the projected shortfall in FY2025 (\$429 million of \$676 million) from the [Joint Legislative Budget Committee](#). Failure to rein in these costs means critical areas of state government expenditures will be cut to balance the budget. See Figure 1.

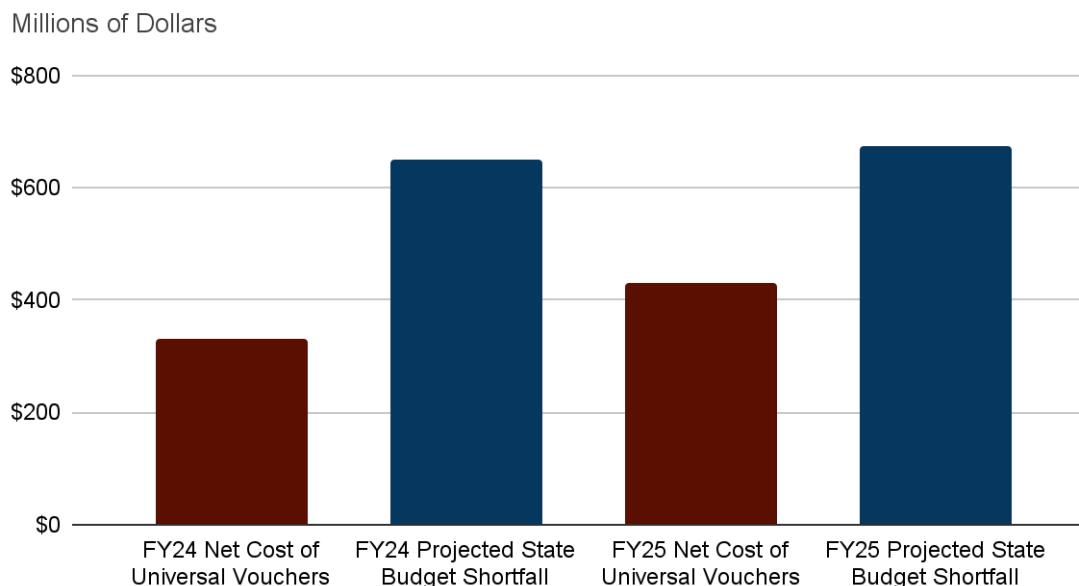
Method

GCI utilized data on voucher recipients' school of origin from 2017 and 2019 which the Arizona Republic published from a public information request as well as ESA quarterly reports to estimate the distribution of schools for the pre-universal targeted ESA program. In FY2024, the Arizona Department of Education started providing better data on the actual school of origin. With this data, GCI modeled the distribution of the pre-universal targeted ESA program for

FY2024 and then subtracted to estimate the distribution of universal recipients. More details along with the derivation of estimates is found in the [Technical Appendix](#).

Figure 1

Net Cost of Universal Vouchers Compared to Budget Shortfall



Per Student Funding

Table 1

Per Student Funding	Elementary	Elementary Small School	High School	High School Small School
Districts ¹	\$6,483	\$7,531	\$7,162	\$8,342
Charters ²	\$7,740		\$8,620	
ESA voucher ³	\$6,966		\$7,758	

¹ District funding is subject to an equalization formula, so depending on property values, the state will contribute a varying amount. For small schools, GCI assumed the elementary and high schools had 400 students. Small school weights apply when a district has fewer than 600 students in either category.

² Charter schools can receive higher small school funding weights. However, with the consolidation of charters into larger entities, most charter schools do not qualify for higher weights, so the regular charter funding is used.

³ An ESA voucher is 90% of the charter funding amount.

District school funding is determined based on a weighted student count with the weights slightly higher for high schools than elementary schools. Small districts receive additional funding. In addition, districts receive a transportation allowance and district additional assistance. While the transportation allowance varies with the need of the students to be bussed, the district additional assistance is fixed at \$646 and \$769 for elementary and high school students, respectively. Notably, the local property tax base helps determine the degree to which the state general fund as opposed to local property taxes covers these amounts. For instance, in Scottsdale, due to high property values, the state contributes nothing to the base funding model. The state pays for 83.7% of the base funding in Globe Unified District which has a lower property tax base. . More extensive details on the district funding estimates can be found in the [Technical Appendix](#).

Charters can in some cases qualify for small school weights, but for this analysis the standard weights that are used for non-small districts were applied. Charters cannot access local revenue streams, so they receive more charter additional assistance in lieu of district additional assistance. The amounts in FY2024 were \$2,049 and \$2,388 for elementary and high school students, respectively. Charters do not receive transportation allotments.

The ESA vouchers are set at 90% of the charter funding amounts.

Both charter school funding and ESA funding comes fully from the state general fund. Consequently, if a student leaves a district school and uses an ESA, there is a net cost to the state general fund. Whereas, if a student moves from a charter school to an ESA, there is a modest savings to the state general fund.

The net cost is the greatest for students that never attended a district or charter school, as there is no offsetting amount. GCI estimates that 82% of universal ESA recipients never attended a district or charter school.

Net Cost of the Universal Vouchers

GCI used the second quarter FY2024 ESA report to represent the costs for the entire year. ESA enrollment has been growing since the start of the school year—though it tailed off in the fourth quarter slightly. GCI looked at the average enrollments during each quarter of the typical school year from August through May and found the midpoint from the end of the second quarter was representative of the entire year.

At the end of the second quarter of FY2024 (Dec. 2023), there were 17,492 students enrolled in the pre-universal targeted program and 54,028 students enrolled in the universal program. Almost all of the targeted students are required to have enrolled in a district or charter school for 45 days or more, whereas universal students have no such requirement. In practice, even the two categories exempt from the 45 days, children of military personnel and pre-school students with disabilities have significant numbers who attended district or charter schools beforehand. Generally, about 97% of the targeted students have attended district or charter schools. GCI

estimates that 64% of targeted participants who attended a public school came from district schools and 36% came from charters. While ESA reports from FY2021 to FY2022 and FY2023Q3 all provided a school associated with some students, GCI determined that these were schools the students originally attended, not necessarily the ones they last attended. Consequently, these reports understate the degree that targeted ESA students came from charter schools. More details in the [Technical Appendix](#).

Netting out these students with GCI's estimated growth distribution for targeted students provides an estimated district distribution for universal participants who came from public schools. Likewise, the universal estimates of charter attendance leave a remainder of students who are identified as having last attended a charter school before applying to the universal program. However, a huge number of universal participants never attended a public school. The estimate is detailed below in Table 2.

In addition, some students have ESAs while enrolled in Kindergarten. GCI looked at Kindergarten enrollment growth from FY2022Q4, the last quarter before universal ESAs and Kindergarten enrollment at the beginning of the school year in both FY2023 and FY2024. GCI estimated that 90% of the growth in Kindergarten was due to universal ESA students. GCI assumes these students have no greater proclivity to have attended district or charter schools than other universal ESA students. [ABC15](#) did an analysis of FY23 ESA expenditures and found little spent on private schools that did not focus on special needs students (e.g., autism). This suggests that relatively few of the Kindergarten students would have attended a public school. GCI has private school expenditure and student data for FY23 ESAs that will be the focus of a future report.

Table 2

	ESA Enrollment (est.)		
	Targeted Pre-Universal	Universal	Total
From Districts	10,620.	5,527 ⁴	16,147
From Charters	5,974.	4,317 ⁵	9,877
Never Attended	897	44,185	45,082

The net cost of universal vouchers is then estimated based on relative general fund costs to districts and charters. For estimated former district students enrolled in ESAs, GCI identified the

⁴ Includes an estimated 517 students who entered in Kindergarten who would have otherwise attended Districts in Fall 2022 and Fall 2023.

⁵ Includes an estimated 414 students who entered in Kindergarten who would have otherwise attended Charters in Fall 2022 and Fall 2023.

net cost relative to the specific district the student came from. For example, GCI estimates that 283 universal ESA students came from Scottsdale Unified, where the state pays nothing, so the net cost to the state was the entire average ESA voucher of \$7,136 per student or \$2 million. By contrast, GCI estimates that 4 students from Globe Unified enrolled in the universal ESA program. The average per student cost for Globe is higher because its high school students receive a small school weight. GCI also factors in a higher transportation cost. The net result is an average cost of \$6,883. However, the state pays for \$5,761 of that amount, so the per student loss to the General Fund is \$1,375 or \$5,500 total. GCI assumed that incoming Kindergarten students would have been distributed in the same manner as existing elementary schools—and estimated their cost accordingly.

For charter school transfers, the state saves a modest amount, as the ESA voucher amount is set at 90% of the charter payment formula.

Table 3

Net Universal ESA Voucher Cost in FY2024			
	Universal Enrollment	Net Cost Per Student	Total Cost
From Districts	5,527	\$3,240	\$16,275,484
From Charters	4,317	-\$793	-\$3,094,633
Never Attended	44,185	\$7,136	\$321,946,367
Administrative Costs for Universal ESA			\$2,300,000 ⁶
Total			\$332,083,817

As Table 3 illustrates, the total estimated net cost of the universal ESA voucher program, including the added administrative costs associated with ESA expansion for FY2024, amount to \$332 million.

Finally, on May 31, ADE sent a letter to the Joint Legislative Budget Committee, estimating that by the end of FY2025 ESA enrollment would reach 99,000 (see Appendix A). Assuming gradual growth from the current 75,257 enrollees and that 90% of that growth goes into the Universal ESA program, then GCI expects the average enrollment in Universal ESAs to rise from 54,028 as depicted in the 2024 quarter 2 report to 68,448 for FY2025. Under the renewal of Prop. 301 base funding for K-12 education will also rise by 2%. Likewise, GCI assumes that administrative costs proportionally increase relative to the overall increase in ESA enrollment. In which case, the program in FY2025 will have a net cost of about \$430 million, two-thirds of the size of the projected budget shortfall. Table 4 details this estimate.

⁶ Represents the increase in administrative costs from FY22 to FY23.

Table 4

Net Universal ESA Voucher Cost Projection for FY2025			
	Universal Enrollment	Net Cost Per Student	Total Cost
From Districts	7,002	\$3,304	\$23,136,128
From Charters	5,469	-\$809	-\$4,422,968
Never Attended	55,977	\$7,279	\$407,445,910
Administrative Costs for Universal ESA			\$2,874,622
Total			\$429,033,692

About

Dave Wells holds a Ph.D. in Political Economy and Public Policy and is the Research Director of the Grand Canyon Institute. He can be reached at dwells@azgci.org or (602) 595-1025 ext. 2.

Thanks to Curt Cardine, a Grand Canyon Institute Fellow, for his diligent work in assisting with database development on the ESA program.

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.

Grand Canyon Institute
P.O. Box 1008
Phoenix, Arizona 85001-1008
GrandCanyonInstitute.org

Appendix A



May 31, 2024

Richard Stavneak, Director
Joint Legislative Budget Committee
1716 West Adams Street
Phoenix, AZ 85007

Dear Director Stavneak,

Pursuant to Arizona Revised Statutes §15-2403(H), transmitted herewith is the estimate of the amount required to fund the Arizona Empowerment Scholarship Account (ESA) program in Fiscal Year 2025. The Department of Education estimates that in Fiscal Year 2025 the State will spend approximately \$864.4 million to fund Empowerment Scholarships for an estimated 99,000 students. The analysis to project funding necessary to cover the ESA program in FY25 includes PII information and will be redacted for confidentiality purposes before being sent separately.

It should be noted that any projections for ESA enrollment and associated funding is constrained by important factors. Specifically, there is less than 2 years of data pertaining to ESA enrollments after the program was expanded to include universal eligibility. The lack of a longer record of historical data because of the newness of the universal program constrains trend data that is highly valuable in making projections. Relatedly, the brevity of the universal program's existence makes projections of how the educational-provider landscape will change in the short or long term in response to the universal ESA program difficult. Factors like these are critical in making projections.

With each additional year that the ESA program operates and serves Arizona families, we will have better and more robust data on which to project future enrollments and program funding requirements.

Please do not hesitate to contact my office with any questions.

Sincerely,

Art Harding
Chief Operations Officer
Arizona Department of Education