

ESA Voucher Program FY2023: Where the Money Went

Executive Summary

Fiscal Year (FY) 2023 was the first year that Arizona's Empowerment Scholarship Account (ESA) voucher program was expanded from targeted populations, primarily special needs students, to universal eligibility. In addition, home-schoolers and in-home micro-schools became eligible for ESA vouchers.

As the Grand Canyon Institute (GCI) has already noted, the program's costs are a significant contributor to budget shortfalls, and failures to address this issue have led to exceptionally poor budget choices, such as taking \$115 million from opioid settlement dollars to balance the budget, when \$175 million sits unspent in ESA accounts.

The concept of ESA vouchers traces its roots to economist Milton Friedman, who advocated transparency and accountability for such programs. Contrary to this philosophy, Arizona has minimal to no transparency and accountability with its ESA program.

This report aims to improve the level of financial transparency by examining where the approximately \$415 million in overall ESA account allocations went during FY2023, the first year of the universal program.

- \$304 million was spent overall
- Significant expenses on items not clearly tied to educational curriculum as has been noted by the state Attorney General's office.¹
- \$173 million was spent on private schools, \$97 million (51%) of which went to religious schools and \$75 million (44%) went to schools serving special needs students
- Evangelical Christian and Catholic schools made up 86% of the religious school expenditures.
- An estimated \$111 million was added to "rollover accounts," which now amount to \$175 million that has accumulated in 60,000 ESA accounts; just over 1,000 accounts have a total of \$60 million.

¹ Office, of the Arizona Attorney General, Solicitor General's Office, Government Accountability Unit, July 1, 2024, [2024-07-01_PM2024-0008_Opening_Letter_and_Request_for_Information\(1\)-DocumentCloud](#).

Financial Oversight Recommendations:

- Audit all independent evaluations submitted to request eligibility for special needs children in the universal program to verify if criteria used is sufficiently consistent with the federal Individuals with Disabilities Education Act (IDEA).
- End the carry-over of ESA funds from year to year and sweep existing carry-over balances. This would return \$115 million swept from opioid settlement dollars and the rest to the General Fund.
- Audit educational expenditures approved to date relative to the educational needs of the child by the Auditor General.
- Require that ESA awards are contingent on education plans that thoroughly document how funds will be used to meet the educational needs of the child.
- Require parents to re-apply each year with an educational plan for the child along with documentation of results and an evaluation from the prior educational plan and changes being made (in the absence of any testing requirement).
- Require all vendors receiving \$200,000 or more in ESA funds to submit detailed independent audits that, like charter school audits, would be available for public review.
- Require that all private schools charging tuition for a comprehensive educational program that receive ESAs submit Annual Financial Reports, like charter schools.

Lack of Accountability

The notion of public funding for vouchers to cover private educational choices of parents traces its roots to economist Milton Friedman. “His case for parental choice was, at its core, about accountability,” notes pro-voucher Manhattan Institute scholar Nicole Stelle Garnett, a law professor at Notre Dame who also clerked for Supreme Court Justice Clarence Thomas. She goes on to point out that, “Many private schools—and those people who advocate for parental choice on their behalf—mistakenly oppose even minimal accountability requirements. Proponents of private-school choice would do well to acknowledge that it is not unreasonable to condition the participation in private-school-choice programs on some greater level of oversight.” Friedman believed that transparency and accountability were essential for parents to make informed choices.

Likewise, scholars at the pro-voucher Thomas Fordham Institute argue programs need to go beyond, “‘let parents vote with their feet and judge the school by whether anyone wants to attend it’ arguments and are doing more to assure parents and taxpayers that private schools accepting scholarship-bearing students will be held to certain expectations regarding how much those youngsters actually learn while enrolled.”

Yet, in Arizona, lawmakers have refused to provide anything more than the most basic transparency or accountability to the ESA voucher program, which raises numerous questions when one examines how the money has been spent.

Three Categories of ESA Uses of Funds

For FY2023, GCI analyzed enrollment data over the course of the year and estimates that the cost of the overall ESA program (both targeted and universal) was \$415 million. This is based on estimating the average ESA enrollment for each quarter, which is different from the end of quarter enrollment, times the average ESA cost of the quarter. The four quarter averages are then multiplied to get an annual cost.

Of that amount, \$304 million was spent, leaving about \$111 million that accumulated in individual ESA accounts. Of the \$304 million that was spent, just over half of that was spent on private schools that also receive STO scholarship funds.

In this report, GCI focuses primarily on where the unspent ESA funds accumulated and the private school recipients, both within and outside the group that also received STO scholarships. Established private schools are more likely to be receiving STO scholarship funds, as opposed to operations that have sprung up as a consequence of universal ESAs.

Costly Program

The ESA voucher program's enrollment has grown — and with it, its cost. In FY2023, the introduction of universal ESA vouchers was added to a previously targeted ESA program that primarily focused on special needs students (see Figure 1). As shown in Figure 2, however, at the same time the number of students receiving ESA awards in excess of \$30,000 has increased significantly in FY2022 and again in FY2023. This is partly due to increases in base funding amounts that moved special needs students into the higher threshold. However, it is also likely because the newly expanded universal ESA program allows families to use private evaluations to establish eligibility for a special needs voucher rather than requiring an evaluation by a school district. Private evaluations can be conducted by a psychiatrist, psychologist, or physician and do not necessarily follow the IDEA guidelines used by district schools when determining special needs status. While documentation is required, there should be a thorough auditing of that system to see whether the criteria being used is sufficiently consistent with district criteria.²

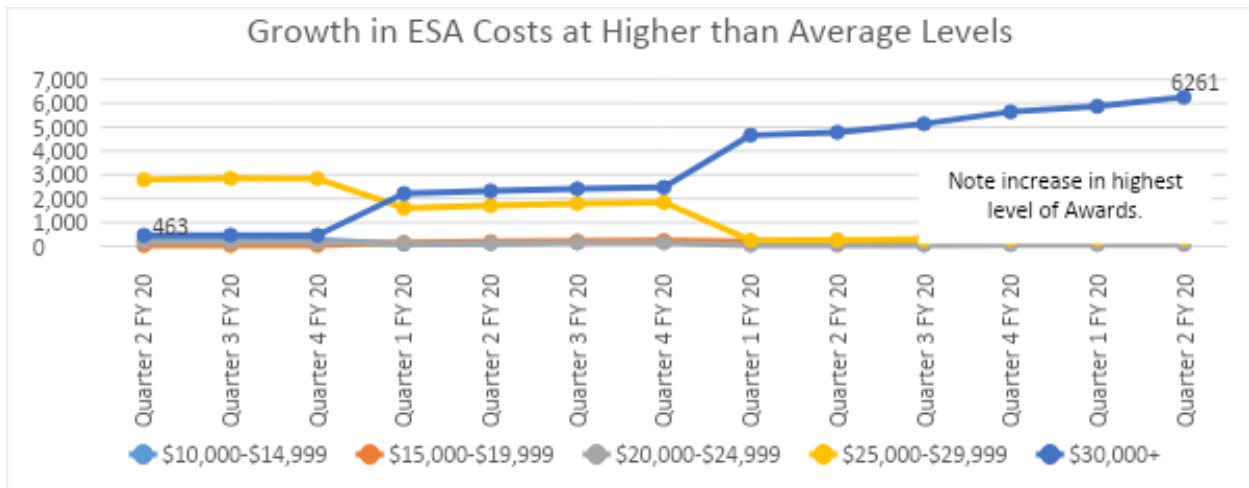
² ESA Guidance, Arizona Dept. of Education, <https://www.azed.gov/esa/esa-guidance>.

Figure 1: Growing use of ESAs



Source: Arizona Dept. of Education Reports on ESAs from QTR 2 of 2021 to Quarter 3 of 2024

Figure 2: Expansion Costs Showing Growth of Different Award Categories



Source: Arizona Dept. of Education Reports on ESAs from QTR 2 of 2021 to Quarter 3 of 2024

Recommendation:

- Audit all independent evaluations submitted to request eligibility for special needs children in the universal program to verify if criteria used is sufficiently consistent with the federal Individuals with Disabilities Education Act (IDEA).

Unspent Accumulating ESA Funds vs. Diverting Opioid Settlement Dollars

The intended use of ESAs is to educate a child, not to accumulate balances that carry over year over year. At the end of FY2023, ESA accounts held \$175 million in unspent funds. Meanwhile, the state government chose to divert \$115 million in opioid settlement funding to fund the state’s budget shortfall.

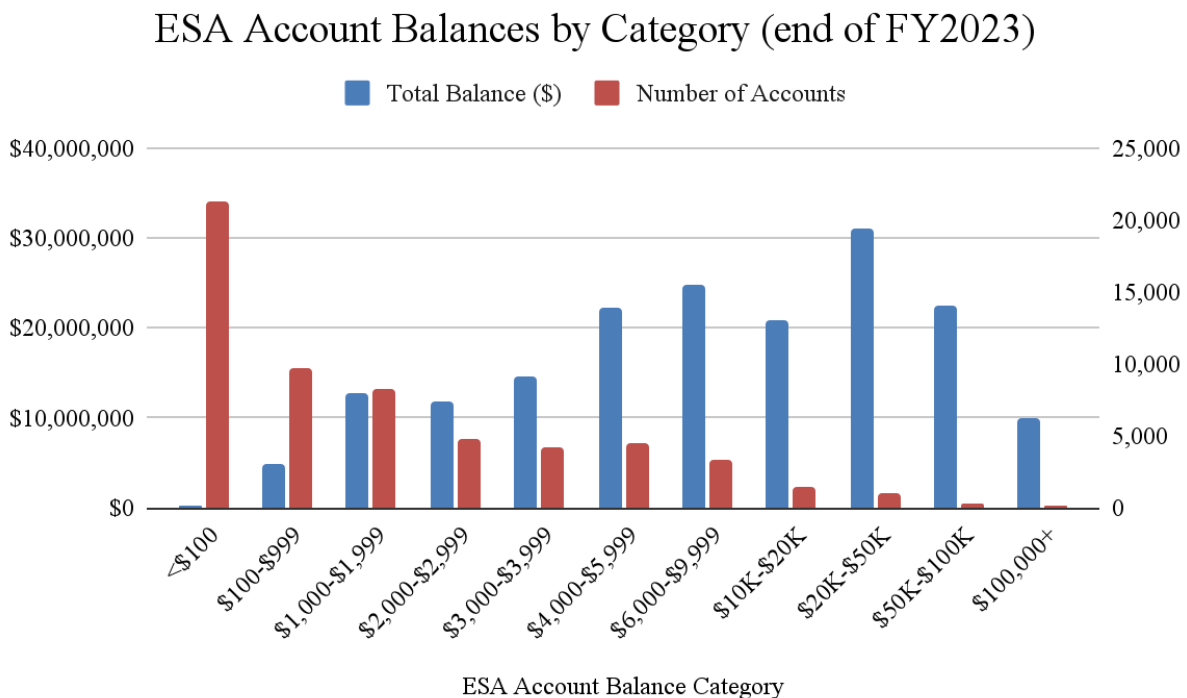
Dillon Rosenblatt publishes the Fourth Estate 48 which focuses on public records requests. He shared his public records results relating to these carryover balances with GCI, so GCI could perform a thorough analysis of that data.

GCI's analysis found:

- At the end of FY2023, about 60,000 ESA accounts had a total collective balance of \$175 million that was unspent and accumulating.
- 21,209 accounts had balances of less than \$100 and another 9,000 accounts had balances between \$100 and \$1,000.
- There were a significant number of accounts with large balances.
 - \$50 million is sitting in 20,000 accounts that have between \$1,000 and \$5,000 balances.
 - Another \$50 million is found in less than 2,500 accounts that have between \$10,000 and \$50,000 balances.
 - Another 420 accounts have \$32 million with balances between \$50,000 and \$210,000.

These results are summarized in the figure below.

Figure 3: ESA Account Balances Summarized I.e. Unspent Awards



These massive balances reflect significant differences between the state allocation to parents and what parents have chosen to expend. While some of the balances come from universal vouchers, the most significant ones are from children with special needs whose parents have been accumulating the money over a number of years.

GCI requested a copy of the audit of the ESA program months ago from the Arizona Dept. of Education and has yet to receive it.

There are 1,417 accounts with a balance of \$20,000 or more totaling \$63 million. This is likely the result of years of accumulated balances for special needs children enrolled in the ESA program including FY2023. That figure is consistent with the \$66 million estimated by GCI to have been the balance at the end of FY2022. Nonetheless, balances of such significance should be thoroughly reviewed. Arizona contracts with Class Wallet to administer expenses. Class Wallet takes a transaction fee of 2.5% on each transaction.³ The targeted ESA program needs better oversight of how parents plan to educate their children relative to their student's needs. Since there are no achievement metrics, outcomes are unknown.

GCI estimates that \$111 million accumulated in FY2023 from a prior balance of about \$64 million. Data for FY2024 will likely show a continued growth in account balances.

The failure to address the carry-over has already impacted the state budget as lawmakers and Governor Hobbs agreed to use \$115 million in opioid settlement dollars to fund the budget shortfall. While a judge has permitted this transfer to go forward⁴, it does not represent the best use of the settlement dollars—which should be used to address the public health crisis caused by opioid addiction—with a focus on treatment and prevention.

The opioid settlement that will eventually bring \$503 million to the state⁵ requires that 85 percent of the funds be used to address the opioid crisis. As Stephen Loyd, a physician, who is chair of the Opioid Abatement Council of Tennessee puts it, “You can’t just use it to balance your budget in your state.”⁶

What the state has argued is that spending the settlement dollars on the Arizona Dept. of Corrections is consistent with the settlement. Given that it will not be dedicated to substance abuse prevention for re-entry or dealing with underlying trauma and other causes of addiction, the argument is a stretch, but the lack of specificity in the settlement agreements may enable such misallocations to stand.⁷

³ GCI has evaluated how the corporation charged with managing Class Wallet is paid. Class Wallet has an arrangement that allows them to charge 2.5% of each transaction as a fee. Class Wallet is privately owned.

⁴ Fischer, Howard, KAWC News, “Arizona will get that opioid money after all to balance the budget,” June 25, 2024, [Arizona will get that opioid money after all to balance budget \(kawc.org\)](https://www.kawc.org/news/arizona-will-get-that-opioid-money-after-all-to-balance-budget).

⁵ Arizona Attorney General, Opioids: One Arizona Agreement, State, Coordinating a statewide strategy, [State | Arizona Attorney General \(azag.gov\)](https://www.azag.gov/newsroom/press-releases/2023/08/01/opioids-one-arizona-agreement)/

⁶ Dubner, Stephen, “Can \$55 Billion End the Opioid Epidemic,” Freakonomics Podcast, May 29, 2024, Episode 590, [Can \\$55 Billion End the Opioid Epidemic? - Freakonomics](https://www.freakonomics.com/podcast/can-55-billion-end-the-opioid-epidemic/).

⁷ [Can \\$55 Billion End the Opioid Epidemic? - Freakonomics](https://www.freakonomics.com/podcast/can-55-billion-end-the-opioid-epidemic/).

Recommendation:

- End the allowance of carry-over ESA funds—and sweep existing carry-over accounts. Use funds to return \$115 million swept from opioid settlement dollars and the rest to the General Fund.

ESA Funds Not Spent on Private Schools

ABC 15 received data on all the spending for the FY2023 and found \$304 million was spent with more than 14,000 vendors.⁸ They identified about \$100 million spent on various non-private school educational categories. The \$100 million broke out as \$53 million spent at businesses that sell school supplies and equipment and \$50 million spent on “educational” activities. Presumably this category included some of the more controversial expenditures such as expensive ballet shoes and musical instruments that apparently have sometimes exceeded \$2,000.⁹ Additional reports indicate ESAs used for expensive, intricate Lego sets and collectible items. Channel 12 news reported that \$1 million was spent on Lego sets, about half of which was spent on Lego sets that cost more than \$100 each. The April 2023 to January 2024 Lego purchases (which extends to FY2024) can be found [here](#), courtesy of Dillon Rosenblatt of Fourth Estate 48.

Recommendations:

- ESA awards should be contingent on education plans that thoroughly document how they will meet the educational needs of the child
- Require parents to re-apply each year with an educational plan for the child along with documentation of results and an evaluation from the prior educational plan and changes being made (in the absence of any testing requirement).
- An audit of educational expenditures approved to date relative to the educational needs of the child by the Auditor General.

GCI’s Data on ESA Vouchers

GCI made a data request to the Office of the Treasurer seeking the names of private schools and the amount each received in FY2023. While GCI received data for \$196 million, some of the entities included were not fully private schools, but providers of some school-like services: martial arts, dance, theater, art, etc. Such entities may have been also represented in the \$108 million in expenses (totaling \$304 million) that were not part of what GCI requested, so the report focuses on the \$173 million spent on private schools. GCI requested the same data for

⁸ Blasius, Melissa and Garret Archer, “Arizona Empowerment Scholarships: What \$304 million bought,” ABD 15 Investigations, Oct. 2, 2023, [Arizona Empowerment Scholarships: What \\$304 million bought \(abc15.com\)](#).

⁹ Sullivan, Nick, “Arizona Board of Education rejects school voucher bon on luxury items, other changes,” Arizona Republic, March 28, 2024, [Arizona Board of Education rejects limits on ESA school vouchers \(azcentral.com\)](#).

FY2022, the year before universal vouchers, in April, but has not received anything as of this date.

Charter School v. Private (non-charter) School Financial Accountability

Charter schools are generally privately owned public schools—meaning they cannot exclude students and must follow the state’s curricular requirements. They are typically nonprofit, even if they funnel most of their state funds to a “for-profit” affiliated charter management organization. Consequently, they file IRS 990s that give some insight into how they spend money. In addition, while there have been challenges with consistency in coding, charters also file public annual financial reports (AFRs) with the Arizona Dept. of Education. In addition, each year charter schools must also file an audit with the charter board. While the audits vary in level of detail provided, collectively these provide some measure of public transparency. Private schools that are non-profit and secular must file an IRS 990, but do not file AFRs or provide publicly-available audits. Religious private schools have no public accountability at all, as they are not even required to file an IRS 990 form.

Recommendations:

- Require all vendors receiving \$200,000 or more in ESA funds to submit detailed independent audits that, like charter school audits, would be available for public review.
- All private schools charging tuition for a comprehensive educational program that receive ESAs should be required to submit annual financial reports that would be publicly available like charter schools.

ESA Funded Schools

GCI broke the \$173 million that went to private schools into categories as shown in Figure 4.¹⁰ The primary categories are religious schools that accounted for 51% of funding or \$96.2 million (plus most of the closed sites)¹¹. Schools serving special needs students accounted for 44% of funding or \$75.5 million. Secular private schools received less than 5% of private school ESA dollars, \$7.8 million.

Figure 5 focuses on just the private schools receiving funding outside of schools focusing on special education. Here dramatic amounts go to Christian Evangelical schools, which come from multiple denominations, but share in common a curriculum that was Bible-centered combined with a statement of faith that the Bible was the infallible word of God. These schools typically indicate they infuse their Biblical beliefs

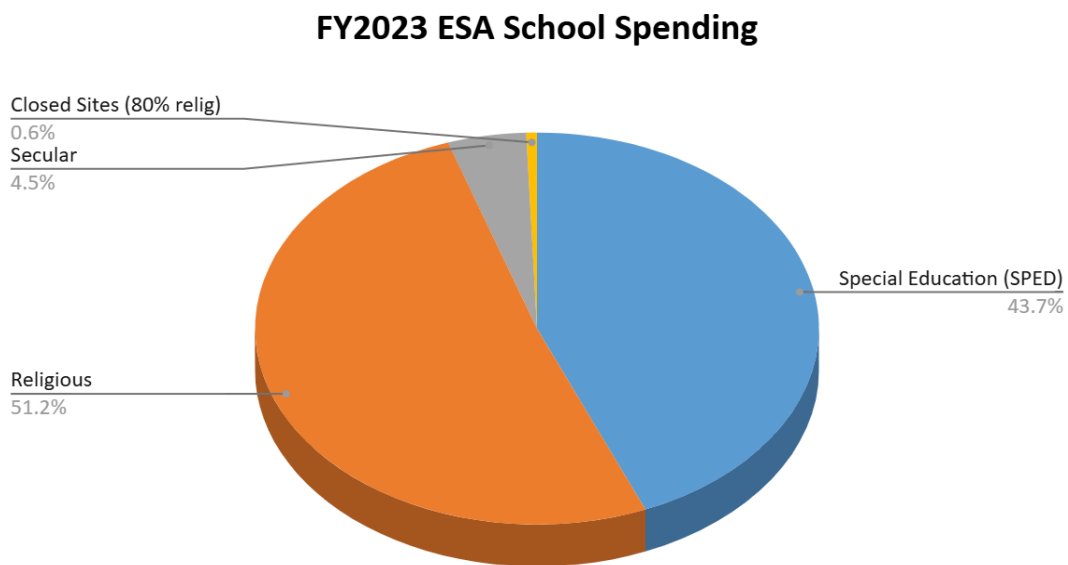
¹⁰ ABC 15 reported slightly different numbers, as ABC 15 did not share their derivation, GCI cannot comment on it fully. They noted a higher amount, \$91 million for speciality schools. GCI suspects that included services that GCI omitted. They noted a similar amount on private religious schools (\$89 million). GCI included Catholic pre-schools and online schools to get its slightly higher figure (\$35 million vs. \$32 million). The discrepancy on Protestant and non-denominational Christian schools is unclear (ABC 15 had \$57 million). Likewise, ABC 15 reported slightly higher amounts on secular schools. GCI visited every school website in its evaluation process.

¹¹ An additional \$1.06 million was spent on sites that have since closed, over 80% of those dollars went to religious schools. However, since GCI could not explore them more deeply, they are excluded from the calculations.

into all courses and use curriculum from places like Accelerated Christian Education from the School of Tomorrow¹², Abeka¹³, or Bob Jones University.¹⁴

The second highest recipients are schools associated with the Catholic Church, trailing far behind are other Protestant church schools, Latter Day Saints schools (which could be combined with other Protestant), secular schools (largely Montessori), Jewish schools and Muslim schools (the latter being so small it does not appear on the pie chart).

Figure 4: FY2023 ESA Spending on Schools



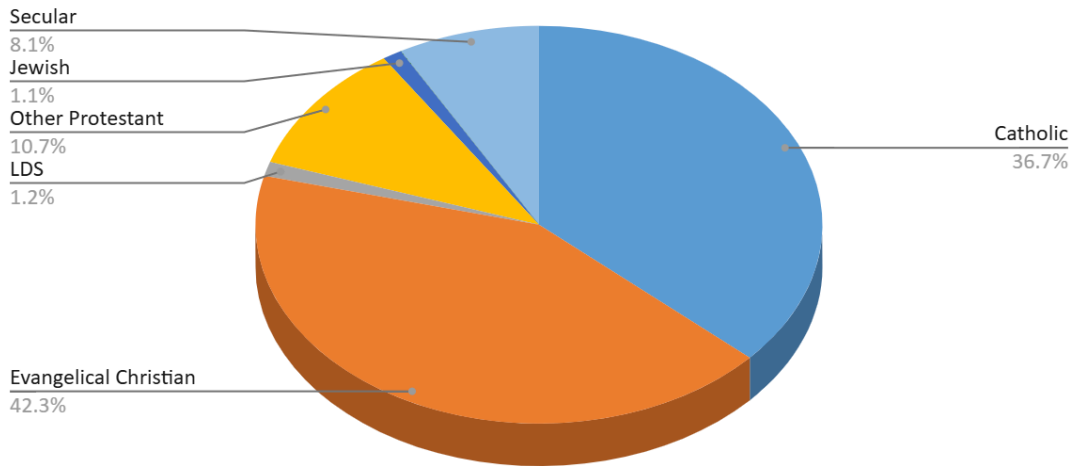
¹² [A.C.E. School of Tomorrow \(aceschooloftomorrow.com\)](http://aceschooloftomorrow.com)

¹³ [Abeka | Christian School](#)

¹⁴ [Christian Textbooks | BJU Press](#)

Figure 5: Distribution of ESA Dollars FY2023 Among Religious Private Schools

Distribution of Regular Education ESA Private School Dollars FY2023



Conclusion

Arizona's ESA voucher program suffers from a significant lack of financial transparency and accountability. Parents have been permitted to accumulate \$175 million of unspent ESA funding at the same time the state was robbing the opioid settlement of \$115 million to balance the state budget.

The significant rise in high-value ESA awards for special needs children who have not gone through the traditional IDEA evaluation process in districts indicates a need for a thorough audit to determine whether or not some ESA awards under the universal program have been excessive.

Improvements in educational plan oversight would ensure that expenses made on behalf of children with taxpayer dollars are actually meeting their educational needs.

Finally, the state needs to do more to ensure that vendors have publicly available audits and private schools receiving ESA dollars are submitting public annual financial reports.

About

Curtis Cardine, GCI Research Associate has over 50 years in education with a concentration in school finances. He holds an MA in Organizational Change and advanced degree in Leadership and change. His background includes creating public school charters and served

as a teacher, principal and superintendent in charter and public schools. He attended private religious schools during his elementary and high school years which were funded by his parents. He can be reached at ccardine@azgci.org.

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.

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
GrandCanyonInsitute.org