



GRAND CANYON
I N S T I T U T E

Policy Report

Sept. 17, 2024

ESA Voucher Accounts Had \$360 Million Unspent, While the State Pulls Funds from the Opioid Settlement

At the end of June, Empowerment Scholarship Account (ESA) vouchers have accumulated \$360 million in funds, including those carried over from prior fiscal years, that have gone unspent by the parents who manage these accounts, based on the latest report from the Arizona Dept. of Education (ADE). This amount sharply contrasts with \$115 million in opioid settlement funds that state government officials diverted from community investments to cover prison operation costs due to a state budget deficit, driven in part by the lack of forward planning to cover the cost of the universal ESA voucher program.

The FY2024, [Quarter 4 ESA Report Pursuant to Arizona Revised Statutes 15-2406](#) was published at the start of the month, enabling an analysis of how much ESA voucher dollars were expended with the remainder accumulating in parent accounts.

When the Arizona Department of Education (ADE) provides an ESA voucher, the total dollar amount each quarter goes directly to the parent's account. The intended use of ESA vouchers is to educate a child, not to accumulate balances that carry over year over year. But increasingly students are receiving very high voucher amounts that parents accumulate rather than spend on their child's education. As the system is now set up, these unused dollars cannot be allocated to another child or refunded to finance public education unless the student withdraws from the ESA program and does not re-enroll. [These funds remain available after graduation](#) and can be used to [pay for college, including expensive private universities](#), something that non-ESA parents cannot access.

At the same time, Arizona is raiding dollars from the Opioid settlement money to make up for shortfalls in the state's general fund.

Recommendations:

- Audit all independent evaluations submitted to request eligibility for special needs children in the universal program to verify if the criteria used are 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 to be conducted by the Auditor General.

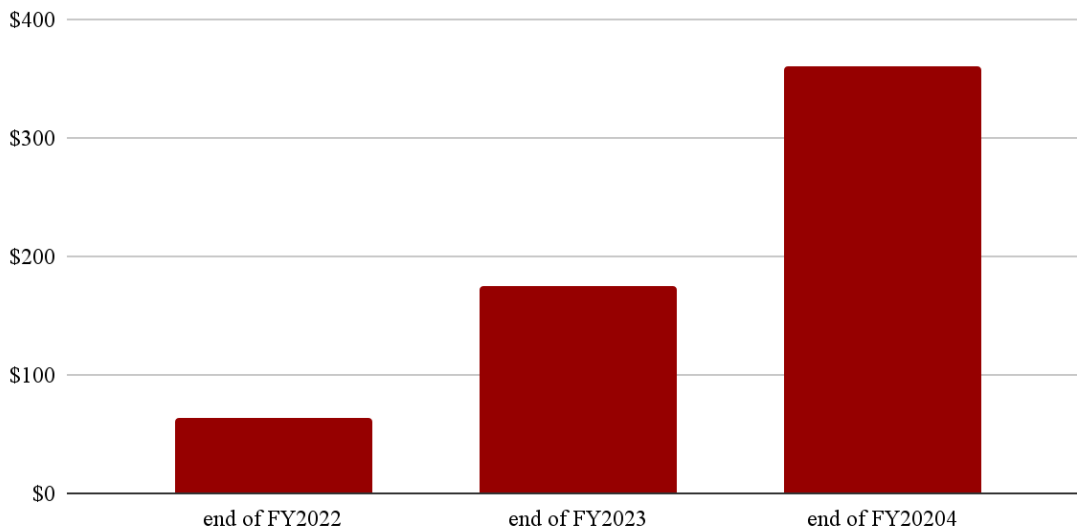
- Require that ESA awards are contingent on education plans that thoroughly document how funds will be used to meet the educational needs of the child.
- Require parents to re-apply each year with an educational plan for the child along with documentation of results and an evaluation from the prior educational plan and changes being made (in the absence of any testing requirement).

Analysis

As the Grand Canyon Institute (GCI) reported in its [August 1, 2024 report](#) at the end of FY2023, unspent ESA voucher balances amounted to \$175 million with \$111 million of that accumulated from FY2023 allocations. Based on the [ARS 15-2406 Quarterly Reports](#) in FY2024, \$533 million was spent from ESA accounts, yet the [FY2025 Appropriations Report](#) noted that for FY2024 that \$718 was allocated to parents in ESA voucher accounts. Presumably, the difference, \$185 million, has accumulated in ESA voucher accounts, leading to a total of \$360 million.

Accumulated ESA Account Balances

millions of dollars



GCI recommends the legislature end the allowance of carry-over funds and return \$360 million to the General Fund, so the state does not raid opioid settlement dollars or remove funds from ongoing appropriations for schools serving lower-income students as was done in the last budget cycle. The table below shows the results pulled from the [FY2024 quarterly ESA reports](#).

Full details for FY2024:

2024	ESA Award Total			\$717,620,200
	Spent (Table 9)	Spent (Table 10)	Sum	Total Expended
2024Q1	\$126,162,709	\$7,882,727	\$134,045,436	
2024Q2	\$102,948,813	\$7,355,523	\$102,948,813	
2024Q3	\$13,896,255	\$118,906,251	\$132,802,506	
2024Q4	\$21,903,784	\$141,496,648	\$163,400,432	

Table 9: Number of and Amount Spent on Approved Expenses by Type Q1&Q2

Table 9: Number and Amount Spent on Approved Items in Class Wallet Marketplace Q3&Q4

Table 10: Number of and Amount Spent on Approved Expenses by Type Q1&Q2

Table 10 Number of and Amount Spent on Approved Pay Vendor, Reimbursement and Debit Card Orders by Category Q3&Q4

ESA Funds Accumulating Most in High Voucher Amount Accounts

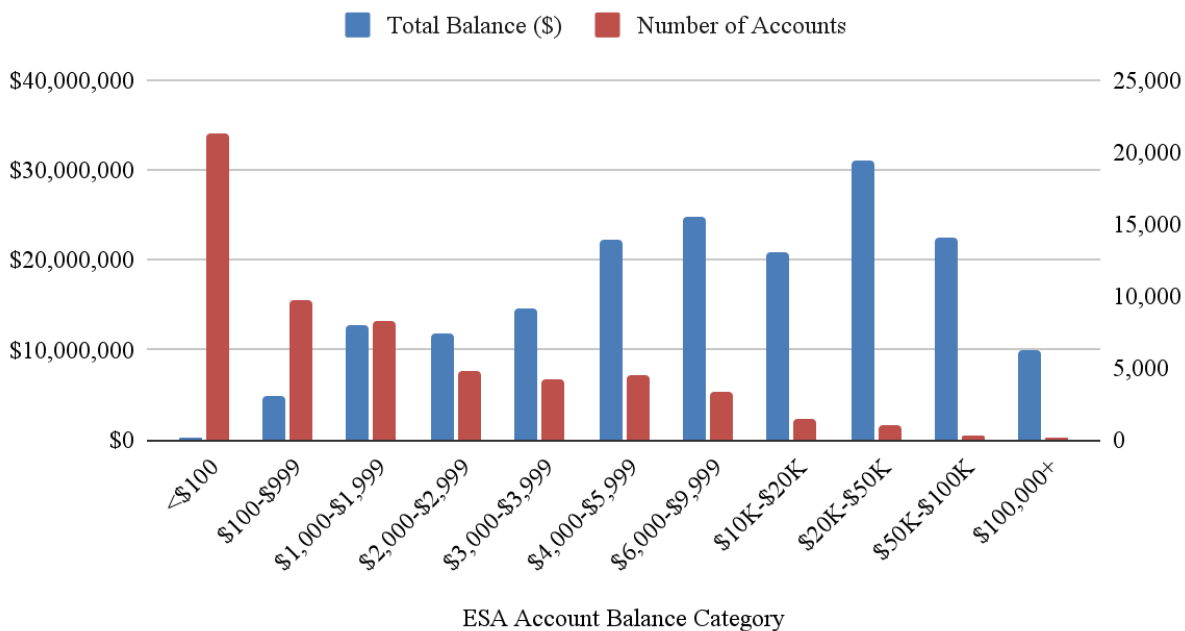
Dillon Rosenblatt publishes the Fourth Estate 48 which focuses on public records requests. He shared his public records results relating to these carryover balances with GCI for FY2023, so GCI could perform a thorough analysis of that data. GCI has requested the same data for the end of FY2024, but likely will not receive it for several months.

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.

ESA Account Balances by Category (end of FY2023)



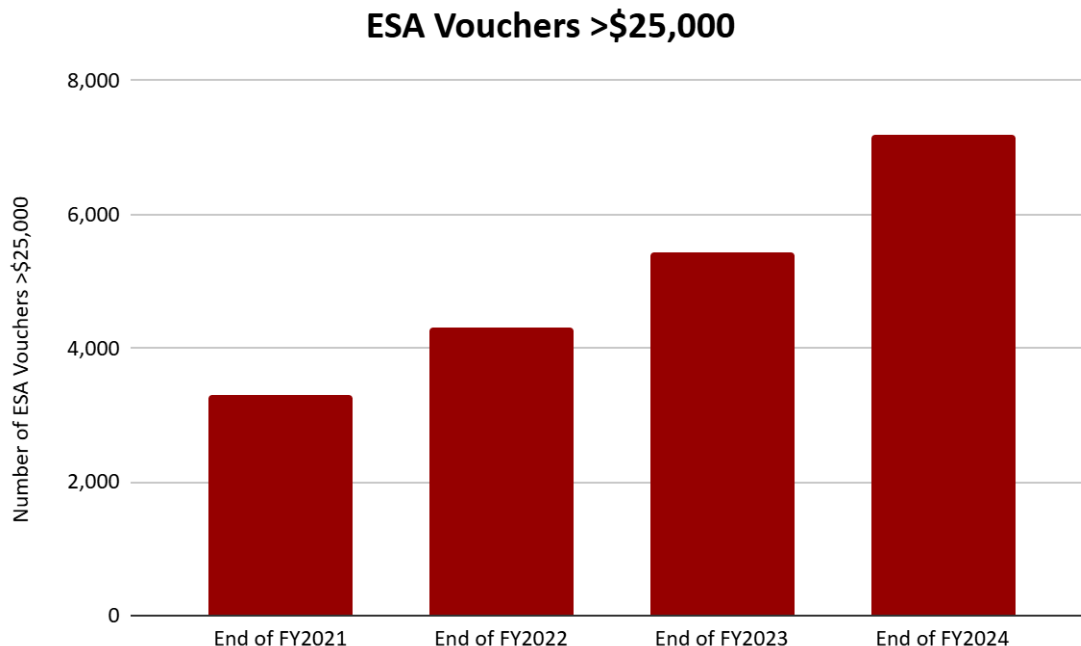
These massive balances reflect significant differences between the state allocation to parents and what parents have chosen to expend. While some of the balances come from universal vouchers, the most significant ones are from children with special needs whose parents have been accumulating the money over a number of years. However, an increasing portion of these children are likely also receiving higher ESA universal voucher amounts due to lower oversight of the Special Needs assessment process.

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.¹

At the end of FY2023, there were 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.² 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.

¹ ESA Guidance, Arizona Dept. of Education, <https://www.azed.gov/esa/esa-guidance>.

² 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.



GCI estimates that \$111 million accumulated in FY2023 from a prior balance of about \$64 million with the increase being partly attributed to universal vouchers..

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 state's budget shortfall. While a judge has permitted this transfer to go forward³, 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 state⁴ 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.”⁵

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.⁶

³ 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).

⁴ Arizona Attorney General, Opioids: One Arizona Agreement, State, Coordinating a statewide strategy, [State | Arizona Attorney General \(azag.gov\)](https://www.azag.gov/newsroom/opioids-one-arizona-agreement)/

⁵ 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/).

⁶ [Can \\$55 Billion End the Opioid Epidemic? - Freakonomics](https://www.freakonomics.com/podcast/can-55-billion-end-the-opioid-epidemic/).

About

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