

Arizona K-12 Funding & Enrollment Changes Since FY2019 Including After Universal ESA Expansion

January 11, 2023

Summary & Key Findings

Since the 2019 school year, enrollment across the spectrum of education in Arizona has changed dramatically. District enrollment has fallen precipitously and is down more than 70,000 students against the last pre-pandemic projections of the non-partisan Joint Legislative Budget Committee. Actual public district school enrollment has declined by nearly 31,000 students since 2019, according to Arizona Department of Education (“ADE”)ⁱ data. Over the same period, public charter school enrollment has increased by about 20,000 students, and since last year another 20,000 students appear on track to enroll in the state’s Empowerment Scholarship Account (“ESA”) program. The ESA program allows parents to apply for a portion of the funding a student would receive if attending a public school, and use the funds for tuition or other education expenses. In short, the data suggests changes since 2020 may reflect not an overall “loss” of students, but a demand shift away from traditional public district schools and towards alternatives like public charter schools, homeschooling, and other options.

Arizona’s combination of open enrollment, district and charter per-pupil public school funding formulas, and ESA programs were all attempts to institutionalize the idea that State funding support for primary education should follow the student. As students move around in the public education system – between districts and charters, e.g. - funding follows that student, but aggregate K-12 spending remains unchanged. The ESA program adds a third lane for this movement of money – providing students with additional options without necessarily increasing (or decreasing) aggregate system-wide funding. Since 2020 and universal ESA expansion in 2021, there has not in fact been a *net increase* in aggregate education spending (given various projections, population growth, and enrollment trends), but a change in where existing funding is being allocated.

CSI’s preliminary analysis of these changes in enrollment trends and the subsequent funding shifts over the last few school years found that:

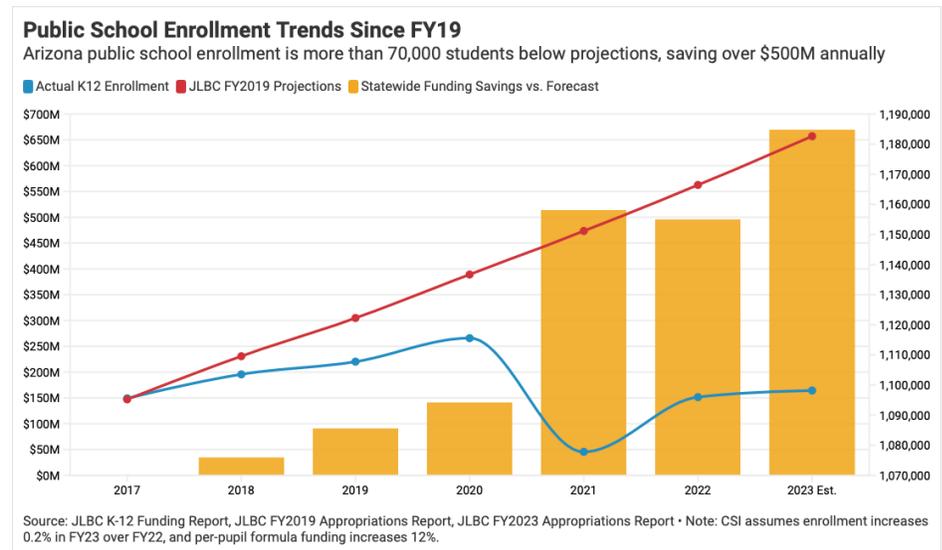
- Public school enrollment experienced significant declines during the pandemic period and is now more than 70,000 students below FY2019 budget projections. **This enrollment decline generates over \$500 million in annual statewide savings.**
- Based on current data, the increase in annual ESA program costs attributable to universal eligibility is \$197.9 million. Existing program costs add another approximately \$179 million, for a total cost of about \$377 million. While the cost of the ESA’s program under universal eligibility exceeds the additional \$33 million initially appropriated by the Legislature, the Arizona Department of Education likely has sufficient excess funding to more than cover the difference, due to continued post-pandemic enrollment declines. **CSI estimates that, as of quarter 1, ADE data suggest an \$8 million end-of-year Agency General Fund budget surplus, given system-wide enrollment trends.**
- Although it is increasingly unlikely that student enrollment will return to pre-pandemic levels, State policymakers have continued to fund the statewide K-12 funding formula as though it will. This has resulted in massive state General Fund surpluses (\$389 million last fiscal year alone – or enough to pay for more than 33,000 Empowerment Scholarship Accounts) and will help support ESA cost growth. This analysis does not contemplate additional local funding and other fund savings from these enrollment declines.

- Based on data from the first quarter, ADE likely has sufficient General Fund appropriations to cover the costs of ESAs within its existing budget. ESA program cost growth should be considered within a broader trend in changing parent behavior and student enrollment after 2020, and the implications of those choices on public expenditures.

The decision of many public-school districts to close or otherwise disrupt their traditional academic experience during the pandemic period appears to have substantially impacted parent behavior, and response to universal ESA expansion may simply be enabling parents who have – for various reasons – exited their district school since 2020 to continue accessing some of the state support they would have already been eligible for, had they remained at their district schools.

ESA Program Background

The Empowerment Scholarship Account program was created in 2012 to provide eligible participants with 90% of the money their district or charter school would have received in basic formula funding had they enrolled in a local public school. Rather than going directly to the public district or public charter school, the funds are placed in a financial account that the parent or beneficiary can access to pay eligible education costs. Pursuant to A.R.S. § 15-2402, eligible education costs include tuition, textbooks and



classroom supplies, tutoring, and other similar goods and services. ESA programs cover a much broader range of educational choices than simply private school tuition, and traditionally a disproportionate share of program beneficiaries have been severely disabled or had highly specialized learning needs.

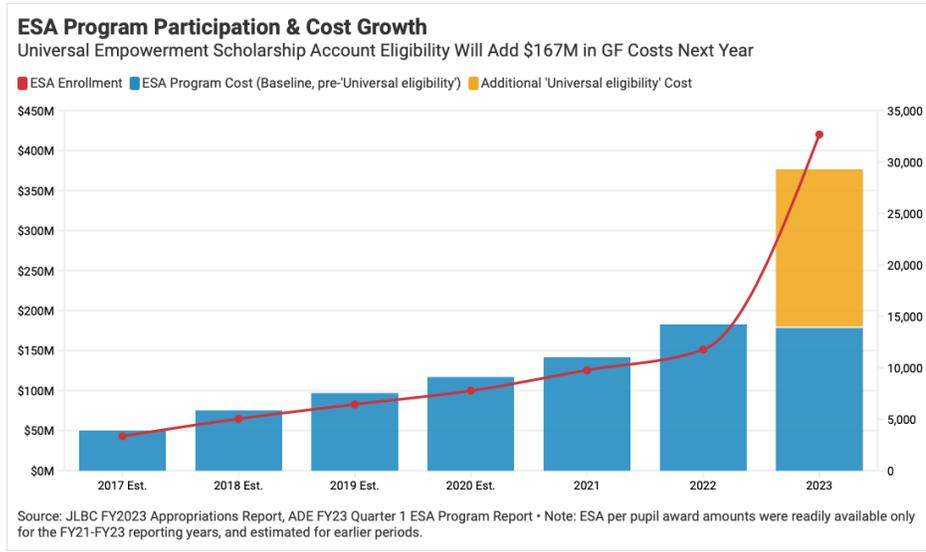
To access funds in the account, beneficiaries must submit auditable invoices that establish both the amount and eligible nature of the expense. Funds are disbursed quarterly to eligible students via an intermediary financial services account, for a period of one year. Participation must be renewed (and eligibility re-established) annually, and unused funds roll over at the end of each disbursement period. Once a student graduates or otherwise becomes ineligible, they no longer receive new funding but may continue to use existing funding for eligible expenses.

The ESA program is administered by the Arizona Department of Education, with oversight by the State Board of Education. Parents and beneficiaries may appeal the administrative decisions of ADE to the State Board. Prior to universal eligibility in 2022, participants had to establish entitlement via one of 11 statutory categories, including serious disability or attendance at a failing public school.

Notably, the ESA program, Basic State Aid for District and Charter schools, Additional Assistance, and other state General Fund program lines are all contained within a single large (nearly \$7 billion) state General Fund appropriation. While the legislature estimates funding needs for the individual programs in developing the annual state budget appropriations, it's not necessary that these estimates be correct –

surpluses in one line can and regularly are used to cover shortfalls in other areas. This is routine, and it would not be unusual if surpluses from enrollment declines were used to cover ESA program shortfalls. Further, because public district and public charter schools may run programs that serve non-enrolled students (including ESA recipients, who pay for the services with their ESA funds), the state’s public schools are able to benefit from some of the expanded ESA funding.

CSI Analysis



Empowerment Scholarship Accounts provide eligible parents who choose not to enroll their child in public school with 90% of the students’ value in the statewide equalization funding formula: the amount of per-student formula funding the child would have received had they been enrolled in a district or charter school. While the average award amount is substantial (over \$15,000 in 2022), this value is pulled higher by a relatively small number of disabled students who qualify for

particularly large awards (and have historically made up a significant share of total ESA program participants – 60% in 2021ⁱⁱ). **Excluding students with a disability, average ESAs last year were about \$7,000, and this value is indeed comparable to the average marginal formula cost of one more student attending a public district or charter school in Arizona (\$7,047 in 2022ⁱⁱⁱ).**

In 2019, there were 6,450 students enrolled in the ESA program. Common Sense Institute estimates that the program then cost about \$97.1 million. Since then, expansions to program eligibility criteria have resulted in substantial program growth. For the period ending in 2022, the program grew at an average annual rate of 22%. For the 2023 fiscal and academic year, the program is on track to more than double in size, to 32,682 participants (following passage of the ‘universal eligibility’ expansion)^{iv}. According to data provided by the Arizona Department of Education^v, program costs this year will grow to approximately \$377.1 million^{vi}. Unlike public district K-12 funding, but similar to public charter school funding, all ESA program costs are borne by the State General Fund.

While total program participation will increase dramatically in the coming year due to the universal eligibility criteria created in [HB 2853](#) (+178%), the General Fund (GF) cost attributable to universal eligibility will increase by \$197.9 million (+106%) – a substantial amount but less than the proportionate increase in participation (and less than the surplus created by district enrollment declines). This is in part because (as discussed above) a significant fraction of historical participation was by high-formula-cost students with, for example, a high cost disability. Applicants under universal eligibility are more like the typical public-school student in terms of formula weight, and as a result the average ESA award will fall more than 27% next year according to ADE.

This means that relative to budget estimates of a \$33.4 million increase in GF costs due to ESA expansion, the unanticipated net spending increase is \$164.5 million – again a substantial amount but not unmanageable given that JLBC now projects a General Fund cash balance of over \$4 *billion* in FY23^{vii}.

What's more, ESA program cost growth is dwarfed by public school enrollment cost savings. Since 2020, public school enrollment has continued to come in well below budget expectations, and these shortfalls generate significant savings for state and local taxpayers, and the state General Fund. In fact, there are 13,000 fewer Arizona district and charter school students today than there were during the 2020 academic year (and more than 31,000 fewer district students, all despite 2.1% population growth). Compared to JLBC forecasts in the [FY2019 budget](#) – the last pre-pandemic year – the declines are even more dramatic, and the state is somewhere between 70,460 and 84,450 students below forecast (-7.1%). Public school enrollment has been effectively flat over the past decade, despite rapid population growth.

Enrollment declines relative to pre-pandemic budget projections have generated a cumulative ongoing annual savings of over \$500 million (about 60% of which should accrue directly to the General Fund). While these savings have contributed to the state's substantial cash reserves, prior to FY 2023 the ongoing share went unspent. For example, according to the FY2023 Appropriations Report, the State General Fund over-budgeted for district and charter school enrollment in FY2022 alone by \$389 million^{viii}. While the newly enacted FY2023 budget acknowledges the decline in annual enrollment growth, the base adjustment totaled only \$244.6 million, likely creating a significant carryforward in the K-12 budget.

Assuming a \$197.9 million GF cost increase to support universal ESA eligibility, policymakers can still expect *net* aggregate statewide education cost savings of over \$274 million, relative to pre-pandemic enrollment assumptions. After accounting for an assumed 61% split between local and General Fund savings, the \$244.6 million claw back in the FY 2023 budget, and the \$33.4 million increase in ESA costs budgeted for, **the General Fund is still likely to come out \$8.4 million ahead of budgeted spending at the end of FY 2023.** This is due in part to the fact that – through November – aggregate enrollment growth at the state's district and charter schools has only been 0.2%, versus the 1.1% growth assumed in the FY 2023 budget. The 10,000 student gap implied by that difference further suggests that:

- Pandemic-era enrollment declines are permanent and ongoing, reflecting an apparently lasting shift in student demand for alternative sources of K-12 education. In fact, the shift extends beyond Arizona and is consistent with nationwide trends (the number of homeschooled students in the United States doubled since the pandemic)^{ix}.
- According to JLBC, total K-12 public school funding (excluding the ESA program and federal funding) is nearly \$13 billion. Even post-expansion, **total ESA program costs will still be less than 3% of total public K-12 funding.**

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ⁱ [“Graduation Rate, Drop Rate, and Enrollment Reports.”](#) *Arizona Department of Education*. Accessed on January 4, 2023.

ⁱⁱ O’Brien, Teri. [“ESA Quarterly Report to the Arizona State Board of Education.”](#) *Arizona Department of Education*. July 26, 2021.

ⁱⁱⁱ [“K-12 Funding \(M&O, Capital and Other\)”](#). *Joint Legislative Budget Committee*. August 31st, 2022.

^{iv} According to ADE’s quarterly report on ESA enrollment, in Q1 of the 2023 school year the ESA program had 30,471 participants. CSI assumes participation will increase another 7.3% over the rest of the academic year (based on historical trends).

^v O’Brien, Teri. [“ESA Quarterly Report to the Arizona State Board of Education”](#). *Arizona Department of Education*. November 28, 2022.

^{vi} According to ADE’s quarterly report on ESA enrollment, in Q1 of the 2023 school year the ESA program was on track to make \$345.3 million worth of awards. CSI assumes, given both historical participation and award growth over the rest of the year following release of ADE’s first report, this value will increase another 9.2% over the remainder of the academic year (7.3% + 1.9%).

^{vii} [“JLBC Staff – October Budget Update”](#). *Joint Legislative Budget Committee*. October 6th, 2022.

^{viii} [“FY 2023 Appropriations Report – Department of Education”](#). *Joint Legislative Budget Committee*. August 1st, 2022.

^{ix} Panders, Erica. [“America’s public schools are losing students”](#). *Axios*. January 8, 2022.