

Empowerment Scholarship Account (ESA) Funding Report Background

1. A.R.S. § 15-2403H requires the Arizona Department of Education (ADE) annually by May 30th to “furnish to the Joint Legislative Budget Committee (JLBC) an estimate of the amount required to fund Arizona empowerment scholarship accounts for the following fiscal year.”
2. After reviewing the ADE submission, we do not yet have enough actual data to revise any of the budget assumptions concerning the ESA program.
3. In its May 30, 2023 report (see attached), ADE estimates total ESA enrollment will reach 100,000 by the end of FY 2024. The report does not delineate between enrollment in the universal ESA program compared with individuals who were already eligible prior to the expansion (the "original" ESA program). The report also does not detail the methodology used in developing the enrollment estimate. We have asked the department for additional information concerning their estimates.
4. The enacted FY 2024 budget incorporated the JLBC January Baseline estimates of ESA participation, which assumed total enrollment would reach 68,400 in FY 2024, including 15,900 in the original program and 52,500 in the universal program. Since January, we have labeled the universal estimates as “highly speculative” due to an uncertain participation rate among existing private/homeschool students and newly eligible public school students.
5. ADE’s report notes that actual current total ESA program enrollment is 57,900. This current participation level is (10,500) below the enacted budget assumption and (42,100) below ADE’s FY 2024 estimate of 100,000 enrollees.
6. ADE's report does not provide a methodology for its 100,000-enrollment estimate. But as we noted above, any FY 2024 projection is highly speculative. As a result, we will only have a basis for revising ESA projections once we receive actual FY 2024 enrollment figures.
7. We anticipate having more information on actual ESA enrollment by mid-July when ADE begins making distributions to active ESA accounts for FY 2024. Given that Arizona public schools typically begin in July or August, we expect most prospective ESA enrollees will have decided whether to enroll in a public school or the ESA program by that time. There still, however, could be ESA enrollment adjustments later in the year, since pupils may apply for an ESA at any time.
8. Actual enrollment estimates, however, are only a component of determining the fiscal impact on the ADE budget. Any fiscal implications will be clearer later this fall.
9. If ADE's 100,000 ESA enrollment estimate were to materialize, the department estimates the enrollees would generate \$900 million of ESA awards in FY 2024. The \$900 million, however, represents the gross cost of all ESA awards and not the net fiscal impact on ADE's FY 2024 expenses. The net impact would depend on what share of new universal ESA enrollees switched from a public school. Any switchers would result in district/charter savings that would mostly offset the cost of their ESA award.
10. ADE's report states that "many of the students that are enrolling now are coming from the public school system" to the ESA program, but does not specify the percentage. We understand that ADE has informal estimates of switcher participation. We are reaching out to the department to determine how they will verify that a new FY 2024 ESA student was in the public school system in FY 2023.

11. Actual FY 2024 district/charter enrollment data will provide the best data regarding the impact of switcher participation. We hope to have good preliminary information on public school enrollment starting in November. We will begin at that point to have solid evidence of what adjustments, if any, ADE would require to its original FY 2024 appropriation. Given that public school enrollment is influenced by multiple factors, we may not be able to determine specific share of public school enrollment changes attributable to the ESA program.

12. The overall General Fund net impact of increasing ESA program enrollment may also be reduced if it lowers participation in the individual and corporate income tax credit programs for donations to school tuition organizations (STOs) that provide scholarships to private school students. State law prohibits simultaneous participation in the ESA program and the STO program. In FY 2022, STOs provided \$218.1 million of scholarships to private school students. If more students opt to participate in the ESA program instead of the STO program, state tax revenues may increase due to declining use of the STO credits. The enacted budget does not assume any change in costs of the STO program.

Prepared by Patrick Moran, Assistant Director



TO: Patrick Moran, Joint Legislative Budget Committee
FROM: Christine Accurso, ADE Executive Director ESA Program
CC: John Ward, ADE Chief Auditor
DATE: May 30, 2023
SUBJECT: Estimate for FY24

Pursuant to Arizona Revised Statute 15-2403(H), the Department of Education is pleased to submit the annual estimate of the amount required to fund empowerment scholarship accounts to the Joint Legislative Budget Committee, for the 2024 fiscal year.

For purposes of this report, we conclude that the projected enrollment by the end of Fiscal Year 2024 will be at 100,000 students with roughly \$900,000,000 necessary to fund them.

We have made this projection with the help of our Chief Auditor, John Ward who conducted the analysis. It is important to note that we currently have 57,886 students in the program. For budgeting purposes, it is also important to note that many of the students that are enrolling now are coming from the public school system, which in the end saves the state money because the empowerment scholarship accounts are funded at a lower percentage than the state aid for a pupil in the public school system.