



## Understanding How School Vouchers Are Funded: Summary of Funding for Arizona's Empowerment Scholarship Accounts

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*This profile provides detailed local context for Arizona as part of Follow the Money: A Detailed Analysis of the Funding Mechanisms of Voucher Programs in Six Cases (Arizona, the District of Columbia, Indiana, Louisiana, Ohio, and Wisconsin). This three-part report includes a cross-case review, data visualizations of enrollment and funding patterns, and detailed profiles of each individual case, including the following profile.*

*The purposes of this report are to provide details on how voucher funding designs interact with funding formulas and to increase transparency around voucher design for taxpayers and policymakers. The financial impact and transparency of voucher funding are primary concerns due to the public governance and financing of U.S. public education systems. A federal, state, or local government's decision to use tax revenues to help families pay for private schooling is often politically contentious and has been the topic of litigation in state and federal courts.*

*Understanding the potential impact that specific provisions may have on state and local revenues is necessary to inform policymakers about whether a voucher program design meets constituents' expectations regarding public governance, funding, and educational services. An understanding of these details is equally necessary for taxpayers and voters so that they may make informed decisions. The data and analyses included in these profiles call into question the rhetoric used by both supporters and detractors of voucher programs—for example, in terms of whether local districts retain any of voucher students' per-pupil allotment from the state, or whether any local funds are used for voucher awards.*

### BACKGROUND

Arizona's Empowerment Scholarship Accounts (ESA) program, created in 2011 via Senate Bill 1553, originally was restricted to students with special needs. In 2012, the legislature expanded eligibility to include several populations of students without disabilities, including students attending public schools that received a D or F rating (Ariz. Rev. Stat. 15-2401(6); H.B. 2622, 2012). Senate Bill 1363 (2013) expanded eligibility to incoming kindergarteners (effective 2014), and Senate Bill 1237 (2014) clarified that incoming

kindergarteners must be in the attendance zone of a D or F school in order to be eligible (Arizona Department of Education [ADE], 2014c). A 2014 bill (H.B. 2291) proposed expanding the program to low-income students not already covered by the aforementioned categories, but this expansion was rejected. This profile examines the program since the expansion to students without disabilities, which was the 2013–2014 school year.

Two voucher programs (Arizona Scholarships for Pupils with Disabilities and the Arizona Displaced Pupils Choice Grant Program) predated the



ESA program and, although found to be unconstitutional, they provided program design models for the current system. The funding structures of the original voucher programs were found to violate the state constitution’s Blaine provision (Ariz. Const. art. IX, § 10; DeForrest, 2003), which prohibits the earmarking of public money for private schools (*Cain v. Horne*, 2009). In response to the state supreme court’s decision, the state legislature transformed the voucher program into an account-based program, which no longer earmarked public money for private schools. The current account-based system gives parents/guardians the responsibility for spending their child’s per-pupil allotment; parents can choose among many educational services, including but not limited to private school tuition. The account-based design does not violate the state constitution (*Niehaus et al. v. Huppenthal*, 2013; see also Mead, 2015).

### STATE FUNDING MECHANISMS

Arizona’s public school funding system uses an equalization formula by which all students in the state receive the same “base support” amount of funding, with the exception of certain student populations who receive weighted student

funding (such as early childhood or students with disabilities; ADE, 2010; Ariz. Rev. Stat. 15-901(B) (1–4); Ariz. Rev. Stat. 15-943). In public districts, per-student funding comes from a combination of local property tax revenues and state equalization assistance when local tax revenues are less than the school district spending limit (Ariz. Rev. Stat. 15-971; see Table 1). Until 2016–2017, the student count on which traditional public schools base their budgets was the previous year’s 100th day count (Ariz. Rev. Stat. 15-901(A)(1–2)), and student count for charter schools<sup>1</sup> is the current year’s 100th day count (Ariz. Rev. Stat. 15-185(B)). As of the 2016–2017 school year, both traditional public and charter schools are using the current year’s 100th day count (H.B. 2707, 2016). Public districts are able to levy extra taxes in order to pay for transportation, additional teacher compensation, maintenance and operations overrides, student growth, and other purposes. Charter schools, in contrast, receive their total base level support funding from the state as well as additional assistance from the state, because they are not able to levy taxes. The legislature decides the amount of this assistance each year; the current amounts are \$1,752.10 for grades K–8 and \$2,042.04 for grades 9–12 (ADE,

**TABLE 1. LOCAL AND STATE SHARES OF BASE SUPPORT LEVEL (SELECTED DISTRICTS, FISCAL YEAR 2014–2015)**

District	Weighted ADM* with add-ons	Local tax contribution**	State contribution	Local share	State share
Amphitheater	17,917.3	\$55,018,922	\$16,022,290	77.5%	22.5%
Cartwright	23,104.9	\$4,339,393	\$79,075,009	5.2%	94.8%
Chandler Unified	53,585.4	\$95,904,064	\$109,534,185	46.7%	53.3%
Miami Unified	1,430.8	\$2,138,159	\$3,480,423	38.1%	61.9%
Scottsdale Unified	31,935.7	\$187,452,756	\$0	100.0%	0.0%
Williams Unified	882.6	\$3,715,781	\$246,123	93.4%	6.6%

\* ADM is Average Daily Membership, or student enrollment.

\*\* Amounts are rounded to the nearest dollar.

Source: ADE (n.d.).

<sup>1</sup> Until 2016–2017, the 100th day current-year count was for charter schools sponsored by any entity other than a public school district. As of 2016–2017, public school districts cannot sponsor charter schools (H.B. 2707, 2016), and charter schools have the same governing rules no matter what type of sponsor.

2010; Ariz. Rev. Stat. 15-185(B)(4)). Table 1 provides several districts' local and state funding shares as an example of the range of proportional funding contributions.

Funding for the ESA program comes directly from “the monies that would otherwise be allocated to a recipient’s prior school district, or if the child is currently eligible to attend kindergarten, the monies that the department determines would otherwise be allocated to a recipient’s expected school district of attendance;” this amount is “equivalent to ninety per cent of the sum of the base support level and additional assistance prescribed in sections 15-185 and 15-943 for that particular student if that student were attending a charter school” (Ariz. Rev. Stat. 15-2402(C)). Before the 2014–2015 school year, the value of an ESA was only the base support level plus weights (no additional assistance); Senate Bill 1363 (2013) expanded the awards in several ways, including additional assistance (see also ADE, 2012; Arizona Education Association, 2011). Currently, students receive the base support level multiplied by any applicable weights, plus the charter additional assistance amount.<sup>2</sup> In 2014–2015, the average per-student base amount for ESAs (including charter additional assistance) ranged from \$2,700 to \$5,400, depending on grade level (ADE, 2014b).

## IMPACT ON STATE AND LOCAL BUDGETS

Our discussion of the ESA program’s financial impact on state and local budgets is based on legal and policy documents which do not include the level of detail needed to calculate estimated impacts. The following analyses describe the policy language, and, when that language is ambiguous, we provide a suggested interpretation based on all of the evidence available.

During the first few years of the program, when traditional public school revenues were based on the previous year’s 100th day student count, districts and schools experienced a one-year lag in impacts on their budgets due to ESA enrollment. Charter schools that lose students to ESA participation should, however, see the impact immediately because charters receive funding based on the current year enrollment count as opposed to the previous year enrollment count. As of the 2016–2017 school year, public school districts are also affected immediately by the loss of students to the ESA program (H.B. 2707, 2016; Irish, 2016).

As quoted in the previous section, the state statutes describe ESA funding as similar to charter school funding (Ariz. Rev. Stat. 15-2402(C)). We interpret this language to suggest that the public district would lose only the *state* monies that would otherwise be allocated to a local district. The statute does not specify whether the total base level funding per student would be allocated, or only the percent of the state share of base funding for that student’s previous district. The ESA Handbook (ADE, 2016) states that ESA accounts are “funded by state tax dollars” (p. 4), which also seems likely given that the funding stream would then mirror charter funding, with no local contribution. Thus, while the language is not completely clear, and the budget does not show this level of detail, it is likely that the ESA program is totally state funded. The Arizona *Fiscal Year 2015 Appropriations Report* also notes the confusion regarding these policies:

Chapter 250 amended the funding formula for the ESA program to include “... an amount that is equivalent to ninety percent of the sum of the base support level and additional assistance prescribed in sections 15-185 and 15-943 for that particular student if that

<sup>2</sup>In 2014–2015, the base support level was \$3,373, and in 2015–2016, the base support level was \$3,427 (Ariz. Rev. Stat. 15-901(B)(2)).

student were attending a charter school.” The impact of this change has been unclear due to varying interpretations of the enacted language. In May 2014, however, the Superintendent of Public Instruction indicated that starting in FY 2015 the department would interpret it as providing ninety percent of charter additional assistance to all ESA recipients, including those who did not previously attend charter schools. Due to the lack of a track record on how these recent changes affect state costs, additional information will be needed in order to determine whether Basic State Aid funding should be adjusted to reflect program impacts. (State of Arizona, 2014, p. 127)

The actual impact of students leaving a district to use an ESA is based on a multitude of factors, including, for example, the student weighting and add-ons, and whether district enrollment has increased or decreased. Calculating the real impact would only be possible if students’ grade levels and add-on characteristics were known, which would require student-level data.

Of the total money allocated to ESA students (base support level plus weights and charter assistance), up to five percent may be retained by the ADE, and one percent of the total must go to the state treasury (Ariz. Rev. Stat. 15-2402(C-E)). These monies are used for administrative purposes. The state budget allocated \$200,000 for this purpose in 2012–2013, 2013–2014, and 2014–2015 (ADE, 2014a, 2015); in 2015–2016, \$400,000 was appropriated, and in 2016–2017, this number jumped to \$700,000 (State of Arizona, 2015, 2016). \$62,100 was spent on the state administration of ESA accounts in 2012–2013 (State of Arizona, 2014), and \$210,928 was

spent in 2013–2014.<sup>3</sup> If we assume that each of these expenditures are equal to five percent of the total base support plus charter assistance in each year, then total money for ESA students in these years should be \$1,206,060 in 2012–2013 and \$4,218,560 in 2013–2014 (see Table 2, row 4).<sup>4</sup> Students/families receive 90 percent of these amounts (see Table 2), and it is assumed that the state would save the remaining four percent of the guaranteed base level plus assistance, after one percent goes to the treasury.

As Table 2 shows, there is a significant discrepancy between the total disbursed amounts as reported by the ADE (row 2) and the amount that we calculated assuming that the state expenditures equal five percent of the total disbursement (row 7; see Table 2 for calculations). Although state budget and finance records do not provide this level of detail, we believe that the difference can be attributed to student weighting and add-ons for grade levels, special education, English Language Learner, and other additional funds (Ariz. Rev. Stat. 15-943). Unlike most of the other cases in our sample, the ESA program also allocates special education funding to the accounts of participating students with special needs. The inclusion of special education funding muddies the financial transparency of the program, as the state does not disaggregate special education funding from the base cost per-pupil disbursement amount. ESA disbursements may also include the weights and add-ons that students in other certain demographic categories are awarded, but these categories or amounts are not noted in the publicly available ESA records.

## FISCAL ACCOUNTABILITY AND REPORTING

Fiscal accountability for the ESA program lies

<sup>3</sup> This amount is calculated as the sum of funds spent in the “Personal Services” and “Employee Related” columns, line 13 of the Statement of Revenues and Expenditures (ADE, 2015, p. 16). The *Annual Reports of the Superintendent for Public Instruction* for fiscal years 2015 and 2016 had not yet been released at the time of this publication.

<sup>4</sup> This amount is an estimate based on the statutory language of “up to five per cent” (Ariz. Rev. Stat. 15-2402(C)).

**TABLE 2. TOTAL STUDENT PARTICIPATION AND AMOUNTS DISBURSED TO EMPOWERMENT SCHOLARSHIP ACCOUNTS BY YEAR**

Row		2012–2013	2013–2014	2014–2015
1	Total participation	302	761	1311
2	Total amount disbursed	\$5,209,200	\$10,200,000	\$17,300,000
3	Average per-student disbursement (Row 2 / Row 1)	\$17,249*	\$13,403	\$13,196
4	Total calculated amount of base level support (authors' calculation)**	\$1,206,060	\$4,218,560	Not available
5	90% of Row 4 calculated total base level support	\$1,085,454	\$3,796,704	Not available
6	Average per-student amount (Row 5 / Row 1)	\$3,594	\$4,989	Not available
7	<b>Difference between calculated per-student amount and reported disbursement (Row 3 – Row 6)</b>	<b>\$13,624</b>	<b>\$8,414</b>	<b>Not available</b>

\* Amounts are rounded to the nearest dollar.

\*\* This row was calculated based on the amounts that were recorded as spent on state administration of the ESA program (\$60,303 in 2012–2013 and \$210,928 in 2013–2014). The maximum percentage of total ESA allocations that may be spent on state administration is five percent. Assuming these amounts were equal to five percent of the total allocation, we estimated the total allocation by dividing each amount by five percent. The results are the amounts in Row 4.

Sources: ADE (n.d.); K. Escobar (personal communication, November 18, 2015); State of Arizona (2013, 2014, 2015); State of Arizona House of Representatives (2011); and authors' calculations.

primarily with the parent expense reports and the oversight and auditing activities which are completed by the ADE and the Arizona State Treasurer's Office. Each quarter, parents of participating students must submit itemized expense reports, including allowable spending categories, amount spent, credentials and/or accreditation of tutors and tutoring agencies, and self-reported misspending (ADE, 2016). Allowable categories are included in statute (Ariz. Rev. Stat. 15-2402(B)(4)). Misspending involves using the ESA debit card for a non-allowable service or purchase. Whether self-reported or discovered by the ADE, misspending results in the temporary freezing of the ESA; parents have a ten-day period in which either to repay the misspent funds or to provide documentation proving that funds were not misspent. If the parent does not do either of these within ten days, the ADE will begin the statutory removal process (Ariz. Rev. Stat. 15-2403(C)). If the misspent funds are not repaid by the parent, the department refers the case to the Attorney General's Office of Collections (ADE, 2016).

Program participation may be terminated for violation of the ESA contract or misuse of funds. The 2016–2017 ESA Handbook lists several example reasons for program termination related to fiscal accountability, including “Failure to submit an expense report within 90 days of the due date,” “fraudulent activity,” and “not spending monies each quarter equaling to 25% of the yearly amount at the end of quarter 4” (ADE, 2016, p. 28).

The responsibility of the ADE to conduct annual audits, as well as the option to conduct additional random or quarterly audits, is written in statute (Ariz. Rev. Stat. 15-2403(B)). There is no requirement for the ADE to report ESA spending to the public, and no spending reports are available from the ESA website. There is also no evidence of problems with fiscal accountability of the program at the ADE or State Treasurer's Office, other than confusion over whether ESA recipients were or were not receiving an additional amount of money equal to the charter assistance amount (Associated Press, 2014).

The only additional available reporting contributing to transparency of account usage is a private analysis of data for the first one and a half years of the program; according to this analysis, about two thirds of families used funds to purchase tuition at a private school (Burke, 2013).<sup>5</sup> Approximately one third of families used the funds to pay for multiple educational resources including curriculum and textbooks, therapy services, fees, standardized tests, online classes, and private tutoring; together, approximately 15 percent of ESA funds spent during this timeframe were used to pay for these resources (Burke, 2013). The ESA program also allows parents to save part of their disbursed funds for future educational options, including higher education. In the first year of the program, approximately 43 percent of funds were saved and rolled over; in the beginning of the second year of the program, just over one quarter of the disbursed funds were saved (Burke, 2013).

## CONCLUSION

Arizona's ESA program is unique in comparison to the other voucher programs in our sample. The ESA program allows allocation of special education funding to participating students with special needs. The inclusion of special education funding contributes to a general lack of clarity about the financial implications of the program. The statutory language regarding state and local funding contributions is ambiguous, and no publicly available financial data or reporting on the program exist beyond total yearly disbursements and amounts used for state administration. Fiscal accountability for this program is primarily focused on whether parents' ESA expenditures are allowable; there is no public reporting requirement in the statutory language, though the ADE must conduct annual audits of the program's administration. In contrast to the majority of the other programs, in which voucher-receiving schools must meet certain

requirements for eligibility, there are no approval requirements for schools receiving ESA monies for educational services. In order to further contrast the design and implementation of the Arizona ESA program, we recommend readers to explore the cross-case review and other case profiles.

<sup>5</sup>The data analyzed in Burke (2013) are not publicly available.

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