

School voucher demand climbs as state tax revenues fall. Some see budget crisis ahead



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Enrollment in Arizona's universal school-voucher program is climbing.

State tax collections are plummeting.

If these trends continue, Arizona could see a return to the days of budget distress, although opinions about how vouchers will ultimately affect state finances are mixed. The program is nearing the end of its first year amid uncertainty about what the new school year will bring.

“The common thread in both of those is trouble,” Chuck Essigs of the Arizona Association of School Budget Officials said of rapidly growing voucher enrollment and the steep drop in recent tax collections. “Each of them on their own is a problem, but I’d say the two of them is double trouble.”

Two reports are fueling renewed concern about the effect of the Empowerment Scholarship Account program on state finances. The program has quadrupled to 61,095 students in the one year since then-Gov. Doug Ducey signed universal vouchers into law, a growth that far exceeded state budget projections.

In late May, state schools Superintendent Tom Horne released an eye-popping projection that the program will hit 100,000 students by June 2024 and require \$900 million in the budget this fiscal year, which started July 1. The budget only includes \$552 million for vouchers.

In late June, the Legislature's budget office reported that state revenues plummeted 44% in May compared with a year ago, a decline that "significantly exceeded expectations" and marked the first drop in more than three years. Almost all of the decline was due to Arizona's new flat tax, which cut rates to a uniform 2.5% for all taxpayers.

The Joint Legislative Budget Committee is signaling caution, noting in its report that in addition to lower income tax collections, state sales tax revenue is also slowing as consumers appear to hit the brakes on spending.

While other sources of state revenue, such as the corporate income tax and more minor levies are still posting positive numbers, JLBC added that tax collections "will need to be monitored closely for trends in the upcoming months."

JLBC is taking a wait-and-see approach to the impact of the ESA program, calling Horne's estimate of 100,000 students by this time next year "highly speculative." A clearer picture will emerge in the fall, when school enrollment numbers are available, the agency reported.

Budget cuts ahead for the state?

GOP lawmakers and Horne have waved off critics, such as Gov. Katie Hobbs, who argue the program is on track to bankrupt the state. Horne has doubled down on the program, paying for promotional ads targeting Latino students and contending the program will actually save the state money.

But Essigs, whose organization has produced an analysis that the program will cost the state more for most students who opt for a scholarship account, called the combined impact of the two reports "scary."

He said he regrets that lawmakers used up almost all of a \$2.5 billion surplus on pet projects when they put together this year's budget. The extra money might come in handy if revenues don't rebound and ESA enrollment hits Horne's predicted 100,000 students, Essigs said.

Karen McLaughlin of the Arizona Center for Economic Progress, a critic of the universal voucher program, said the new numbers set the state up for a potential budget shortfall.

"We're talking hundreds of millions (of dollars)," she said, adding that she thinks drastic measures are unlikely to materialize in the near term.

"We've got \$1.4 billion in the rainy day fund so they're not going to be slashing budgets," McLaughlin said of lawmakers. "But it's one-time money."

Hobbs, who in January said the ESA program would bust the state budget within 10 years, said on June 27 that's likely to happen sooner. She did not predict a date.

The governor has advocated for capping the program in some form to limit enrollment growth and keep costs under control. But the GOP majority in the Legislature opposes all efforts to rein in the program. Lawmakers have consistently said that they will cover education costs no matter what, noting it's a constitutional obligation.

The Common Sense Institute, which promotes free enterprise to boost the state's economy, predicts ESA enrollment will double in the next four years, at a cost of \$900 million. But that doesn't mean the state will go bankrupt, said Glenn Farley, the institute's director of policy and research.

He pointed to a recent report, in which the institute notes the state schools budget saved about \$550 million during the COVID-19 pandemic years, as students "disappeared" from public schools. With an estimated 33,000 students absent from public classrooms, most likely receiving schooling at home or in private schools, the state saved the cost of educating them.

However, those savings are getting spent now because students who left the public schools during the pandemic have shifted to private schooling options and are most likely benefitting from an ESA.

Budget predictions: Arizona school voucher program to cost \$200M more than expected. Here's why

Two unappealing options

Given the most recent state revenue report, Farley said there's reason for caution.

As overall school enrollment grows, the state will have to spend more, meaning spending in other areas might see cuts.

"You'll have a couple hundred million a year less in discretionary enactments," he said.

Essigs, with the school budget officials, said there are only two choices if current patterns continue: Lawmakers would either have to raise more money or cut costs.

“Something has to change,” he said.

But raising revenue is tough because it takes a supermajority in either the Legislature or at the ballot box to do so.

“So the question is, what gives?” Essigs said.

2022 costs: Voucher program will spend more than \$300 million this school year

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