ESA Program

Memo

To: Superintendent Horne

From: John Ward, ESA Executive Director

cc: Margaret Dugan, Deputy Superintendent
Art Harding, Chief Operations Officer
Gretchen Jacobs, Director of Legislative Affairs

Date: 6.30.2026

Re: Fiscal year 2027 ESA budget

Issue

The Empowerment Scholarship Account program's fiscal year 2027 budget represents a worsening situation for its ability to meet critical strategic goals. Although the program's enrollment is expected to grow in fiscal year 2027 by at least 86 percent over its fiscal year 2023 levels, its administrative budget is smaller than in fiscal year 2023—the first year of universal expansion.

For the upcoming fiscal year, the program has an over $900,000 deficit. This deficit necessitates equal cuts to the ESA program's administrative budget, but these cuts carry significant risks to program service levels and operations.

Recommendations

- **Cut spending on ESA's Information Technology (IT) services by $323,000.** This cut will still allow the ESA program to operate at a level that meets minimum support and maintenance requirements for the program's parent portal, data security, and data storage needs. Additionally, it also allows for another $100,000 to pay IT contractors to focus on developing in-house solutions to assist with accountability over account holder spending behavior. A variety of other important IT improvements that we identified will have to be shelved.

- **Eliminate contract for ESA community outreach liaison.** In fiscal year 2026, the contractor provided services related to ESA parent meetings and outreach. Her outreach provided another mechanism for ESA parents to communicate with ADE and was well received by those parents she met with. Although beneficial, her services cannot be sustained in the next fiscal year.

- **7 full-time equivalent positions in the ESA program will not be filled, to reduce costs by $526,000.** Positions that are currently open and that will become open will not be filled this next fiscal year, until 7 positions have been reduced. It may be necessary to reduce an eighth position if not all 7 positions can be reduced soon after the start of fiscal year 2027. This will leave the ESA program with only 35 employees to administer $1.1 billion in scholarships for at least 110,000 students next fiscal year.

<u>Risks</u>

There are two broad areas of risk that arise from these unavoidable budget cuts.

1. **Service levels.** Service levels will likely be reduced as a result of fewer staff**.** Areas where ESA holders and new applicants are likely to see negative impacts include:
    - Reductions in Call Center service levels, including longer call wait times, more recorded messages to call back later, permanent elimination of weekend and evening call center hours, and longer wait times to receive responses to emails and help desk tickets.
    - Longer purse suspensions and appeals timelines for ESA holders when misspending is identified.
    - Longer waiting periods for updates to student disability statuses when parents submit supporting documentation to ESA staff for review.
    - Potential inability to process all completed applications in the 30-day period required by state law.

    In addition to service level reductions for ESA holders and program applicants, staff reductions will also reduce the number of risk-based purchase reviews/audits that can be completed, likely impede the program's ability to conduct a required annual residency verification of all current ESA holders, and likely impede the program's ability to recover misused funds in a timely manner.

2. **Staff turnover.** Front-line ESA staff have not seen a pay increase in several years during a high-inflationary period. Nearly all ESA staff are below the state's median annual salary. Although the ESA staff has generally been stable over the last few years, I believe that the realization that another year will go by with no pay increases will result in an increasing number of staff seeking other employment opportunities. I consider this to be a serious risk that poses important threats:

    - **Loss of critical knowledge gained only by experience.** The loss of experience will most impact the purchase review and accountability teams, which rely on staff having keen knowledge that is gained over time of what is allowable under the Arizona program's broad statutory rules, the ESA parent handbook, and established precedent and practices.

    - **New staff consume far more resources.** ESA managers and supervisors help ensure team performance expectations are met, opportunities for process improvements are identified and implemented, and *ad hoc* and systemic problems are solved. Increasing staff turnover will require managers and supervisors to redirect their time from those areas and allocate an increasing amount of their time to new staff who require much more training, coaching, and supervision than experienced staff. High staff turnover is very disruptive and causes significant burden on teams and their effectiveness in achieving their core missions.

Increasing operational costs and a cut to the program's budget requires very difficult spending reductions this next fiscal year. These spending reductions along with the fact that this ESA program has the lowest funding level of any in the nation create significant challenges. Despite these challenges, the ESA leadership team's commitment to the success of this program remains unwavering.