ARIZONA

Overall Market Rating: Funding Constrained; not suited for growth.

Market Overview:

The Arizona private school choice market is among the least regulated of the available markets. Private schools operating in Arizona have complete freedom to operate as they see fit, and state regulators have very little role in the management of programs or schools. The only real statutory limits on private school choice are student eligibility and caps on the available tax credits and deductions.

Local scholarship organizations make determinations about which schools they will partner with, and how money is disbursed to students and schools. All the laws and regulations simply create various private school subsidies that parents can use to access a private school education for their child. With the exception of very basic requirements, schools are not impacted by whether or not a student comes to them on a scholarship.

The per-pupil funding in all state education tax credit programs is very low. The average tax credit scholarship amount awarded by scholarship organizations is typically less than $2,000. While Arizona law allows a student to stack or accumulate multiple scholarships, even so, it is unlikely any one student would be funded at the level most operators have indicated acceptable for growth, unless operators have the experience and systems necessary to implement an aggressive corporate philanthropic strategy.

In 2017, the state’s special needs Education Savings Account (ESA) program was expanded to make all students eligible, regardless of family income. Unfortunately, this expansion was successfully challenged by a “veto referendum” on the November 2018 ballot. Voters decisively repealed the measure by a margin of 65% or 35%. It is unclear exactly what will happen next and if further expansion will be considered by the next legislature. Given the outcome of state and federal elections overall in Arizona, it seems unlikely that any significant expansion of private school choice will be considered in the 2019 session. As a result, school growth in Arizona in the near term is likely untenable.

Summary Statement: Arizona continues to afford schools substantial regulatory freedom, but any operator considering new school growth in Arizona would need a well-developed plan and system for recruiting enough students and raising enough money across multiple programs to ensure adequate funding.
Demographic Analysis:

Enrollment Figures by Sector

<table>
<thead>
<tr>
<th>Arizona (15-16)</th>
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<tbody>
<tr>
<td>Total Public School Enrollment (including Charter Schools)</td>
<td>1,104,811</td>
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<tr>
<td>K-12 Private School Enrollment</td>
<td>36,177</td>
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<tr>
<td>Charter School Enrollment</td>
<td>176,894</td>
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Eligibility by Program

<table>
<thead>
<tr>
<th>Program</th>
<th>% Eligible Students</th>
<th>Current Enrollment (2016-17)</th>
<th>Eligibility Requirements</th>
</tr>
</thead>
</table>
| Individual Income Tax Credit Scholarship Program | Original: 100 percent of families with children eligible statewide  
Switcher: 95 percent of families with children eligible statewide | 46,542 | Original:  
• K-12 or Pre-K w/IDEA or 504 identification  
Switcher:  
• Attend public school previous semester of current school year, or 90 days of previous year  
• Attend pre-school for students w/disabilities  
• Dependent of active duty military personnel  
• Previous recipient  
• Entering Kindergarten |
| Low-Income Corporate Income Tax Credit Scholarship Program | 58 percent of families with children income-eligible statewide | 16,573 | • Households at or below 185% Free and Reduced Lunch  
• Attend public school for previous semester |
Lexie’s Law for Disabled and Displaced Students Tax Credit Scholarship Program

<table>
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<tr>
<th>12 percent of students eligible statewide</th>
<th>808</th>
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<tr>
<td>• IDEA/504 Identification</td>
<td></td>
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<tr>
<td>• Children in foster care</td>
<td></td>
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<tr>
<td>• Attend public school</td>
<td></td>
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<tr>
<td>• Full semester of current year or 90 days of previous year</td>
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<tr>
<td>• Dependent of Active Duty Military personnel.</td>
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**Funding:**

**Assessment:** Challenging to growth; funding is inadequate and outside the ESA, mechanisms are complicated.

**Assets:**

- All children are eligible for at least one program, provided they attended an Arizona public school the previous year or are entering Kindergarten.
- Children can accept and use multiple scholarships in a single year.
- Special needs ESA programs are more adequately funded at the student level.

**Considerations:**

- Average funding amounts are very low across programs.
- Schools need to do a lot of work to coordinate students and scholarships with the scholarship organizations.

**SCHOLARSHIP TAX CREDIT - INDIVIDUAL**

**Average scholarship value:** $1,724 (2015–16)

No restrictions on how much a scholarship can be worth.

Individuals can claim up to $545

Couples who file jointly, up to $1,090

Amounts that can be claimed increase every year by the amount the Consumer Price Index changes.
TAX CREDIT SCHOLARSHIP PROGRAM - INDIVIDUAL “SWITCHER”
Average scholarship value: $1,360 (2015–16)
No restrictions on how much a scholarship can be worth.
MUST DONATE MAX CREDIT AMOUNT FOR ORIGINAL INCOME TAX CREDIT BEFORE SWITCHER CAN BE CLAIMED:
Individuals can claim up to $545
Couples who file jointly, up to $1,090

TAX CREDIT SCHOLARSHIP PROGRAM - CORPORATE -
Avg. Scholarship Value: $1,892 (2014-15 SY)
Scholarships are capped at $5,400 in grades K–8 and $6,700 in grades 9–12 for 2018–19. Those amounts increase annually by $100. Corporate taxpayers contributing to STO’s may claim a tax credit equal to the full amount of their contribution. The program is limited to $51.6 million in tax credits a year. (This number increases 20% each year.)

LEXIE’S LAW TAX CREDIT SCHOLARSHIP PROGRAM
Average scholarship value: $4,696 (2015–16)
Total credits claimed by businesses and stockholders of S-Corps cannot exceed $5 million in a year.

Policy & Regulatory Environment:
Assessment: Strong; there are no additional regulations imposed upon private schools participating in the scholarship programs.

Human Capital:
Assessment: Under-developed.

Assets:
• Phoenix is a TFA region with more than 1,000 corps members and alumni in the region.
• The Teaching Intern Pathway allows for skilled professionals who want to become teachers to enter the profession and begin teaching right away.
• Private schools have complete freedom to hire who they wish as teachers and leaders.

Considerations:
• There are very few human capital resources outside of Phoenix.
• There is no clear strategy to increase the talent available to private schools.
Local Champions:
Assessment: Challenges developing, may present obstacles.

Assets:
- Elected and political leaders in Arizona are largely supportive of choice policies.
- Advocacy capacity and coordination among local groups working on common legislative agenda items is increasing.

Considerations:
- Local stakeholders are beginning to prioritize new school development or growth.
- Organized opposition exists and is increasingly active and influential, including the Red for Ed movement, and there may be new efforts to increase regulatory and accountability requirement on all programs.

Facilities:
Assessment: Under-developed, but could improve.

Assets
- Real estate is available and accessible to schools; local zoning does not present an issue in most places.
- Private school advocates are working to advance a surplus facility policy that would benefit private schools, but it is nascent.

Considerations
- There is no public money or financing available for private schools.
- There is no local philanthropic strategy to raise facilities funds for schools.