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POLICY BRIEF #3 · PARCA EDUCATION RESEARCH CENTER

The CHOOSE Act and Public-School Funding: Separating Fact from Fiction

Introduction

Participation in Alabama's CHOOSE Act has grown since its implementation in 2024–25, with the program awarding $100 million in Education Savings Accounts (ESA) to 19,000 participants in 2025–26, and an estimated $174 million in awards to 34,000 participants in 2026–27.[1] The awards are, in effect, scholarships that can be applied to approved public or private school expenses (up to $7,000 per student) or home education expenses (up to $2,000 per student and $4,000 per family).[2,3]

The scholarship program is poised to grow again. During these first two years, eligibility has been limited to families with household incomes at or below 300% of the federal poverty level.[4]

However, beginning in the 2027–28 school year, this income cap will be removed, allowing families to potentially qualify for an ESA award regardless of income. The only limitation is a cap on funds set aside to support the program.[5] The FY2027

[1] Alabama Department of Revenue (ALDOR), CHOOSE Act program data for school years 2025–26 and 2026–27, provided to the author via email, 2026; Office of Alabama Governor Kay Ivey, "Governor Ivey Announces Funding for CHOOSE Act Education Savings Accounts for 2026–2027 School Year," July 1, 2026, https://governor.alabama.gov/newsroom/2026/07/governor-ivey-announces-funding-for-choose-act-education-savings-accounts-for-2026-2027-school-year/

[2] Under Alabama law, CHOOSE Act awards may only be used on education-related expenses for approved Education Service Providers (ESPs) or participating schools.

[3] Alabama Legislature, Code of Alabama, § 16-6J-3(c)(1)–(2).

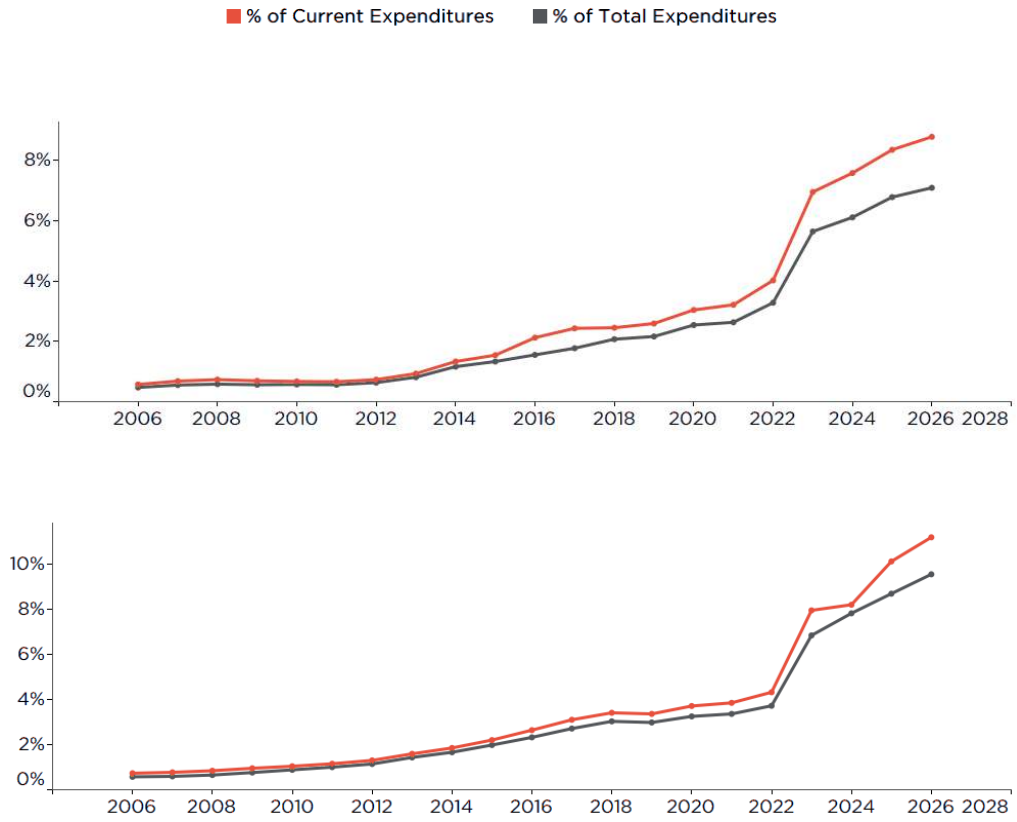
[4] Office of Alabama Governor Kay Ivey, "Governor Ivey Announces CHOOSE Act Family Applications for 2026–2027 School Year," December 3, 2025, https://governor.alabama.gov/newsroom/2025/12/governor-ivey-announces-choose-act-family-applications-for-2026-2027-school-year/.

[5] Alabama Legislature, Code of Alabama 1975, § 16-6J-3, as amended.

budget sets aside $236 million for the program, which would represent around 2% of state K–12 spending.

In Florida and Arizona, which both have no income caps and award scholarships to all eligible applicants, programs have grown to represent around 10% of K–12 public education spending, Florida at $4.3 billion and Arizona at $1.2 billion.[6] **Figure 1** shows how private school choice programs' spending compares to overall public education spending over time in Arizona and Florida.

Figure 1. School Choice Spending as a Percentage of Combined Program and Public K–12 Expenditures, 2006–2026



Sources: National Center for Education Statistics (NCES) and EdChoice, "2026 EdChoice Spending Share Rankings."

Notes: Graph recreated using data from EdChoice (2026). Revised November 12, 2025. National current expenditures for 2022–2026 are projected by the NCES. National total expenditures and state-level current and total expenditures for 2023–2026 are estimated using average annual increases from 2019–2021. Current expenditures include instruction, support services, food

[6] Brian Ledtke, "2026 EdChoice Spending Share Rankings," *EdChoice*, January 8, 2026, https://www.edchoice.org/2026-edchoice-spending-share-rankings/.

services, and enterprise operations. Total expenditures also include capital outlay, debt interest payments, and programs outside public K–12 education.

As CHOOSE Act participation increases in Alabama, the amount of state funding is growing. That raises an important question: Does increased CHOOSE Act participation affect the amount of funding that is available for Alabama's public schools?

How Alabama Funds Public Schools and the CHOOSE Act

Alabama public schools receive funding from state, local, and federal sources. The mix varies widely, but on average, the state supplies 63% of funding, while local and federal sources each contribute 19%.[7]

Alabama's Education Trust Fund (ETF) is primarily supported by income (67%), sales (25%), and utility taxes (4%).[8]

The ETF exists as a separate fund because the taxes deposited there are legally designated (or earmarked) to support public education. The Alabama Constitution specifies that the income tax is to be used for public school teachers' salaries. By statute, the sales tax is also earmarked for public education.[9] The net proceeds of both are deposited in the ETF.

In the FY2027 budget, the Legislature authorized spending of $10.5 billion, with approximately $7.1 billion (68%) for K–12 education, $2.7 billion (26%) for higher education, and $656 million (6%) for other education-related expenses.[10]

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[7] Alabama Legislative Services Agency, *Education Trust Fund Comparison Sheet for FY2027*, HB238 (Act No. 2026-380), 21, enacted column.

[8] Alabama Arise, "The Alabama Tax and Budget Handbook – Budget Overview," March 19, 2026, https://alarise.org/resources/the-alabama-tax-and-budget-handbook-2026-budget-overview/

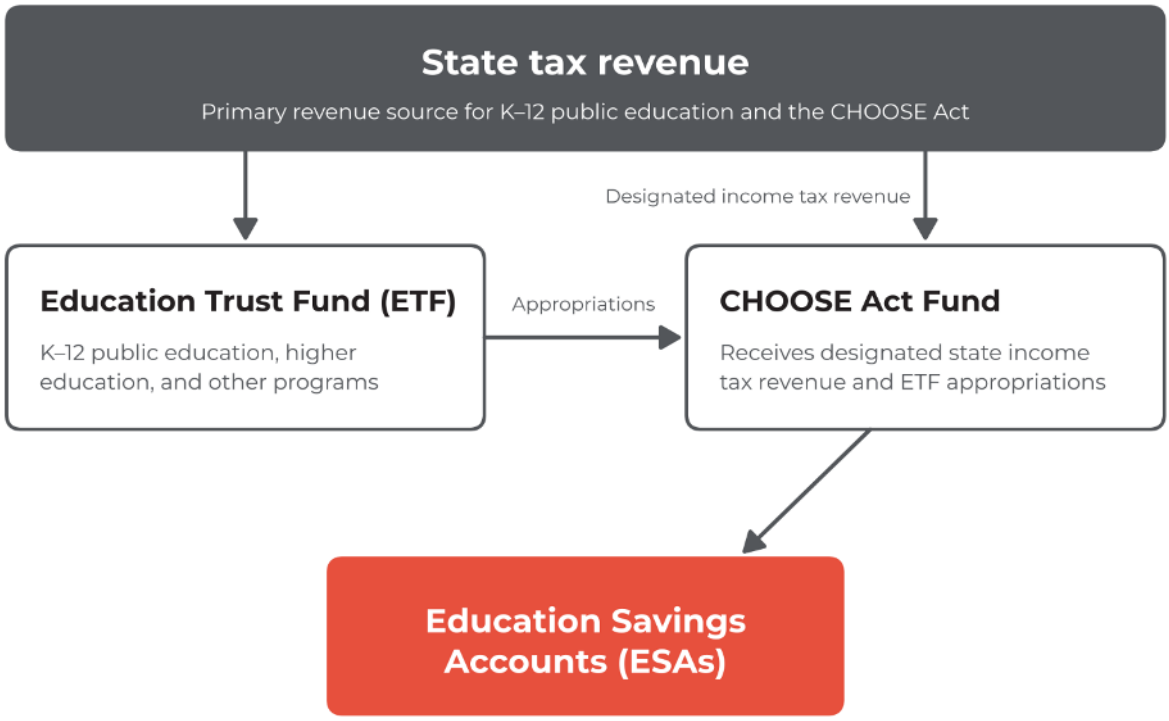
[9] According to Section 211.02 of the Alabama Constitution, all net proceeds of the income tax, after offsetting revenue given up for homestead exemptions, "shall be placed in the state treasury to the credit of the Alabama special education Trust fund to be used for the payment of public-school teachers' salaries, only." Alabama Constitution of 2022, https://alison.legislature.state.al.us/constitution?section=211.02

[10] Alabama Legislative Services Agency, FY2027 ETF Comparison Sheet, 21.

The CHOOSE Act also uses state tax revenue but follows a different funding process than traditional public school systems. Eligible families receive a refundable income tax credit, provided through an ESA to cover approved education expenses.[11] Under Alabama law, these credits are then funded through a separate CHOOSE Act Fund, which receives money from two primary sources: designated income tax revenue deposited directly into the fund and appropriations from the ETF.[12] The first source reduces the amount of income tax revenue that would otherwise flow into the ETF, while the second provides additional funding through the state's annual education budgeting process.[13]

Figure 2 illustrates how state tax revenue supports public education and the CHOOSE Act through the ETF and the separate CHOOSE Act Fund.

Figure 2. Alabama Public K–12 Education and CHOOSE Act Funding Flows



Source: Alabama Executive Budget Office, "Education Trust Fund—Description"; Alabama Legislative Services Agency, Fiscal Division, FY2026 Education Trust Fund Appropriations Act; Ala. Code § 16-6J-8 (2025), as amended by Act No. 2025-402.

[11] Alabama Code § 16-6J-8.

[12] Alabama Code § 16-6J-8 (2025), as amended by Act No. 2025-402.

[13] Alabama Arise, *Alabama Tax and Budget Handbook*.

Note: The CHOOSE Act receives funding through ETF appropriations and designated state income tax revenue deposited into the separate CHOOSE Act Fund. Both mechanisms support Education Savings Accounts (ESAs) for eligible families.

How CHOOSE Act Expansion Could Affect State Education Funding

Experiences from states such as Arizona provide more insight into how expanding eligibility could affect state education spending as Alabama prepares to remove the CHOOSE Act's income eligibility requirement for the 2027–28 school year.

In Arizona, ESA program spending rose from approximately $189 million in the 2021–22 school year to approximately $588 million in 2022–23, an increase of about 211%, following the 2022 expansion of eligibility. Arizona subsequently budgeted approximately $1.2 billion for FY2026 ESA awards.[14] Unlike Alabama, Arizona has a unified General Fund, meaning its funding competes with funding for all other state agencies when lawmakers create a budget.

In Alabama, because of earmarking of revenue, the tax credits for the CHOOSE Act would otherwise have been available in the Education Trust Fund for K–12 schools or colleges.[15,16]

Student enrollment changes and public-school funding

The financial effects of the CHOOSE Act on public school systems depend partly on student enrollment. Alabama's Foundation Program uses Average Daily Membership (ADM) to determine funding allocations, including teacher positions based on ratios of 15 to 20 students per teacher, depending on grade level. A small number of students transferring out would not reduce the formula funding. However, if larger

[14] These figures describe program costs, not an equivalent reduction in public school funding.

[15] Arizona Joint Legislative Budget Committee, FY 2026 Appropriations Report: Department of Education (2025), https://www.azjlbc.gov/26AR/ade.pdf; Arizona Department of Education, FY2027 ESA cost projections, as reported in Arizona Family Child Care Association, "September Legislative Update" (2026), https://azfcca.org/afcca-september-legislative-update/

[16] Alabama Department of Revenue, Ala. Admin. Code r. 810-28-1-.02, "Program Overview and Fund Allocation," effective January 11, 2025, https://admincode.legislature.state.al.us/administrative-code/810-28-1-.02

numbers of students leave for private or homeschooling, staffing and the supporting funding from the state would be reduced.[17]

Local revenue generated for schools is not directly affected by students who participate in the CHOOSE Act. As a result, if local funding remains unchanged as public school enrollment declines, the amount available per student may increase.

Students' previous school enrollment and funding

For the most part, it is not students leaving public schools who are using ESA funds; instead, it is students who were already attending private schools or homeschooling. Although Alabama previously supported some private school students through the Alabama Accountability Act, the CHOOSE Act created a new, larger state taxpayer expense which supports students whose education was previously paid for entirely by their families.[18]

Roughly 92% of the ESAs awarded for the 2026–27 school year have been activated, showing an increase of almost 6 percentage points from those awarded in the previous year (about 86%). As of September 30, 2026, only 14% of students approved for funding attended public schools before applying to the program. Approximately 61% of activated ESAs were being used for private schooling, 38% for home education, and less than 1% for participating public schools.[19]

CHOOSE Act participants already attending private schools or homeschooling would not directly reduce the funding of their local public school system. The subsidy awarded to each student is deducted from the total state education funding available for K–12 and higher education.

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[17] Tia Clinton, Benjamin K. Master, Lydia R. Rainey, and AK Keskin, Shrinking Budgets, Fewer Students: How District Leaders Are Navigating a New Landscape of Reduced Resources and Competitive Pressures (Santa Monica, CA: RAND Corporation, 2026), https://doi.org/10.7249/RRA4737-4

[18] Alabama Department of Revenue, "Alabama Accountability Act"; Alabama Legislature, Code of Alabama, § 16-6J-3 (2024).

[19] Trisha Powell Crain, "*CHOOSE Act, Year Two: More Students, Similar Patterns*," Alabama Daily News, September 30, 2026, https://aldailynews.com/choose-act-year-two-more-students-similar-patterns/; these figures show students' previous enrollment from how they currently use their ESA funds.

Student transfers and public-school costs

Declining enrollment at a public school may reduce some per-pupil costs and may in some cases allow for smaller classes and more direct attention to individual children.

However, many operational expenses, including staffing, transportation, utilities, and building maintenance, may remain relatively unchanged. As a result, reductions in enrollment-based funding may not be matched by proportional reductions in operating costs.

School system size, location, and costs

The size and location of the system may also influence whether public schools are affected financially by the CHOOSE Act. For instance, smaller and rural school systems may have a harder time cutting costs because they may have fewer opportunities to combine classes, reduce staffing, or consolidate services as enrollment declines.[20]

Overall, declining enrollment does not automatically signal lower school operational expenses. Instead, the financial effects of the CHOOSE Act may depend more on how well school systems can adjust their spending as enrollment changes.

Conclusion

The formula that determines the state funding for a school isn't a one-for-one formula; meaning, if a student leaves an Alabama public school to participate in the CHOOSE Act, the school system does not automatically lose an amount equal to that student's $7,000 ESA award. Additionally, in the 2027–28 school year, the CHOOSE Act is set to be supported with $236 million. That's roughly 2% of the $10.5 billion budget.

Although ESA awards are not deducted from individual local public school system budgets, the program could affect public education funding through enrollment changes and future state budget decisions. The extent of these effects depends

[20] Matthew H. Lee and Benjamin Scafidi, *The Fiscal and Resource Effects of Enrollment Increases and Decreases on American Public School Districts*, EdWorkingPaper No. 25-1266 (Providence, RI: Annenberg Institute for School Reform at Brown University, 2025), https://eric.ed.gov/?id=ED678225.

partly on school systems' ability to adjust operating expenses as enrollment changes. However, expanding ESA eligibility can increase demands on state resources.

Questions remain about how growing CHOOSE Act participation and spending could affect future education budgets. Additional data on student enrollment, funding allocations, and operating costs are needed to better understand these effects, especially in smaller and rural school systems.