A DECADE OF SUCCESS

How Arizona’s Empowerment Scholarship Accounts Have Saved Students and Inspired a National Movement

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"By necessity during this emergency, many parents have been more engaged than ever in the daily education of their children. Quite a few have found temporary educational options they want to make permanent. It’s their right. Public policy should keep pace, and empower them to make that choice."

Arizona Governor Doug Ducey, State of the State Address, 2021
Arizona has long been a pioneer in education reform. In 1997, Arizona became the first state to enact a tax-credit scholarship policy to help families choose the school that works best for their children. Nearly a quarter-century later, 21 states have similar policies.

Likewise, in 2011, Arizona became the first state to enact a K-12 education savings account (ESA) policy, which lawmakers called “Empowerment Scholarship Accounts.” Ten years later, there are now 10 states with ESA policies, all of which have been influenced by Arizona’s original policy and the decade’s worth of lessons learned while implementing it.

Arizona initially limited ESA eligibility only to students with special needs, as did the next four states to implement ESA programs (Florida, Mississippi, North Carolina, and Tennessee), as well as Indiana, which enacted one this year. However, from the very beginning, the Goldwater Institute and other proponents of ESAs made clear that every single child should have access to the widest possible variety of education opportunities. Over the next decade, Arizona lawmakers repeatedly expanded the ESA program to include students assigned to D- or F-rated district schools, students on Native American reservations, the children of service members on active duty or killed in the line of duty, children adopted through the state’s foster care system, and more. At present, nearly a quarter of Arizona students are eligible for an ESA.
In 2021, some states surpassed Arizona in the quest to provide universal access to ESAs. West Virginia enacted the nation’s first nearly universal ESAs, known as “Hope Scholarships,” for all students who are switching out of public school or entering kindergarten. In New Hampshire, “Education Freedom Accounts” are available to students from families earning up to 300% of the federal poverty line ($79,500 for a family of four in 2020-2021), so about one-third of families are eligible. This year, Kentucky and Missouri enacted the nation’s first two tax credit-funded ESA programs with income eligibility set so that about half of the population is eligible.

These other states have also learned from Arizona’s experience. For example, to empower families with the freedom and flexibility to customize their children’s education while ensuring financial accountability, states have followed Arizona’s lead by contracting with third-party vendors to administer online payment portals where families can pay for tuition and purchase other eligible educational products and services with their ESAs. Likewise, to facilitate the competent management of the ESA program and avoid bureaucratic opposition or attempts by special interests to undermine the program, lawmakers elsewhere have entrusted the ESA programs’ administration to the state treasurer’s office or to nonprofit entities that have a stake in the programs’ success.

As detailed in this paper, policymakers seeking to expand educational opportunity have much to learn from Arizona’s experience with ESAs, especially regarding program design and how to expose the myths that opponents attempt to create about the program. Most importantly, Arizona’s ESA success story inspires other policymakers because of the tremendous difference it has made in the lives of so many children and their families.

What was but a dream a decade ago is now a life-transforming reality for tens of thousands of students nationwide. In a decade hence, the ability of families to customize their children’s education via ESAs may well be the norm.
2021 marks the 10-year anniversary of Arizona’s Empowerment Scholarship Account program, the nation’s first education savings account program.

What began as an unprecedented policy innovation has since matured into a successful program serving thousands of families across the Grand Canyon State and counting. Meanwhile, ESAs have emerged as the cutting edge of a nationwide movement for educational access—one whose importance and urgency were magnified by the COVID-19 pandemic and the cascade of public school closures that displaced millions of students from traditional classrooms.

As more and more Arizona families seek to join the program, and as additional states around the nation continue to establish education savings accounts of their own, this report offers policymakers a glimpse into the success and challenges of Arizona’s ESA program in particular, and the unleashed potential such programs hold for students around the country. Building on Volumes I and II of the Goldwater Institute’s 2019 Impact of ESAs in Arizona reports, this new release highlights three major pillars contributing to the success of Arizona’s ESA program:
1) **Surging demand for ESAs among eligible families**: Over the past two years alone, Arizona’s ESA participation increased by more than 50%, rising from approximately 6,500 to nearly 10,000 students between Fiscal Years 2019 and 2021. Compared to the mere 144 kids participating in its first year, Arizona’s program has grown by orders of magnitude over a single decade as parents have discovered the program’s ability to serve the educational needs of their children.

2) **Robust financial benefits for participating families, taxpayers, and public schools**: ESAs cover over 98% of the tuition and fees at the majority of private elementary and middle schools in Arizona, while saving taxpayers up to $5,000 per student compared to public schools. Moreover, by sending more than $6 million in program savings back to public school students each year, the ESA program contributes to increasing per pupil revenues for those who remain in the public school system.

3) **Ongoing program improvement via legislative refinement**: Throughout the decade following the enactment of the nation’s first ESA, Arizona policymakers have repeatedly amended the program, fine-tuning it based on feedback from families using ESAs. Achievements include improved program support for participants; enhanced financial integrity and stewardship of taxpayer resources; and a system of checks and balances on program administrators. These improvements can be emulated immediately in new programs being launched across the country.
A DECADE OF SUCCESS

In April 2011, the Arizona legislature passed the nation’s first ESA program, igniting a decade of new educational opportunities for students in Arizona and around the country.

Pioneered by the Goldwater Institute and known formally in the state as Empowerment Scholarship Accounts, ESAs allow families to receive a portion of the dollars that would have been spent on their children’s education in a public school to instead pay for tuition, tutors, and a variety of other teaching tools that best meet their children’s needs.²

Initially limited to students with special needs, Arizona’s ESA program has grown from just over 100 participants in 2011-2012 to approximately 10,000 by the 2020-2021 school year, as shown in Figure 1. And far more than a mere statistic, each of these students represents a life changed by the program.

Figure 1
ARIZONA’S ESA ENROLLMENT SINCE PROGRAM INCEPTION (FY 2012 - FY 2021)

Source: Number of ESAs as reported by the Arizona Joint Legislative Budget Committee for Fiscal Years 2012-2020 and the Arizona Department of Education for Fiscal Year 2021.
When testifying to the Arizona State Board of Education in July 2020, for example, dozens of Arizona parents spoke of the impact of the program on their children.

As one ESA mother described, “I am a parent of three children on ESA, but I also have a master’s degree in elementary education, and ESA has saved the educational lives of my three children. ... We have tried public, private, and charter schools ... [and] my child was able to meet some of her IEP (Individualized Education Program) goals in four months that no school had helped her to achieve in four years.”

As another mom put it, “ESA saved my son from a path that would have compromised him on a systemic level, ultimately hindering his ability to pursue secondary education, sustainable employment, and independent living.”

And a mother living in rural Arizona said, “I want all to know that this ESA option to educate my children truly saved my family; my oldest has significant disabilities and she attended our public school through her ninth grade year. ... So many years were spent advocating and begging and pleading for her to be educated, and more importantly, even wanted ... ESA has opened up our world to educational opportunities never to be found in the public school setting.”

A DECADE OF SUCCESS
INCREASING DEMAND FOR ESAS IN ARIZONA AND ELSEWHERE

With testimonials like this, it is little wonder that Arizona’s ESA program has attracted an increasing number of students and families over the years. But what is especially noteworthy is the accelerating rate at which it has done so. As shown in Figure 1, between Fiscal Years 2020 and 2021, Arizona’s ESA program added nearly as many students in a single 12-month period (approximately 2,000) as it did in the first five years of the program combined. And similarly, since Fiscal Year 2019 (the last full year prior to the COVID-19 pandemic and public school shutdowns), participation in the program has surged by more than 50%, increasing from about 6,500 to almost 10,000 students.

Some of the increased growth relative to the program’s first years reflects the increased eligibility pool of students—which has been expanded to also include students from military families, the foster care system, failing public schools, and Native American reservations. Yet the majority of these groups were added to the pool of eligible students by the second year of the program, suggesting that the recently accelerated growth is primarily due to other factors.4

Those factors appear to be increasing awareness and demand for the program, both of which were dramatically heightened as a result of pandemic-era public school shutdowns. As reported by polls such as a joint RealClear Opinion/American Federation for Children survey, for example, support for private school choice programs like ESAs increased by 10 percentage points nationally in just the first six months of school closures in 2020, with 77% of parents with public school children registering support for them.5 Other polling such as the EdChoice Fall 2020 Schooling in America survey similarly found 81% support for ESAs among the general population and 86% among parents of K-12 students.6
Likewise, among demographic groups who have often been least well served by the traditional public school system, support for ESA-type programs has been even more pronounced. The Harvard-affiliated journal Education Next’s 2020 public opinion survey, for instance, found nearly 4:1 support (65% in favor vs. 17% opposed) for low-income private choice programs among African Americans, even as members of the education establishment (e.g., members of teachers unions) opposed the same programs with even greater and opposite fervor (12% support vs. 80% opposed). In contrast, Hispanic respondents likewise indicated support for private choice options akin to ESAs at a rate of nearly 3:1 (62% in favor vs. just 23% opposed).7

Given such levels of support, it is perhaps unsurprising that ESAs have taken hold in several states beyond Arizona over the past decade, a trend now accelerating in the wake of pandemic-era school closures. Indeed, 10 states have successfully enacted ESAs or related legislation as of 2021, including Arizona, Florida, Indiana, Kentucky, Mississippi, Missouri, New Hampshire, North Carolina, Tennessee, and West Virginia.8
Despite the remarkable demand for ESAs among families across the nation, defenders of the status quo have assailed the ESA program as one that “defunds the public schools of our state” and threatens the well-being of public school students and teachers at large.\textsuperscript{9}

As shown in Figure 2, however, the dramatic increase in Arizona’s ESA participation over the past decade has coincided with substantial increases in Arizona’s public school per-pupil funding levels. Specifically, since the first cohort of students joined the ESA program for the 2011-2012 school year, Arizona’s per pupil funding has risen by nearly $1,600 in inflation-adjusted terms.\textsuperscript{10} This translates to more than $30,000 of additional funding per class of 20 students at Arizona public schools, on average.
Figure 2

INCREASED ARIZONA ESA ENROLLMENT HAS ALIGNED WITH GREATER FUNDING FOR PUBLIC SCHOOLS (PER PUPIL) OVER THE PAST DECADE

Source: Number of ESAs as reported by the Arizona Joint Legislative Budget Committee (JLBC) for Fiscal Years 2012-2020 and the Arizona Department of Education for Fiscal Year 2021. Change in public school per pupil funding based on total per pupil funding reported on August 17, 2020, by JLBC: All Funding FY 2001-2021, adjusted for inflation using Bureau of Labor Statistics CPI figures, in constant 2020 dollars. Increased public school revenues include approximately $330 per pupil from the Coronavirus Aid, Relief, and Economic Security (CARES) Act, but exclude all additional federal funds authorized under the Coronavirus Response and Relief Supplemental Appropriations Act and the American Rescue Plan.

Of course, this correlation does not mean ESAs are directly responsible for the increase in Arizona public school revenues, but it does appear to invalidate opponents’ claims that increased ESA enrollment would reduce investments in public K-12 education.

In fact, as noted in a prior Goldwater report, each time a child opts out of the Arizona public school system for an ESA, over $600 of state funding is redirected away from that child and given back to the remaining public school students at large. This means that Arizona’s ESA program now sends over $6 million of state funding back to other public school students each year—and that’s in addition to federal funding that school districts often keep even when a qualifying child transfers from a public school to the ESA program. The result: higher per pupil funding levels for students in Arizona public schools.
Among the most common criticisms that have been leveled against Arizona’s ESA program is the claim that it provides insufficient financial support for middle- and lower-income families to pay the high cost of private school. Even with ESA funding, the logic goes, private education remains unaffordable except to wealthy families, who could already have paid for it in the first place without an ESA.

This critique may seem intuitively plausible, but reality is quite different. Indeed, if anything, it is middle- and lower-income families who stand to benefit most from programs like Arizona’s ESAs.

THE REALITY OF PRIVATE EDUCATION COSTS IN ARIZONA

In the 2016 EdChoice report Exploring Arizona’s Private Education Sector, researcher Andrew Catt found that while private education costs in Arizona ranged as high as $29,700 at the elementary school level, such high-cost schools represented a significant minority of private operators. When looking at the far more representative measure of median tuition levels—that is, the tuition rates at which half of schools charge more and half charge less—Catt found that median private school tuition and fee rates were nowhere near this amount. Among private elementary schools, for instance, the median tuition charge amounted to just $5,700.12

Based on the tuition and fee data of an even larger sample of private schools that was collected in the spring of 2021, this report finds that median private school tuition rates in Arizona remain far below the maximum levels identified by Catt. Specifically, median private tuition and fee rates in 2021 range from $6,500 for kindergarten and elementary schools to $6,600 for middle schools and $11,400 for high schools.13 In comparison, the median 2020-2021 ESA award value (for non-kindergarten, non-special education students) was more than $6,400, meaning that tuition and fees at the majority of private elementary and middle schools are fully or nearly fully covered by the typical ESA award. (See Figure 3.) While a notable gap remains between the value of ESA awards and the median private high school tuition and fee rate, this data suggests that families seeking to establish a stronger educational foundation—particularly in the K-8 grade range—via private education would have the means to do so with an ESA, regardless of the family’s wealth or income.
Figure 3

ESA AWARDS COVER NEARLY 100% OF MEDIAN PRIVATE ELEMENTARY AND MIDDLE SCHOOL TUITION/FEE RATES IN ARIZONA (2020-2021)

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<thead>
<tr>
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<th>Median TUITION &amp; FEES / AWARD AMOUNT $</th>
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<tbody>
<tr>
<td>ESA Award</td>
<td>$6,417</td>
</tr>
<tr>
<td>Private Elementary</td>
<td>$6,500</td>
</tr>
<tr>
<td>Private Middle</td>
<td>$6,624</td>
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<td>Private High</td>
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Source: Private school tuition and fee rates as reported on school websites or retrieved by request in March 2021 (n=236). Surveyed institutions include private schools independently identified as serving students in grades K-12 in Arizona or included in the Private School Universe Survey, conducted by the National Center for Education Statistics within the U.S. Department of Education, with enrolled students in grades K-12, excluding programs that serve only special education pupils. ESA award value reflects median ESA award values for non-kindergarten, non-special education participants based on program data provided by the Arizona Department of Education.

To further illustrate the extent to which ESA awards in Arizona meet or exceed private school costs, Figure 4 shows the distribution of private elementary schools in Arizona by tuition and fee rates compared to the state’s median ESA award value. Based on the sample of elementary schools for which tuition and fee information was retrievable (n=162), the state’s median ESA award value is equal to or greater than the tuition and fee rates at roughly half of private elementary schools. ESA families choosing any such private schools would therefore face virtually zero out-of-pocket cost for the tuition and fees, just as they would at a public school.
Notably, this survey of the costs of private education in Arizona also reveals another often overlooked aspect of Arizona’s broader K-12 offerings: Private education tends to be significantly less expensive for enrolling families than public school education is for taxpayers. In particular, as shown in Figure 5, while Arizona’s public school per-pupil funding reached $11,600 in 2021, median tuition rates for private grade school students landed between $6,500 and $6,700. Median private school tuition rates do not even remotely approach public school per-pupil revenues until high school. In other words, the investment that taxpayers make to support public K-12 students each year is reliably higher than what private school operators charge their enrolled families for the educational experience.
This latter point becomes even clearer when comparing the cost of taxpayers’ investments in public school compared to the per-pupil investment of taxpayer resources into the ESA program. As shown in Figure 6, the typical ESA award in 2020-2021 (for a non-kindergarten, non-special education student) was roughly $5,000 less than the amount of money devoted to an Arizona public school student, on average.

Source: Public school per pupil spending as reported by the Arizona Joint Legislative Budget Committee in August 2020. ESA award value reflects median ESA award values for non-kindergarten, non-special education participants, based on program financial data provided by the Arizona Department of Education.
ESAS OFFER A STUDENT-CENTRIC SOLUTION TO GROWING AND DECLINING DISTRICTS ALIKE

Although ESAs cost taxpayers significantly less money than traditional public school education per student (and thus leave more taxpayer resources available to be spent on remaining public school students), opponents of choice programs have often suggested that ESAs “poke holes in the education funding bucket” and “drain millions of dollars every year” from public schools. Setting aside the empirical evidence described earlier in this report that shows ESAs’ positive fiscal impact on public K-12 funding overall—as well as the underlying assumption these dollars are somehow owed to a system rather than to students—it is worth addressing this critique on a district rather than statewide level as well.

Doing so reveals that the imagery of a leaky bucket may be partially appropriate, but perhaps not in the way ESA opponents envision. Consider, for example, two districts in Arizona: Chandler Unified and Tucson Unified. As the second- and third-largest school districts in the state—each with just over 45,000 students as of the 2018-2019 school year, and each situated in a major metropolitan region—these two districts serve among the highest numbers of ESA students (in raw totals) in the state and each helps illustrate the impacts of the program in a distinctive way.

Since the ESA program began in the 2011-2012 school year, the number of Tucson Unified students participating in it each year has risen to 705. In the eyes of critics, these 705 students are largely reducible to financial punctures in the district’s budget, with each representing an additional “hole” leaking several thousand dollars from the district’s funding bucket. But while this might seem to validate the metaphor at first glance, consider that, in total, the district has shed 10,293 students over the same period. ESA students thus represent only about one out of every 15 kids who have left the school district, meaning that ESAs make a poor scapegoat for the flood of students (and formula funding) issuing out of the traditional public schools.
If Tucson Unified is a leaky bucket, then the ESA program might be more properly viewed as a second pail helping to catch at least a small portion of the students already rushing from the district. Given Tucson Unified’s poor academic performance and financial mismanagement—exposed most recently by the Arizona Tax Research Association in 2021—its no surprise that students would be seeking options elsewhere.

Of course, the impacts of ESAs are not limited to districts with overall declining enrollments, as is evident from the second district mentioned above: Chandler Unified. Since the inception of the ESA program, Chandler’s overall district enrollment has significantly grown, with the construction of new campuses and additions to existing campuses still ongoing. Rather than leaking students, therefore, Chandler could more appropriately be described as overflowing with them, requiring tens of millions of taxpayer dollars in new construction to adequately absorb these extra students in new facilities. From a strictly financial perspective then, Chandler Unified’s 369 ESA students help relieve some of the pressure to build additional facility space. This in turn reduces the overall cost of public education and leaves those unspent dollars available for potential reinvestment in the K-12 system elsewhere.

In short, contrary to the claims made by critics, an ESA program represents a poor scapegoat for declining districts’ lackluster enrollment or financial pressures, but the program does offer a release valve in growing districts whose only options would otherwise be overcrowded classrooms or the costly construction of new facilities.
Arizona’s ESA program offers useful insights for policymakers regarding the operations and administration of such programs in at least three significant areas:

1. Ensuring that funds are used as intended
2. Establishing checks and balances against administrator mismanagement
3. Providing program guidance and consistency for parents

Regarding the first of these issues, Arizona’s ESA program garnered national attention in 2018 when the state’s government watchdog agency, the Auditor General, found “more than 900 successful [ESA] transactions at unapproved merchants totaling more than $700,000.” While various pundits and activists rushed to report and repeat this finding as evidence of widespread fraud—ignoring the fact it meant that about 99% of program funds were spent at approved merchants—this episode actually offers an extraordinary testament to the financial accountability achievable within an ESA program.

Specifically, when reviewing the program data from the following year, the very same state auditors concluded in 2020 that “Concerns with debit card administration have largely been addressed. … Our review of all 168,020 approved transactions identified in the Department’s Program account transaction data between October 31, 2018 and October 30, 2019, found only 1 successful transaction at an unapproved merchant totaling $30.” As a first-of-its-kind program, Arizona’s ESA framework has thus already paved the way for other states looking to implement and strengthen program safeguards.

While Arizona’s ESA program has demonstrated enormous success in limiting program misspending as identified above, it has also revealed the importance and feasibility of ensuring adequate guidance and resources for parents. For example, in the same report that the Auditor General disclosed the dramatic drop in expenditures at unauthorized merchants, the auditors found that Arizona ESA parents had been given wholly unreliable information from program administrators on a worryingly frequent basis.

According to auditors, the staff of the Arizona Department of Education (which operates the program) “provided poor-quality information in 24% of calls” with ESA parents during 2019, including an episode when “staff erroneously advised a customer that a specific tutoring service was not an allowable expense.” That
means roughly one in four ESA parents who sought help from its administrators in understanding program rules came away equally if not more unclear about what they were or were not allowed to buy with ESA funds.

Fortunately, however, the Arizona ESA families who have pioneered the program’s uncharted territory over the past decade—and who have in many cases endured inconsistent and adversarial bureaucratic policy decisions—have also helped clear the path for the students and families now following in their footsteps in Arizona and around the nation.

In response to the program’s administrative challenges, Arizona’s legislature established a new system of checks and balances for the governance of the ESA program in 2020, placing authority with the State Board of Education to review and, if necessary, override administrative decisions made by the program operators to ensure that parents receive proper support and guidance.

Indeed, thanks to the work of the State Board, the coalition of policy organizations supporting ESAs, and the active participation of ESA parent groups, Arizona’s ESA program has embarked on a trajectory of new growth and maturation. Under new rules enshrined by the State Board of Education, for example, Arizona’s ESA program now provides parents a (non-exhaustive) database of previously approved items (see Figure 7), helping families to navigate and know, in advance, whether a given item has already been deemed as falling within one of the various categories of allowable educational purchases. While itself only a single additional step, such features of Arizona’s ESA program provide a model of what is possible for the future, both in the Grand Canyon State and across the nation.

**Figure 7**

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<th>Search Allowable Items</th>
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<td><strong>Searching in the Expense Field:</strong></td>
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<tr>
<td>1. To search, type in a keyword or name of what you are thinking of.</td>
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<td>2. The database will pre-populate suggestions.</td>
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<tr>
<td>3. To learn more about a specific item from this list, click on one of the suggestions.</td>
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<td>4. The item will be in the search field. Click in the field and hit “ENTER” on your keyboard to list the item below.</td>
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CONCLUSION: ESA MILESTONES OF 10

Now as the nation’s first ESA program turns 10 years old and approaches the 10,000-student mark, families in 10 states will have gained access to ESAs or related legislation, with half of those new programs enacted in 2021 alone. These extraordinary gains have not only helped expand educational opportunity to families across the nation, but also point to the potential for replicating such programs elsewhere. As policymakers, parent groups, and allied organizations seek to increase access and improve the quality of ESA programs around the nation, they stand to benefit from the progress and lessons learned in Arizona and elsewhere.
WORKS CITED


13. Private school tuition and fee rates as reported on school websites or retrieved by request in March 2021. Surveyed institutions include private schools independently identified as serving students in grades K-12 in Arizona or included in the U.S. Department of Education National Center for Education Statistics (NCES) Private School Universe Survey, not including schools identified as serving only special needs populations, for whom tuition rates are often variable and do not provide valid point of comparison. Tuition and fee information was obtained for 236 distinct Arizona private schools, including 121 kindergarten programs, 162 elementary programs, 146 middle school programs, and 73 high school programs.


