

NEPC Review: ESA's in Arizona: Q3 2025 Report (Common Sense Institute Arizona, October 2025)



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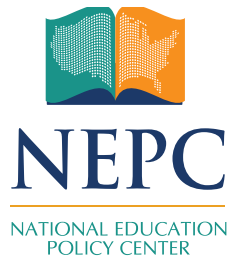
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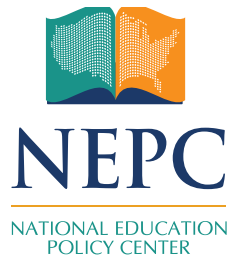
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Summary

A recent Common Sense Institute report addresses two important policy questions about Arizona's ESA program. First, how much will the ESA program cost in the upcoming year? Second, what are the characteristics of ESA users by household income and race/ethnicity? The report concludes that the ESA program is "essentially fully subscribed," meaning that the program is not expected to experience runaway growth in students and cost to the state, as it did the past two years. Furthermore, the report reasons that, at this point in the policy's implementation, ESA costs are effectively negated by enrollment declines in public schools and that taxpayers are "paying for approximately the same number of students as was expected five years ago." However, given the limited data available about the program's volatility, policymakers should not be lulled into thinking that the major financial hits to the state's budget are in the past. The report also concludes that the typical ESA student comes from middle-income Arizona households and that ESA students look generally like the Arizona student population with respect to race/ethnicity. But this finding is belied by the fact that the ESA students are considerably more white than Arizona's public-school students.



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I. Introduction

In 2022, Arizona became the first state to pass a universal Empowerment Scholarship Account (ESA) program. ESAs allow parents of

qualified students to utilize state tax dollars . . . to purchase educational materials and services from educational materials and services from educational and retail vendors, private schools, and a variety of education service providers. Eligible students receive . . . equivalent to 90 percent of the state funding that Arizona would have spent on them had the students attended their local public schools.¹

The ESA program experienced explosive increases after Arizona passed the universal ESA program, growing from 12,127 students in June 2023 to 75,500 students in February 2024.² In September 2025, 92,362 students were enrolled in the ESA program.

ESA's in Arizona: Q3 2025 Report, authored by Glenn Farley of the Common Sense Institute (CSI), is the third ESA report by CSI in the past year.³ Like the previous two reports, the Q3 report addresses a series of important policy questions about Arizona's ESA program, namely how much will the ESA program cost in the upcoming year? And what are the characteristics of ESA users by household income and race/ethnicity?

The challenge for CSI, state of Arizona officials, and any other research organizations interested in the ESA program, is that Arizona law requires the collection of extremely sparse data about ESA participants and how the participants spend public

funds. Thus, CSI is left to answer the forementioned policy questions based on these limited program-related data coupled with aggregate and variable population projections from the American Community Survey by zip code.

II. Findings and Conclusions of the Report

For the upcoming fiscal year (FY26), the report estimates that 102,800 students will participate in the Empowerment Scholarship Account (ESA) program. The average ESA cost to the state per pupil will be \$10,349 and the overall ESA program will cost \$1.04 billion, approximately 10% of the total \$10.35 billion allocated for public education in Arizona. Of the \$1.04 billion, the report estimates that “only \$567M is attributable to Universal ESA eligibility.”⁴ Universal ESA participants are of particular importance because these students were not enrolled in public schools prior to receiving an ESA and represent new expenses to the state. In FY23, the year after the universal expansion, universal ESA eligibility participants accounted for 79% of new enrollees. In FY25, the percentage of new enrollees who were universal ESA eligible participants dropped to 43.4%.⁵

The report claims that ESA costs are “offset by savings from reduced school enrollment.”⁶ It cites three potentially offsetting macro enrollment trends (declines in public school enrollment, slight increases in charter school enrollment, and the leveling out of students receiving funds to attend private schools through Arizona’s School Tuition Organization [STO] program) to assure taxpayers that “in practice they are paying for approximately the same number of students as was expected 5 years ago. The only difference is the character of those students versus expectations – there are relatively more ESA and Charter students, and relatively fewer District and STO students.”⁷

Given the runaway growth of the ESA program the past two years, the key policy question facing Arizona is how much more the program is expected to grow. The report estimates:

[T]here are 112,155 school-aged children in Arizona who were not attending a public school in Arizona full-time, and therefore eligible for an ESA . . . After accounting for uncertain STO utilization, the ESA program is now for all intents and purposes fully subscribed, subject to new growth and ‘switchers.’⁸

Switchers are students who previously attended an Arizona public school prior to enrolling in the ESA program, for whom the state was paying some amount prior to their receiving an ESA. In FY25, 56.6% of new enrollees were “switchers” and do not represent an entirely new cost to the state.⁹

Lastly, based on the number of students receiving an ESA by zip code, coupled with population estimates from the American Community Survey, the report concludes that “56.7% of ESA recipients were living in Arizona zip codes with a median family income of between \$75,000 and \$150,000” and “while 18% of ESA users are estimated to be nonwhite, this is statistically less than for Arizona’s *overall* [emphasis added] population (21.3%).”¹⁰

III. The Report’s Rationale for Its Findings and Conclusions

The conclusions are based on the following rationales:

1. The estimated number of students eligible for a Universal ESA is accurate and ESA participation is in fact “near its ceiling,” such that the state should not expect future runaway increases in new costs.
2. Student “switchers” are effectively revenue-neutral to the state. In other words, the amount per pupil that the state was paying for students to attend public schools before they “switched” to the ESA program is essentially the same per-pupil amount overall.
3. The demographic estimates are reflective of the “typical” household by zip code, despite the considerable variability in household characteristics within zip codes.
4. The ESA student population is comparable to Arizona’s *overall* population.

IV. The Report’s Use of Research Literature

The report includes only eight references, almost all of which are reports from state agencies, and cites primary financial data from state sources. It is missing relevant citations that include another report on the fiscal impact of Arizona’s ESA program conducted by a nonpartisan research organization.¹¹ It does not provide details about its calculation of population estimates.

V. Review of the Report’s Methods

The following methodological concerns cast doubt on each of the report’s rationales listed above:

1. The report does not provide sufficient technical documentation to verify the number of ESA-eligible students in the Arizona population to confirm that the program is “full-subscribed.” This calls into question the report’s estimates of the ESA program’s “ceiling.” Furthermore, the report assumes that students receiving a Student Tuition Organization (STO) award will not enroll in the ESA program in large numbers, increasing costs. STO students who enroll in the ESA program would be a new cost to the state. Lastly, it is important to note that students can use ESAs for a variety of educational services and providers that extend well beyond private schools, such as homeschooling and micro-schools.
2. The claim that “switchers” are effectively revenue-neutral to the state fails to consider that not all “switchers” cost the same amount. The amount of money that a “switcher” costs (or saves) the state depends on where the student attended school before enrolling in the ESA program. For example, in FY2024, if a student attended one of the majority of Arizona school districts that receives state aid, the state *spent* \$869 more for that student when they “switched” to an ESA. Some districts, such as Scottsdale Unified School District, do not receive state aid. If a student attended a no state-aid district in FY2024 and “switched” to an ESA, they shifted the entire cost of their education (\$7,223) to the state. If students “switched” from a charter school, the state *saved* \$803 per student.¹²
3. The claim that demographic estimates reflect the “typical” household can be misleading. A single zip code can contain a wide range of households of very different socioeconomic conditions. The report uses median household income to estimate the “typical” household using ESAs per zip code but there is no indication that ESA users are from the “typical” household. For example, in zip code 85253, where 710 students enrolled in a public school before receiving an ESA, the median household income in 2024 was \$182,150 and the average household income was \$318,105.¹³ The lack of specific data on ESA households coupled with the variability in household incomes within zip codes makes it impossible to measure the “typical” ESA household with a sufficient degree of certainty.
4. The report compares the ESA student population to Arizona’s *overall* population, which is misleading. Arizona’s public school population, a more appropriate comparison to the ESA student population, is 65% nonwhite—a substantially larger proportion than is cited by the report. Thus, the composition of Arizona’s ESA student population consists of a considerably lower percentage of nonwhite students compared to Arizona’s public school population.¹⁴

VI. Review of the Validity of the Findings and Conclusions

The report attempts to assure readers that the runaway costs previously associated with the ESA program are in the past because “it is likely that nearly all ESA-eligible students in Arizona are now enrolled,”¹⁵ that the cost of the ESA program to the state is neutral, and that students enrolled in the ESA program look generally like Arizona’s *overall* population (although it fails to point out that ESA students are disproportionately white compared to Arizona’s public school population). Given the limited data available and the volatility of the ESA program, the reality is that everyone with a stake in the ESA program and Arizona public education more broadly is left guessing. In fact, the state agency primarily responsible for budget analysis in Arizona indicated with respect to its estimates of the ESA program for upcoming year that, “Due to the uncertainty of when the program will reach a ‘steady state’ of enrollment, all ESA projections remain highly speculative.”¹⁶

The new Common Sense Institute (CSI) report reviewed here is part of a converging body of evidence that indicates that the state of Arizona experienced a significant budget shortfall as a result of the universal ESA expansion the year after the universal expansion, when 53.3% of new K-12 funding was directed toward paying for ESA students who represented only 8% of the Arizona student population.¹⁷ What is less clear, and certainly debatable, is the extent to which counteracting shifts in enrollment trends are likely to offset the financial hit to the state general fund. Most importantly—and in contrast to the report’s reassurances—it is unclear if the observed trends as depicted in the report will continue in the future. The report limits the public’s imagination to ESA usage in private schools. Importantly, ESAs are available to literally all Arizona school-aged children to spend on any educational services or providers that may be dreamed up to get in line for public funds in the future. There is no cap on how much the ESA program can drain from Arizona’s budget.

VII. Usefulness of the Report for Guidance of Policy and Practice

Over the past year, the Common Sense Institute (CSI) has released quarterly reports on Arizona’s ESA program that have all addressed essentially the same questions. The Q3 report does not break new ground relative to the first two versions. The frequency of the reports, however, illustrates the urgency of the ESA program to Arizona education policy and the general uneasiness about the program’s future impact given its past volatility. The report bends over backwards to give the impression that the dust has settled from the runaway growth that Arizona’s ESA program experienced after the universal expansion. Yet, the report’s estimates are hamstrung by the

extremely sparse data available about the program and, based on this major limitation, policymakers should not be lulled into thinking that the major financial hits to the state's budget are in the past.

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