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Spending in Arizona's ESA Program: A Multi-Stage Transaction-Level Analysis

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INTRODUCTION

Fifteen years ago, Arizona policymakers made a transformational statement when they enacted the Empowerment Scholarship Accounts program. Beyond simply arguing that parents should have more say in how their children are educated, the Arizona legislature created the architecture to allow families to fully customize their child's education. Starting small, the program was initially limited to students with special needs. In 2022, eligibility was expanded statewide.

The more than 100,000 families that participate today have a wide variety of allowable purchases that they can make when they participate in the program. On average, their ESA is funded with $9,572 that they can spend on private school tuition, books, learning materials, educational technology, tutoring, curriculum, and more. Total spending in 2025-26 will hover around $1 billion, or about 8% of Arizona's combined program and public K-12 current expenditures ($12.7 billion). That represents a lot of families making a lot of purchases.

But, it is important to note, the Empowerment Scholarship Program (ESA) is an *education* savings account program. Dollars are not placed into a child's account to be spent in any way that parents want. Expenses are limited to appropriate, educational goods and services.

If other social services are a guide, we can expect a certain percentage of those purchases to be done either in honest error or with the intent to commit fraud. The Government Accountability Office's most recent study of improper payments found 18 federal programs with error rates of at least 10%, six of them with error rates above 25%. $162 billion was lost across Medicare, Medicaid, the Earned Income Tax Credit, the Supplemental Nutrition Assistant Program, and the Restaurant Revitalization Fund.[1]

Identifying unallowed spending is an important goal of a public program, as every dollar not spent on education is a dollar that could be better put to use achieving what the program sets out to do. However, there comes a point when taxpayer resources used to prevent errors can exceed the costs of the errors themselves. In 1975, the economist Arthur Okun published *Equality and Efficiency: The Big Tradeoff*, wherein he offered the metaphor of a leaky bucket in analyzing government transfer programs (like SNAP or an ESA program, though the latter did not exist yet).[2] Rooting out every instance of misspending or fraud might not be the optimal policy, because the time, effort, and manpower required can end up costing more than the misspending itself. Social programs accept some amount of misuse as the cost of doing business because it is financially self-defeating and politically inexpedient to devote many resources to catching every SNAP recipient buying vitamins or every ESA parent buying paper towels.

To know where the Arizona Empowerment Scholarship Program sits in this balance between costs of errors and costs of enforcement, it is important to know the nature and scope of unallowable purchases in the program. The purpose of this paper is to estimate the rate of unallowable expenses – considering both quantity of transactions and the value of dollars spent – and seek insights into any traits or patterns in these errors. This report is the most rigorous review of the data to date.

To reach those estimations, this paper uses two different approaches to identifying unallowable spending. First, using a random sample of 2,700 Marketplace transactions, we use our best judgment applying the Arizona Department of Education's (ADE) guidelines to determine how many transactions were unallowable and how much they cost altogether. Secondly, because Amazon is the highest-flexibility store ADE approved for Marketplace, and because spending totals are heavily weighted by relatively few expensive items, we isolate high-dollar Amazon items purchased through Marketplace. We estimate the share of expensive items ($500 or greater in cost, 16,580 items in total) that are unallowable based on ADE's guideline using our best judgment.

KEY FINDINGS

- We estimate 1-2% of ESA spending is unallowable based on the Arizona Department of Education's guidelines.[3]

- 91% of ESA spending occurs through direct pay and reimbursement. Current evidence suggests effectively no unallowable spending through direct pay and little unallowable spending through reimbursements.

- The remaining 9% of total ESA spending happens within an online Marketplace managed by program administrator ClassWallet. While Marketplace constitutes a low percentage of overall spending, it makes up 73% of total transactions because the average price of items purchased is so low ($59).

- Based on an analysis of random sample of the online Marketplace transactions and applying ADE's guidelines, about 9% of Marketplace transactions are for unallowable items, representing 1.26% of all ESA spending.

- The most common marketplace transactions are educational in nature, including books and school supplies.

- The vast majority of Marketplace transactions, both allowable and unallowable, appear to take place through Amazon. Of these, 70% of items purchased cost less than $30.

- A line-by-line analysis of all items over $500 purchased on Amazon suggests about $1.3 million of these purchases, or 0.2% of total program spending, may be unallowable.

- Given the high volume of low-cost purchases, policymakers must consider the cost of enforcement versus the cost of lost dollars to unallowable expenses. Strategy emphasizing systemic and technological innovations may reap the greatest return on taxpayer dollars.

DATA

EdChoice submitted a public records request to the Arizona Department of Education and received transaction-level data for all Marketplace and reimbursement transactions between July 1, 2022 and December 31, 2025. For each Marketplace transaction, EdChoice received the quantity of items purchased, the item description, the price of each item, and the price times the quantity of that item purchased. Transaction reversals also were included. EdChoice received the same data for reimbursements, minus the item description, which were not included. Individuals were deidentified, but treasury identification and purchase order numbers were included. Vendor-level data was provided for direct pay transactions.

Data for Fiscal Year 2025 (FY 2025), which roughly corresponds to school year 2024-25, are the focus of this analysis. Unlike direct pay and Marketplace transactions, reimbursement transactions were organized by calendar year by ADE. As such, we focus on calendar year 2025 for our calculations of reimbursement transactions.

THE NATURE AND DISTRIBUTION OF ESA TRANSACTIONS

Types of ESA Spending

In school year 2024-25, Arizona families spent just under $850 million through the ESA program. To make any accurate claims about how well that money aligned with program guidelines, it is essential to understand the different ways an ESA family can make a purchase. In 2019, the state decided to phase out its initial method of transactions, debit cards via Bank of America, and replace it with a digital marketplace, managed by ClassWallet. In this new system, families can make purchases in one of three ways (the debit card is still being phased out).

The first option is *reimbursement*. This method allows families to purchase an educational item from a store with personal money and send the itemized receipt to ADE to be paid back with funds in their ESA account. To utilize this option, an ESA parent must connect their personal bank account with their child's ClassWallet ESA account, which ClassWallet verifies. Each receipt must include the vendor name, address, and contact information; receipt date, transaction number; itemized amounts and total amounts charged; and an itemized list and description of items or services the family purchased. The state also requires families to submit curriculum requirements, therapist recommendations,

service provider credentials, business accreditation, or other information that verifies the legitimacy of the educational purchase. In 2024-25, there were about 156,000 transactions totaling about $314 million dollars, or about $2,000 per transaction on average.

The second option a family may select is sending a payment to a pre-approved vendor directly through ClassWallet. We call this method *direct pay*. Most vendors families use via direct pay are private schools. Tutors, online classes, educational therapies, and curriculum providers also populate the direct pay vendor list.[4] For a vendor to receive money via direct pay, they must be registered with ClassWallet. While registering, vendors submit documentation verifying their legitimacy as a school, tutor, therapist, or other educational provider. The state's ESA administrators review this documentation before putting the vendor on the ClassWallet platform. This front-end review work streamlines transactions for families. Because paperwork identifying the vendor's educational functions occurred before the ClassWallet transaction could occur, the state does not need the family to submit documentation; they simply must make a selection online. In school year 2024-25, there were about 341,000 direct pay transactions totaling $455 million, or a little more than $1,350 per transaction.

The final payment option is what ClassWallet calls "Marketplace," an e-commerce platform hosted by ClassWallet with over 100 online stores approved by ADE, such as Amazon, Michaels, and Staples. From a flexibility perspective, one might consider it a "middle ground" between reimbursements and direct pay. To make a purchase on Marketplace, families login to their ClassWallet account and select the online store they are interested in. After selecting the store, they navigate that store's website and select items or services as they typically would. When checking out their online cart, families must specify what category of allowable expense the purchase fits. The confirmation screen tells the user that their purchase has been submitted for approval, and if it is approved, the order will be forwarded the online store. Marketplace accounts for the majority of transactions in the ESA program but a small minority of *money spent* in the ESA program. In 2024-25, there were nearly 1.4 million transactions in the Marketplace, totaling about $80 million, or $59 per transaction.

Total transactions and money spent per purchase category are illustrated in Table 1.

TABLE 1 **Distribution of expenditures by method**

Method	Total $ transactions	% of total dollars	Total # transactions	% of total transactions	Average $ amount per transaction
Direct Pay	$454,595,412	54%	341,059	18%	$1,333
Reimbursement (CY 2025)	$314,392,613	37%	156,294	8%	$2,012
Marketplace	$79,740,678	9%	1,360,225	73%	$59
Total	**$848,728,703**		**1,857,578**		**$457**

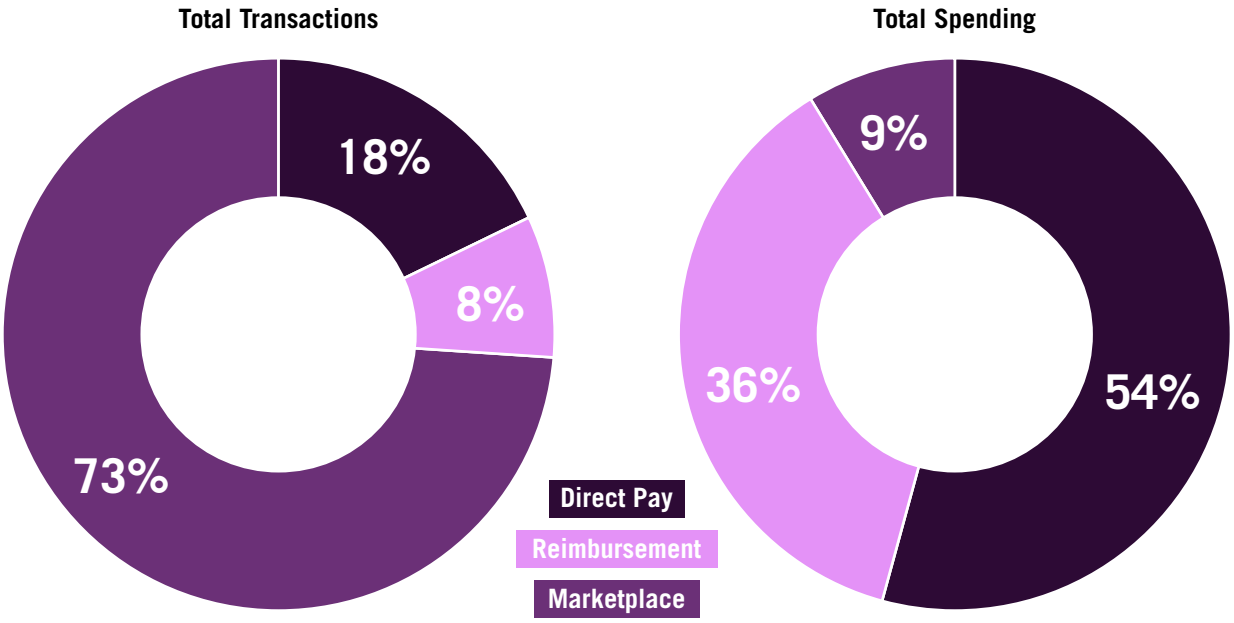
Spending versus transactions

Most transactions occur in Marketplace, but most spending occurs through direct pay. Given that, defining units of analysis is crucial when discussing "how much" a certain type of purchase occurs in the ESA program, especially erroneous or fraudulent purchases. Marketplace transactions make up over half of all transactions in the program, but that does not mean over half of taxpayer dollars in the program go to online stores. Both approaches are necessary to understanding the program. Transaction counts for unallowable expenses are important because they reveal systematic issues in how the program is administered. Total dollars toward unallowable expenses are important because they reveal the severity of those systematic issues and signal where improvements should be prioritized.

FIGURE 1 **Transaction distribution versus spending distribution**

Most ESA transactions take place through Marketplace, but most money is spent through Direct Pay.

% of total, 2024-25



Source: Author's calculations, Arizona Department of Education.

REVIEWING A RANDOM SAMPLE OF MARKETPLACE TRANSACTIONS

Motivation

This section analyzes the degree to which ESA purchases adhere to program guidelines around allowable and unallowable expenses. In doing so, there is a particular focus on Marketplace transactions. The motivation for this emphasis is threefold. First, item description is crucial for discerning what a family has purchased, particularly if the item is bought from a store that sells a wide range of goods.

Second, local media coverage of unallowable expenses in ESA spending appears focused on quantity of transactions rather than spending amount.[5] Marketplace purchases will be weighted heavily in any program-wide analysis of transactions rather than spending.

Third, current evidence suggests, given current program parameters, Marketplace is more susceptible to unallowable expenses than direct pay or reimbursements. In the ADE's self-audit of its ESA program published on March 12, 2026, direct pay had just $87 of unallowable spending, which were attributable to school fees. It is reasonable to assume parents who paid these fees in error did not know school fees were not allowable expenses or did not know how to disentangle the allowable expenses from the unallowable expenses.

That leaves Marketplace and reimbursements. Marketplace transactions were three times more likely to be for unallowed expenses (14.7% of all Marketplace transactions) compared to reimbursements (5.1% of reimbursement transactions). Filtering unallowable expenses to "egregious/abusive"

spending, ADE's term for spending that would never be justifiable for any student type (e.g. disability diagnosis) or any curriculum requirements, ADE found Marketplace had a 3.5 times higher rate (2.8%) compared to reimbursements (0.8%).[6] Monetarily, unallowable expenses through Marketplace represented five times more money (10.3% of all Marketplace spending) compared to reimbursements (2.0% of reimbursement spending). In short, based on ADE's study, Marketplace appears to carry the greatest risk for unallowable expenses.

Methodology: Random Sampling

To offer a rigorous and transparent analysis of Marketplace in Arizona's ESA, EdChoice randomly pulled a sample of 2,700 Marketplace transactions from the 2024-25 school year. The sample was generated by appending all Marketplace transactions from the data received, keeping only 2024-25 transactions, and using Stata's "sample count" command.[7] (Note: ADE's sample was pulled from transactions between July 1, 2025 and February 27, 2026, so the time periods between these two studies do not align.) This sample offers a 99% confidence level that is representative of all transactions with a 0.5% margin of error.

To determine unallowable expenses, we cross-referenced each item with ADE's lists of allowable and unallowable expenses presented in its ESA parent handbook.[8] ADE explicitly states that those lists are not exhaustive, and the unallowable expense mentions "primarily noneducational expenses" as an example; as such, we used best judgment to determine whether an item was functionally equivalent to items on the allowable and unallowable lists, or whether it was primarily noneducational in nature. Calculations from this approach are expressed below:

TABLE 2 **Allowable and unallowable expenses (random sample)**

	Total (Sample)	Allowable	Unallowable
Total Transactions	2643	2317	326
Percent of Sample Transactions	100%	87.7%	12.3%
Percent of all transactions (extrapolated)	**73.2%**	**64.2%**	**9.01%**
Total Spent	$ 861,009.20	$ 745,315.31	$ 115,693.89
Percent of Sample Spending	100%	86.6%	13.4%
Percent of all spending (extrapolated)	**9.40%**	**8.14%**	**1.26%**

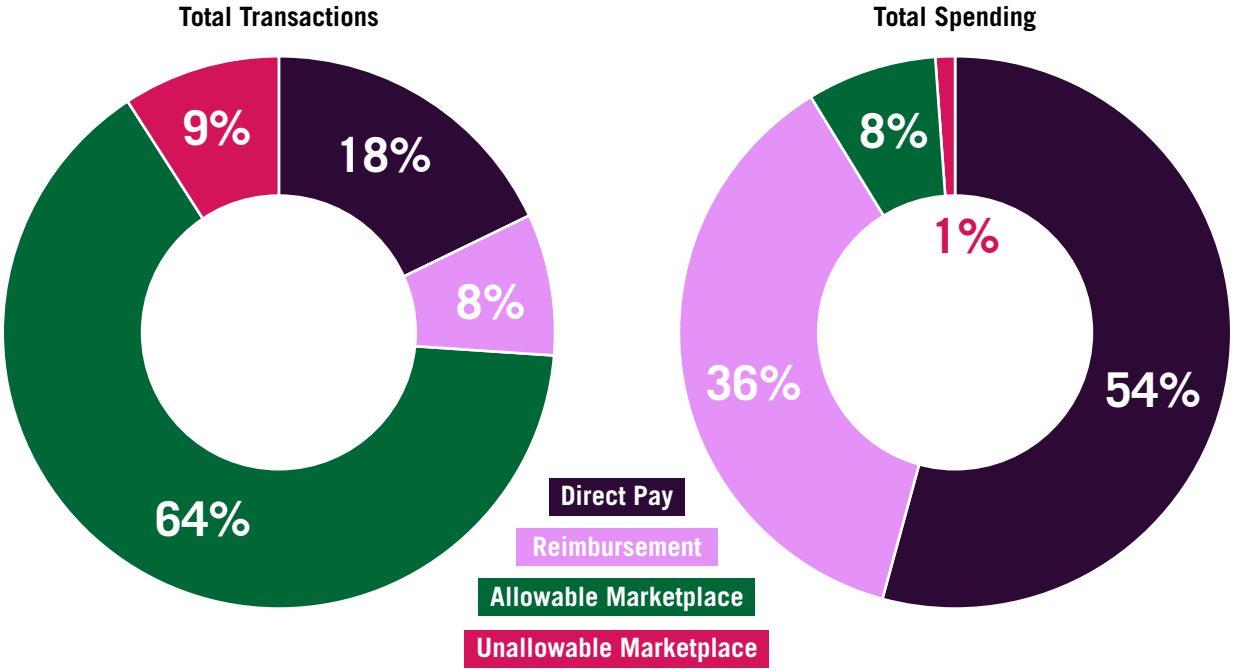
Notes: Transaction reversals not included.

According to our best judgments, in the Marketplace sample pulled, 12.3% of transactions in 2024-25 were unallowable, which accounted for 13.4% of all Marketplace spending. If we infer these rates are accurate across all Marketplace spending, about $10.7 million went to unallowed spending in 2024-25, or about 1.26% of total ESA spending. To repeat, we did not have access to the data needed to study reimbursements, so any unallowed expenses there are not included in these inferred numbers.

FIGURE 2 **Estimated unallowable Marketplace spending**

Estimated unallowable Marketplace transactions make up 9% of all transactions but just onver 1% of all spending.

% of total, 2024-25



Source: Author's calculations, Arizona Department of Education.

It must be noted that many items do not clearly fit categories in ADE's allowable or unallowable lists, or they strongly depend on what a student's curriculum calls for or whether the student has a particular disability. For instance, a weighted blanket could be considered "bedding," which is explicitly prohibited. However, it may be therapeutic for a student with autism. Because we have no student-level information that would aid interpretation of purchases like this, it is unclear whether the expense should be allowed. As another example, a computer is listed as an allowable educational expense, but a computer with top-end processing and graphics cards and multiple terabytes of space in its hard drive is an expensive computer generally reserved for intensive video games, which is a primarily noneducational activity. As a final example, "audio/visual players" are in the allowable item list, but "audio/visual equipment" is on the unallowable item list. No definitions are provided for either term, so it is a judgment call deciding whether something like a projector should be allowed or unallowed. One could think of this approach as the process a program administrator would take when reviewing transactions as they come in. The administrator has no in-the-moment authority to clarify or change rules around defining educational and noneducational spending, and they must use their best judgment applying the standards that do exist. In our random sample of 2,700 transactions, 430 items were not clearly governed by ADE's guidelines and required judicious extrapolation of the parent handbook.

Most popular Marketplace items

Much can be learned from where allowable and unallowable Marketplace purchases are concentrated. Table 3 reveals the most common allowable expenses by ESA parent handbook criteria in terms of both transaction quantity and total spending in the random sample of 2,700 transactions. Table 4 shows the same information for the most common unallowable expenses.

TABLE 3 Allowable Marketplace expenses by category (random sample)

Item Category	Transactions (10 most frequently purchased)	Item Category	Spending (10 highest-spending categories)
Book	456	Book	$123,952
School supplies	281	Technology	$107,143
Art supplies	240	School supplies	$78,941
Technology	168	Art supplies	$56,994
Educational toys	141	Educational toys	$48,118
Supplemental Material	93	Supplemental Material	$41,667
Workbooks/planners/calendars	90	Physical education equipment	$29,846
Writing utensils	82	Workbooks/planners/calendars	$24,680
Physical education equipment	66	Printing and binding	$21,118
Printing and binding	60	Educational kits	$18,582

TABLE 4 Unallowable Marketplace expenses by category (random sample)

Item Category	Transactions (10 most frequently purchased)	Item Category	Spending (10 highest-spending categories)
Primarily noneducational expense	91	Primarily noneducational expense	$6,592
Clothing	53	Television	$2,704
Home furnishing or fixture	35	Clothing	$2,043
Backpacks, lunch boxes, and water bottles	27	Telephone	$2,038
Household cleaning supplies	18	Home furnishing or fixture	$1,892
Cosmetics	17	Entertainment	$1,759
Medication, vitamin, or supplement	15	Backpacks, lunch boxes, and water bottles	$ 872
Food	14	Household cleaning supplies	$ 602
Entertainment	9	Medication, vitamin, or supplement	$ 586
Telephone	7	Motorized vehicles	$ 477

For both allowable and unallowable expenses, technological devices make up a disproportionately high amount of spending relative to the quantity of technological transactions that occur in Marketplace. Such devices appear just a handful of times, yet they are only behind the general criterion "primarily noneducational item" in terms of spending. Conversely, the common school-related items backpacks, lunch boxes, and water bottles, which are written together in ADE's unallowable expense criteria, make up a high percentage of the sample's unallowable expenses but do not amount to even $900 in total cost.

Generally speaking, the unallowable expenses reviewed were not egregious. Home furnishing or fixtures typically are classroom decorations or storage units that are larger than guidelines indicate are allowable. Many parents likely assume a backpack or carrying case for a piece of technology is a justifiable educational expense. Similarly, many might assume that cleaning supplies like paper towels are allowable because they are part of keeping an educational space clean, just as they are in traditional school settings.

The vague "primarily noneducational expense" category is derived from a term used in the ESA parent handbook, and it is a catchall term for products that might be difficult to categorize but are difficult to see educational use for outside of a curriculum's specifications.

Before transitioning, there is one brief but notable trend in transaction reversals. In this random sample, 50 pulled transactions were reversals, which is about 1.9% of the sample. In the entire Marketplace dataset, there are 24,549 reversals, about 2.2% of all Marketplace transactions. From our understanding, all of these reversals were initiated by ESA families and not by ADE. Reversals are for substantially higher average costs than typical transactions. Specifically, the average item cost when a transaction is reversed is about $85, 43% more expensive than the overall average transaction. Without a deeper analysis, we can only speculate reasons why transaction reversals are for higher-cost items on average. One hypothesis is that families may self-police or second-guess their purchases when then are unsure if a costly item is permissible.

Most popular Marketplace stores

While Marketplace has over 100 online stores, usage of these options in the random sample was heavily skewed. As Table 5 shows, Amazon dominated Marketplace transactions and total Marketplace spending in the random sample of 2,700 purchases. While its unallowable expense rate is not substantially different from some other major stores, it contained the vast majority of high-cost unallowable expenses.

TABLE 5 Transactions by Marketplace Store (random sample)

Store	Transaction Count	Total Spending	Rate of Unallowable Transactions
Amazon Inc.	2281	$132,668.34	13%
Apple for Families	20	$11,674.41	15%
A Learning Marketplace: Outschool	65	$7,623.36	0%
Staples	34	$2,704.39	12%
Carson Dellosa Education By Staples	26	$1,678.77	15%
Baketivity	8	$1,014.66	0%
Beyond the Page	1	$1,012.53	0%
Michael's	50	$870.19	16%
Home Science Tools	4	$805.80	0%
Time4Learning	2	$718.80	0%

Of the ten stores facilitating the most ESA money in the sample, Amazon has the lowest average transaction size at around $55. This reflects the scope of items families are able to purchase through Amazon relative to its competitors on this list. Apple's average cost is substantially higher because the vast majority of its products are relatively expensive technology items (although numerous Apple products also were purchased on Amazon). Beyond the Page has a single transaction in the whole sample but appears in this list because it offers a full curriculum.

AMAZON IN MARKETPLACE

Because the scope of Amazon's purchases is so varied, it is not intuitive how families are utilizing Amazon or where unallowable expenses might be concentrated. Yet, Amazon is crucial to

understanding unallowable expenses strictly because it accounts for so many transactions. To understand Amazon's place in the ESA economy, the next section looks at all 1.1 million Marketplace transactions that occurred through Amazon in 2024-25 – not just those in the random sample used above.

More than 70% of all Marketplace transactions in 2024-25 occurred through Amazon. The Amazon Marketplace transactions totaled over $57 million with an average of about $52 per item purchased, which is $3 less than the average amount spent per-item calculated in the random sample of all Marketplace transactions above. The second largest vendor was Outschool, with about 61,000 transactions totaling just over $5 million. Michaels had about 35,000 transactions totaling about $625,000, and Staples had about 20,000 transactions totaling just over $2 million.

Digging further into Amazon, it can be shown that most of the transactions are for very small amounts. In fact, in 2024-25, over half of the items purchased on Amazon cost less than $20. A full 25% cost less than $10. Yet, there were over 280,000 transactions for these under $10 items, or nearly an average of 800 purchased every day of the year.

TABLE 6 **Distribution of Amazon Marketplace transactions by item price**

Item price	Number of items		Total dollar amount		Average item price
$0 - $10	281,035	25.5%	$2,093,278	3.4%	$7.45
$10 - $20	331,156	30.1%	$5,029,246	8.3%	$15.19
$20 - $30	164,313	14.9%	$4,182,337	6.9%	$25.45
$30 - $40	82,165	7.5%	$2,945,748	4.8%	$35.85
$40 - $50	41,501	3.8%	$1,912,391	3.1%	$46.08
$50 - $100	85,782	7.8%	$6,261,633	10.3%	$72.99
$100 - $500	97,915	8.9%	$21,362,665.50	35.1%	$218.18
$500 - $1,000	10,211	0.9%	$7,279,546.00	12.0%	$712.91
$1,000 - $2,500	6,011	0.5%	$8,801,035.27	14.5%	$1,464.15
$2,500 - $5,000	308	0.03%	$971,717.34	1.60%	$3,154.93
>$5,000	8	0.001%	$45,973.37	0.076%	$5,746.67
Total	**1,100,405**		**$60,885,570.56**		**$55.33**

A different pattern emerges when focusing on total spending rather than transaction counts. The nearly 800,000 purchases of items under $30, added up to about 18% of the total spent at Amazon ($11 million). The 16,500 purchases of items that cost more than $500, however, added up to just over $17 million. Given that there were just an average of 45 (based on a 365 day year) high dollar (over $500) purchases at Amazon in the Marketplace, it's worthwhile to look carefully at what was being purchased there. Handling these costs appropriately have the highest return on investment for taxpayers funding both the program and the enforcement of the program.

For this portion of the study, we conducted a line-by-line analysis of the transactions for items that cost more than $500 to determine what percentage could be considered unallowable or outside the scope of an educational program. To do this, the items were first categorized by what they are via keywords in the item description, such as "computer" or "telescope." From there, the items were grouped into 15 broad categories of education, such as technology, music, or science.[9]

This section does not discern whether an expense was allowable or unallowable, simply offering a descriptive picture of how Amazon was used in Marketplace. Table 7 shows the distribution of expenses for about the top 1.5% most expense purchases in Amazon in 2024-25.

TABLE 7 **Amazon transactions for items that cost $500 or more**

	Transactions	Total cost	Percent of Spending	Average cost per item
Technology	11,638	$12,680,392	74.04%	$1,090
Arts	1,044	$1,032,173	6.03%	$989
Music	768	$787,596	4.60%	$1,026
Outdoor	448	$443,028	2.59%	$989
Home gym	482	$406,170	2.37%	$843
Sports	287	$219,731	1.28%	$766
Science	199	$205,544	1.20%	$1,033
Entertainment	243	$185,091	1.08%	$762
Garden	186	$159,054	0.93%	$855
Kitchen	230	$156,436	0.91%	$680
Vocational tech	148	$130,973	0.76%	$885
Furniture	186	$142,856	0.83%	$768
Transportation	140	$119,398	0.70%	$853
Livestock/agriculture	134	$109,798	0.64%	$819
Curriculum	76	$55,735	0.33%	$733
Unclassified	371	$291,492	1.70%	$786
Total	**16,580**	**$17,125,467**		**$1,033**

Clearly, most of the Amazon transactions were for technology. Within that category was the purchase of about 10,000 computers, which is not surprising for a program that enrolls around 100,000 students. The purchase of these computers comprised 90% of all transactions for items costing more than $500 and 20% of all Amazon Marketplace spending.

The next largest category of purchases was for arts equipment, which includes pottery wheels, sewing machines, and cameras, followed by musical instruments. Most of the transactions in these two categories could reasonably be associated with an educational program. The same can be said for most of the sports equipment – baseball equipment, basketball equipment, soccer equipment, etc. – and the science equipment, which were mostly telescopes, binoculars, and microscopes.

To be clear, categorizations here were based on our best judgments at a reasonable set of assumptions about what ADE might consider educational expenses. See this report's appendices to review the categories.

Methodology: Determining allowable and unallowable Amazon expenses

The pressing question is: How many of these relatively more expensive items are educational expenses? As described in the earlier methods section, determining whether an item is or is not educationally related can be more of an art than a science. Judgment calls are especially challenging for a sample of over 16,000 transactions versus the above random sample of 2,700 transactions due to sheer volume. Nonetheless, we looked at each of the 16,500 Amazon transactions for items over $500 to see how many may be questionable.

For this analysis, we identified via keyword items that appear on ADE's list of unallowable expenses, such as cell phones, smart watches, gaming consoles, and home audio/visual equipment. We also excluded all outdoor equipment and all home gym items (other than safety mats). We eliminated anything associated with entertainment, such as cornhole boards. We removed all kitchen equipment, all furniture, all forms of transportation, including bicycles and ebikes, most of the agricultural equipment, and most of the unclassified items.

Table 8 contains those transactions that remained after the above culling and, therefore, reveals a conservative estimate of the number of Amazon transactions that would be allowable educational expenses. It is very possible that certain items this analysis removed may be permissible. For example, some kitchen equipment is permitted if it is for home economics education. But for the sake of estimation, this analysis offers a way to identify the likeliest allowable transactions.

TABLE 8 **All Amazon transactions for items over $500 that could be reasonably associated with an educational program**

	Transactions	Total cost	Percent of Spending	Average cost per item
Technology	11,413	$12,519,773	81.59%	$1,097
Arts	1,043	$1,030,464	6.72%	$988
Music	768	$787,596	5.13%	$1,026
Outdoor	15	$12,903	0.08%	$660
Physical ed.	75	$53,968	0.35%	$720
Sports	225	$170,965	1.11%	$760
Science	199	$205,544	1.34%	$1,033
Entertainment	117	$85,574	0.56%	$731
Garden	185	$158,064	1.03%	$854
Kitchen	-	-	0.00%	-
Voc tech	148	$130,973	0.85%	$885
Furniture	-	-	0.00%	-
Transportation	23	$19,487	0.13%	$847
Livestock/agriculture	125	$98,949	0.64%	$792
Curriculum	76	$55,735	0.36%	$733
Unclassified	21	$14,556	0.09%	$693
Total	**14,433**	**$15,344,549**		**$1,063**

Comparing Table 8 with Table 7, we find about 10% of the transactions (1,568/16,580) could reasonably be considered unallowable. These transactions totaled approximately $1.3 million, or 10% of total spending on high-dollar Amazon items.

If we assume this distribution could be extended to all Amazon transactions – that is, 10% of purchases under $500 also were unallowable – then there could be as many as 110,000 transactions (10% of the 1,104,335 total transactions) that are unallowable. These would represent about 6% of all transactions because of the sheer volume of transactions at Amazon in the Marketplace. From a cost perspective, if 10% of all Amazon spending were determined to be unallowable (based on the spending on high dollar items on Amazon), that could amount to as much as $5.8 million.

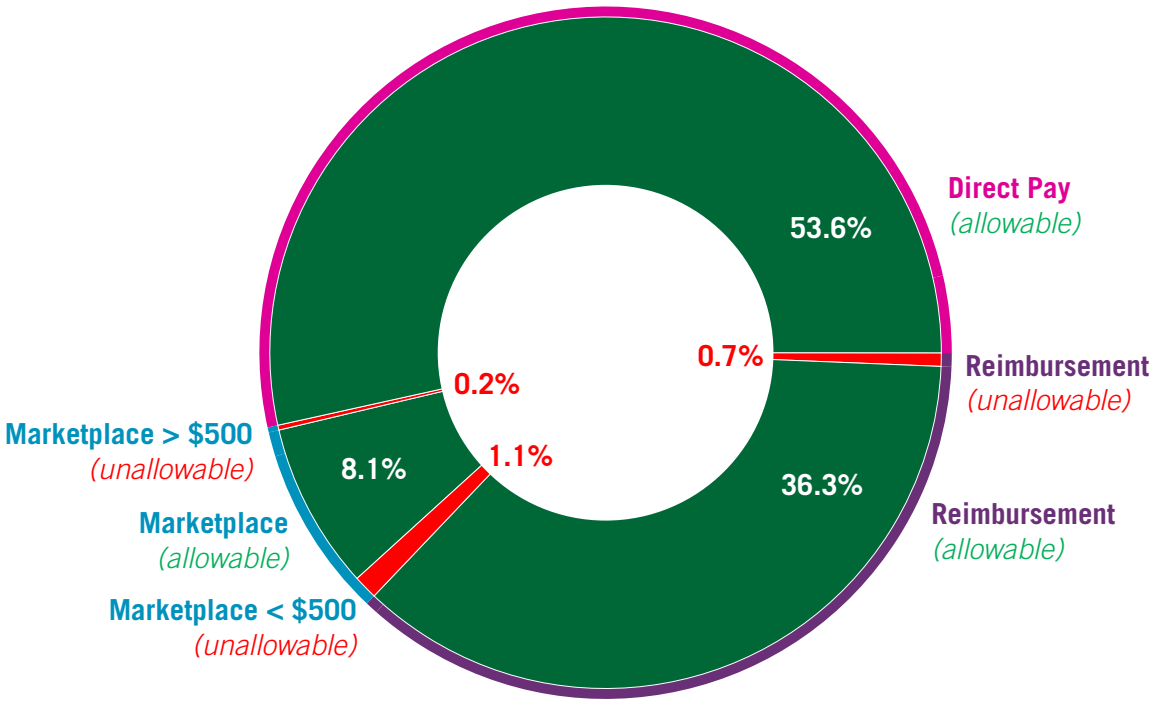
Despite this thorough look at Amazon transactions, we cannot forget that the Arizona ESA program does not operate exclusively through Amazon on Marketplace. In fact, over 90% ($770 million of $850 million in 2025) of ESA funds were spent in the direct pay and reimbursement systems. While most of the remaining tenth was spent in the Marketplace, Amazon was just 8% of total spending

($68 million). Even considering the unallowable transactions and their costs results in a potential of 0.7% of total spending needing scrutiny.

Figure 3 illustrates the overall flow of money we have tracked through this paper. Each label is an expression of the percentage of total ESA funds spent through each channel. For Reimbursement, we use the rate of unallowable spending through reimbursements found in ADE's study.

FIGURE 3 **Total allowable and unallowable spending by category**

Expensive unallowable purchases make up 0.2% of all Arizona ESA spending.



DISCUSSION: MAXIMIZING SOCIETY'S BENEFIT FROM THE ESA

The Arizona Department of Education had to review 1.5 million Marketplace and reimbursement transactions in 2024-25. On average, that was over 4,000 transactions every day. But items are not purchased evenly spaced throughout the year. Because the bulk of purchases occur at the beginning and end of the fiscal year, the burden required for effective turnaround times is even greater. The expectation for transaction-level, real-time enforcement is unprecedented of an education program of this size. Minimizing unallowable spending does well by taxpayers, but employing more resources to oversee that spending also presents a cost.

The resources needed to properly review transactions multiply when guidelines around the permissiveness of an expense is hazy. When allowable and unallowable lists are unclear or contradictory, decisions become more laborious or more arbitrary.

If the policy goal is strictly reducing the quantity of unallowable transactions, and if there are no systemic or technological improvements that reduce what a human needs to review, the ADE must hire more labor to review transactions. Practically speaking, most of transactions that will receive this greater scrutiny are transactions below $20, and the vast majority are below $30. To eliminate most unallowable transactions, tremendous amounts of resources must be devoted to ensure relatively

few resources are lost. Most improvements will be devoted to preventing purchases of lightbulbs, water bottles, and other small items. The unallowable transaction rate may look impressive, but the return on investment to the taxpayers could be nullified.

Another way to reduce the total unallowable expense rate would be allowing the current staff size more time to review transactions. The cost here would be reduced flexibility for families, which would counter program goals. If families do not know when they can receive a product, or if they will be reimbursed far into the future, they are less empowered to purchase appropriate educational materials when their children need them. This cost would be especially imposing on more economically disadvantaged ESA families.

A third approach would be to make systemic or technological innovations that prevent families from submitting unallowable expenses. Preventing ClassWallet accounts from being used on store websites, thus requiring families to go through the Marketplace portal to use ESA funds, would add a meaningful amount of friction. Given the degree to which some families are self-policing, adding this level of friction could make a significant difference in unallowable purchases without adding meaningful enforcement costs. While we claim no expertise in e-commerce or automation, if there was a way to blacklist the highest cost, most non-educational categories on Amazon, that could have a high return on investment to taxpayers (for instance, continue allowing computers but disallow top-of-the-line graphics cards).

In sum, if the concern with unallowable transactions is wasted taxpayer dollars, simply reducing unallowable expense rate is not a sufficient policy answer. We suggest ADE seek out systemic ways to prioritize systemic changes that reduce the high-cost unallowable expenses. Improve guideline clarity, keep Marketplace to the ClassWallet portal, and filter out the egregiously noneducational items.

CONCLUSION

Arizona's Empowerment Scholarship Account program represents an ambitious development in educational customization, one that, at scale, inevitably produces some tradeoffs between flexibility and compliance. This analysis finds that unallowable expenses exist in the program but remain modest in scope. Approximately 12% of Marketplace transactions fall outside program guidelines, yet when situated within the full ESA ecosystem, where 91% of spending flows through the more tightly enforced direct pay and reimbursement methods, questionable purchases amount to less than 1% of total ESA spending, and less than 0.1% of all K-12 expenditures in Arizona.[10]

That context should influence policy considerations. The instinct to minimize every unallowable transaction, if followed non-strategically, can itself become costly, particularly when most violations are low-dollar items – backpacks, paper towels, cleaning supplies, etc. – that reflect honest misunderstandings of program rules rather than bad-faith abuse. Devoting significant enforcement resources to these transactions without strategic insight or attention to systemic factors risks spending more than is saved.

A more targeted strategy focuses energy where the return is highest, which would be the relatively small number of expensive, clearly non-educational purchases, particularly through Amazon's Marketplace. Systemic and technological solutions offer the most promising path to meaningful improvement without undermining the flexibility that makes the program valuable to families, especially those with fewer resources. Done right, smarter enforcement can serve both the program's goals and the taxpayers who fund it.

NOTES

1. Government Accountability Office, "Improper Payments: Information on Agencies' Fiscal Yeare 2024 Estimates ", March 11, 2025, https://www.gao.gov/products/gao-25-107753

2. Arthur M. Okun *Equality and Efficiency: The Big Tradeoff*, Brookings Institution Press, 1975, https://www.brookings.edu/books/equality-and-efficiency-the-big-tradeoff/

3. For the purposes of this report, an unallowable transaction is spending ESA money on a noneducational good or service. To evaluate whether a good or service is educational in nature, we cross-referenced transaction descriptions with the Arizona Department of Education's ESA Parent Handbook (pp. 22-24, 40-42). More details about the approaches used to estimate unallowable purchases may be found in the two Methodology subsections.

4. Susan Pendergrass, "Beyond tuition: How Arizona families are redefining ESA spending," EdChoice, October 2025 https://www.edchoice.org/wp-content/uploads/2025/10/09-25-AZ-ESA-spending-WEB-2.pdf.

5. Craig Harris, "Voucher supporters say Empowerment Scholarship fraud is 1%. New records peg misspending closer to 20%," 12News, February 12, 2026, https://www.12news.com/article/news/education/voucher-supporters-say-empowerment-scholarship-fraud-1-percent-new-records-closer-to-20-percent/75-a5eb2624-462e-40d2-9444-4b27843581f1

6. Authors' calculations, Arizona Department of Education, "ADE Corrects False Claim regarding alleged 20% inappropriate ESA expenditures," 2026, https://www.azed.gov/communications/ade-corrects-false-claim-regarding-alleged-20-inappropriate-esa-expenditures.

7. Transaction reversals were included in this sample, but they do not appear in unallowable expense calculations, as they receive their own brief analysis at the end of the next section. Seven transactions were for free promotional add-ons from the vendor or contained no item description and were dropped from analysis. Four were from Baketivity and three were from Amazon.

8. Arizona Department of Education, "Parent Handbook: Empowerment Scholarship Account Program School Year 2025-2026," July 1, 2025, https://www.azed.gov/sites/default/files/2025/06/ESA%202025-2026%20Handbook.pdf.

9. Of the 16,580 transactions, there were 371 that were unable to be classified into these categories. These transactions were for items such as "Carbon TL," which did not fit neatly or clearly into any category. Ultimately, these transactions were about 2 percent of the total and, because their purpose wasn't obvious, we're willing to put them outside of a typical educational experience.

10. John Kristof, "2026 EdChoice Spending Share Rankings," EdChoice, January 8, 2026, https://www.edchoice.org/2026-edchoice-spending-share-rankings/

TRANSPARENCY

EdChoice is committed to research that adheres to high scientific standards; matters of methodology and transparency are taken seriously at all levels of our organization. We are dedicated to providing high-quality information in a transparent and efficient manner. Please direct any questions or requests for results to John Kristof at john@edchoice.org.

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