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TAKE 2



SPORTS
Fitzgerald pushes himself to keep improving, AA4



ENTERTAINMENT
Museum showcases legacy of Chicano creativity, AA8

Today's weather:
High 110,
Low 81
Sunny



Tomorrow's weather:
High 110,
Low 81
Sunny

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RIGGED PRIVILEGE

A Tribune investigation into Arizona's Private Schools Tax Credit Program



THOMAS BOGGAN, TRIBUNE
The office of the Arizona Scholarship Fund in Mesa.

INSIDE TODAY'S TRIBUNE, A4-A10

THE FIX: The tuition tax credits law was supposed to revolutionize school choice for disadvantaged children. Instead it fostered a rigged system that keeps private education a privilege for the already privileged. **PAGE A4**

NO OVERSIGHT: The state has no way of ensuring that \$55 million a year in tax credits really goes toward scholarships for private school students as the law intended. **PAGE A10**

OUR RESEARCH: Records, data, parents show how the system works outside the courtroom and the statehouse floor. **PAGE A10**

WEDNESDAY, AUG. 5

HOW-TO GUIDE: Many private schools teach parents how to skirt the law by lining up donors for their children.

PLOT TWIST: The tale of Maricopa County Schoolhouse Foundation begins with criminal indictments and fraud but ends as an example of tuition tax credits' promise for serving the underprivileged.

FRIDAY, AUG. 7

PERKS: Executives at two of Arizona's largest scholarship charities are using income tax donations to enrich themselves.

ALTERED VISION: Twelve years ago, Trent Franks envisioned a statewide system to enable poor kids to go to private schools. Most of the charities that formed as a result went in a different direction.



EVTRIB.COM

MONDAY: Join reporters Ryan Gabrielson and Michelle Reese for a live Q&A on our Web site at 10 a.m.

TUESDAY: Get an early look at the second installment of Rigged Privilege.

ALSO: Databases that show how many donations each school tuition organization has received, the scholarships they have given, and enrollment figures by school.

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RIGGED PRIVILEGE A Tribune investigation into Arizona's Private Schools Tax Credit Program

"Even the poorest child now becomes royalty in the system. In the past, only wealthy parents could afford their children such an opportunity."

TRENT FRANKS

AUTHOR OF THE PRIVATE SCHOOL TAX CREDIT LAW AND NOW A U.S. CONGRESSMAN WROTE IN A 1999 COLUMN IN THE TRIBUNE

Private school credits rife with abuse

Charities, schools, parents game system and break tax law

By **RYAN GABRIELSON** and **MICHELLE REESE**
TRIBUNE

Only God and the health of loved ones rank higher with Beth and Doug Fitch than an elite education for their two boys.

The \$20,000-a-year cost is exorbitant, Beth said, even though the Fitches are both personal injury attorneys and own an Ahwatukee Foothills home valued at a half-million dollars, Maricopa County property records show.

But the Fitches haven't had to worry about the bill.

Arizona has paid the price.

The state's Private School Tuition Tax Credits program covers the cost of private education, often for children whose parents could afford to pay it themselves — while allowing affluent families to reduce the amount of income tax they pay into the state's general fund.

To date, Arizona's main bank account has lost \$350 million to private schools. The price tag is growing as the state grapples with the most serious financial crisis in its history, and people who depend on the general fund — public school children, the disabled, the poor and the sick — face severe cuts in services.

Under the program, taxpayers give money to nonprofit charities called school tuition organizations, or STOs for short. STOs give scholarships to children for private school tuition, and the state provides donors a dollar-for-dollar tax credit in exchange for their contribution.

The tax credit law, signed by Gov. Fife Symington in 1997, is touted as a tool to make private education more accessible to families who could not otherwise afford it.

Instead, it has fostered a rigged system that keeps private education a privilege for the already privileged.

The Tribune reviewed thousands of pages of state and federal tax records and analyzed private school enrollment data from the past 12 years. Reporters interviewed dozens of parents,

school administrators, school tuition organization executives, tax experts and government officials.

The newspaper's reporting provides the most complete account to date of whether tax credits have torn down the economic barriers that block underprivileged children from private classrooms, as lawmakers promised.

The Tribune investigation found:

- An untold number of STOs, schools and parents are using the tax credits in ways that violate federal tax laws governing charitable donations.

- Nearly two-thirds of all STOs failed to spend 90 percent of their donations on scholarships — as required by state law — since 2003, the year the STOs began filing annual reports with the state Department of Revenue.

- Executives at two of the largest STOs have used tax credit donations to enrich themselves, buying luxury cars, real estate and funding their own outside-for-profit businesses.

- A majority of tax credit donations are earmarked to give scholarships to students already enrolled in private schools, no matter how much money their parents earn. Just seven of the state's 55 STOs use financial need as the primary factor in deciding who gets tuition money.

- Even as they took in millions of dollars in scholarships,



THOMAS BOGGAN, TRIBUNE

STARTING YOUNG: The Arizona Scholarship Fund offers parents "savings accounts" to bank away income tax donations starting the year they conceive their child.

the state's private schools hiked tuition dramatically, pushing the cost of private education further from the grasp of middle- and low-income families.

- Tax credits have failed to increase minority students' access to Arizona's private schools. Students at the schools receiving the most scholarship money remained overwhelmingly white at a time when the state's Hispanic population boomed.

Lawmakers promised tax credits would make private education available to all Arizona families.

"Even the poorest child now becomes royalty in the system," Trent Franks, author of the private school tax credit law and now a U.S. congressman, wrote in a 1999 column in the Tribune. "In the past, only wealthy parents could afford their children such an opportunity."

His rhetoric never became reality.

Private schools grew slightly during the tax credit era, though there is little evidence the subsidies took significant numbers of students out of public schools and off the taxpayer rolls. Statewide, roughly 6,900 more stu-

dents are educated in private classrooms than in 1996, compared with more than 280,000 additional students who entered public schools.

By design, Arizona's tuition tax credit program is unregulated. No state agency has the authority to prevent or penalize even the most brazen misconduct.

For instance, the state law specifically bars parents from donating to an STO and claiming a tax credit to pay their own child's tuition.

Yet schools and parents violate this prohibition with impunity, the Tribune has learned through numerous interviews with those who use tax credits.

Some schools give parents step-by-step instructions on how to game the system by lining up other donors for their child. One private kindergarten even pairs up parents to exchange tax credit donations — an illegal quid-pro-quo transaction under federal tax law.

The tax credits inherently benefit affluent families.

Research by the state revenue department found that tax credit donors typically earned upwards

of \$100,000 a year. Married couples with dependents — who make the majority of these donations — must earn at least \$41,000 a year to take full advantage of a tax credit, now capped at \$500 for individual taxpayers and \$1,000 for married couples filing jointly.

Because most donors contribute for specific students, even some tax credit supporters question whether the system as a whole expands access to private classrooms.

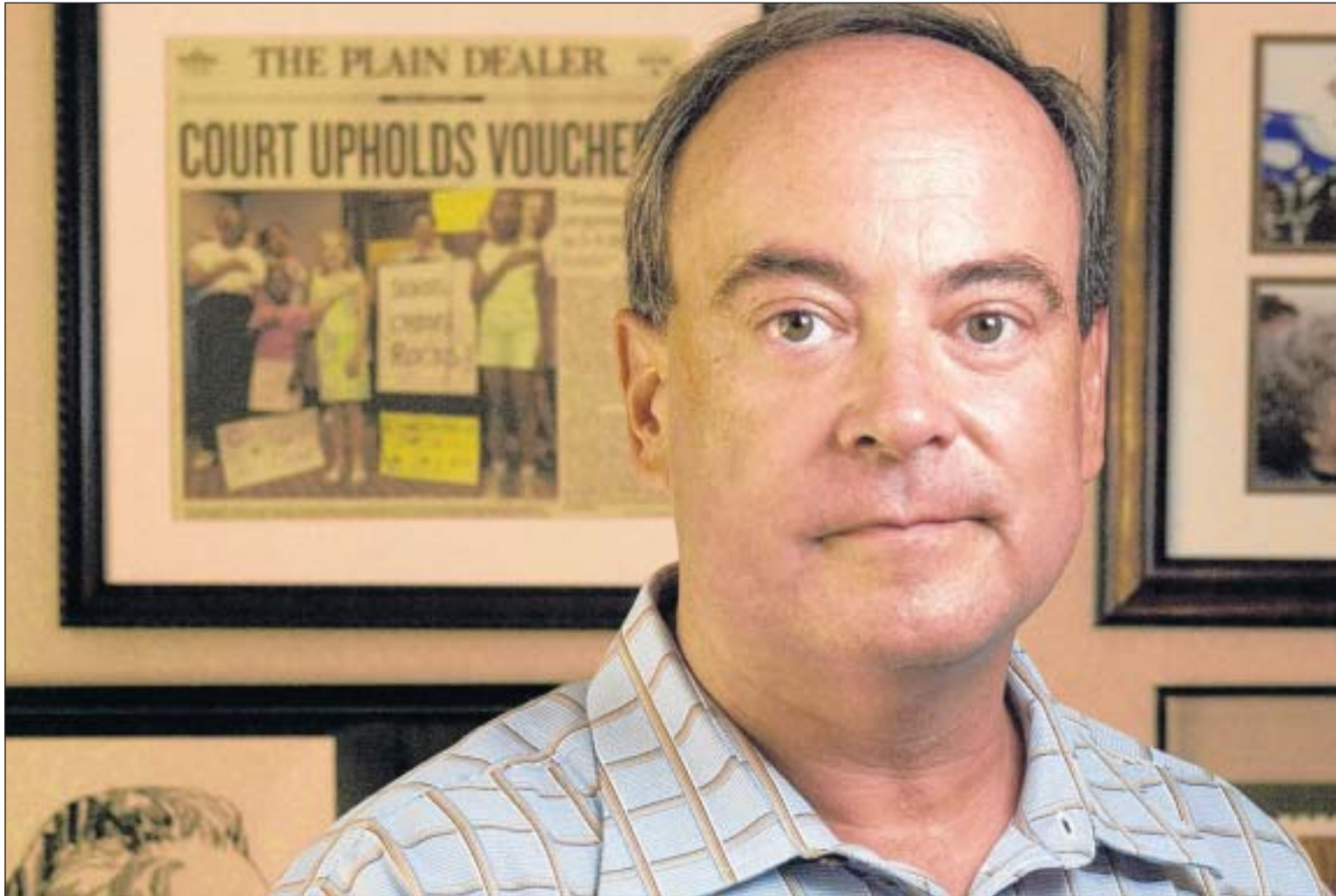
STOs need to "search their souls," said Clint Bolick, board chairman of the Arizona School Choice Trust, a scholarship charity that focuses donations on low-income students.

Bolick, also a constitutional law expert at the Goldwater Institute, argues the tax credits are intended to benefit students who do not normally enroll in private schools. Too often, the income tax donations do not fulfill that mission.

In fact, despite the political promises, the tax credits were never equipped to do so.

"I support universal school

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THOMAS BOGGAN, TRIBUNE

"I support universal school choice. And if we had a viable program to create it, I'd support it enthusiastically. This program was not designed to provide universal school choice."

CLINT BOLICK
BOARD CHAIRMAN OF
THE ARIZONA SCHOOL
CHOICE TRUST, A
SCHOLARSHIP CHARITY
THAT FOCUSES
DONATIONS ON LOW-
INCOME STUDENTS,
PICTURED IN HIS OFFICE

FROM PAGE A4

choice," Bolick said. "And if we had a viable program to create it, I'd support it enthusiastically. This program was not designed to provide universal school choice."

SCHOLARSHIPS FOR FETUSES

It is the fetus who can benefit most from the state's private school tax credits, said Chambria Henderson, founder and executive director of the Arizona Scholarship Fund (ASF).

"Some families know right from the moment of conception that this child is going to private school," she said.

ASF allows parents to bank away tens of thousands of dollars in tax credit donations for years — from the moment they conceive their child. These donations go into each family's "K-12 Education Savings Account," according to its Web site.

Such accounts exponentially increase the power of tax credit scholarships by collecting money over a long period to pay for even the most expensive private education.

They also violate federal tax law.

Arizona statute requires that STOs be "501(c)3" nonprofit charities. The Internal Revenue Service bestows that designation on organizations it categorizes as

worthy of tax exemption due to their public service.

Donations to these nonprofits are not supposed to be earmarked to benefit specific individuals.

ASF alone markets savings accounts for specific students. But the private school tax credit system is fraught as well with other activities that, at best, skirt federal law.

For instance, taxpayers are prohibited by state statute from taking an income tax credit for donations that benefit their own child. So parents recruit relatives, friends and others to donate to an STO to cover a share, or all, of their child's private school costs.

The scholarship charities that accept earmarked donations — which they term "recommendations" — track how much specific students or schools have received in donations.

Executives at STOs that accept recommendations contend they are but one of several factors that determine which students receive scholarships and how much.

Rep. Steve Yarbrough, R-Chandler, executive director and co-founder of the Arizona Christian School Tuition Organization (ACSTO), said his charity has selection committees that consider scholarship applicants' tax filings along with letters ex-

plaining why a student merits financial aid.

However, Yarbrough said those committees also have lists showing how much in donations specific students have received on their behalf.

"That's one of the pieces of information they have," he said. "They are absolutely free to consider that or disregard that or do a combination."

But several parents who solicit private school tax credit donations told the Tribune that "recommendations" are far more than mere suggestions.

UNCHARITABLE GIVING

Working hard to solicit donations from family, friends and colleagues, Beth Fitch said she has managed to get her sons' entire tuition bill paid through scholarships for several years. Her oldest just finished eighth grade at Summit School of Ahwatukee in Phoenix; her youngest attends Desert Garden Montessori, where class sizes are kept in single digits.

"I understand that there is quite a dispute as to whether this is something that should continue in Arizona," Beth said of private school tax credits. But she feels justified in soliciting donors for her kids, even though she and her husband were paying the bill themselves before tapping into tax credits. "My two children would have fallen through the cracks at a public school."

Seven years ago, Paul and Pam Bosch decided their son, Graham, needed smaller class sizes and more individual attention than his public elementary school could provide.

Summit School was the right fit, Paul said, and the \$6,000 a year in tuition was manageable

on two college professors' salaries. Tax credit scholarships initially just lowered Graham's private school costs.

Then, in 2006, Summit rocketed its tuition to almost \$10,000 a year.

Rather than pull Graham from the school, Paul said they tried to get the increase covered with tax credit donations. The Bosches asked colleagues and friends at their church to donate on Graham's behalf.

Money began to roll into their account at the Arizona Scholarship Fund.

Tuition "wasn't totally free at first, but then we got to a point where for us there was no cost," Paul said.

There was even money left over.

Paul knew last year that ASF had received more in donations for Graham than they needed to pay his tuition. But a family friend whose child also attended Summit was suddenly having financial trouble.

The solution was simple. Paul said he called ASF to request that whatever extra cash remained in their account be transferred to their friend's account with the scholarship charity. ASF made the transfer, he said.

Henderson confirmed that ASF used to allow families to shift money from one account to another, as though the charity were a bank. She said ASF ended that practice last year.

Such transactions raise doubts about whether STOs are actually engaged in charity work, which is a condition of their tax-exempt status.

"That doesn't work under federal law, that's for sure," said Bruce R. Hopkins, a tax attorney who runs the Non-Profit Law

Center in Kansas City, Mo.

Tax credit donations earmarked with "recommendations" paid about half of the tuition for Margaret Borns' son to attend Seton Catholic High School in Chandler.

A number of family friends don't have children of their own, she said, and are willing to donate their income tax dollars for her family's private education costs.

Borns said her family can afford to pay Seton's tuition — nearly \$8,000 a year for active Catholics. Tax credit scholarships allow her to make an additional donation to Seton with the money that would otherwise pay for her son to enroll.

Keri Griffith-Terry solicits donors by e-mail to help pay for her son to attend Grace Community Christian School in Tempe.

It is more comfortable for her to ask for money in writing, Griffith-Terry said, than in person, though she has heard that other families throw dinner parties to recruit income tax donors to pay for their children's private schooling.

Several STO executives said they know that parents organize to trade tax credit donations, a practice that violates federal tax law. Harry Miller, executive director of the Tuition Organization for Private Schools, said that when he sees a set of suspicious donations that look like a trade, he rejects them.

But the STOs overall do little to monitor their donors. Further, parents and schools sometimes even work around STOs, using donations to multiple scholarship charities to conceal the illegal exchanges.

CONTINUED ON A6



"Some families know right from the moment of conception that this child is going to private school."

CHAMBRIA HENDERSON
FOUNDER AND EXECUTIVE DIRECTOR
OF THE ARIZONA SCHOLARSHIP
FUND (ASF)

RIGGED PRIVILEGE

A Tribune investigation into Arizona's Private Schools Tax Credit Program

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"If somebody is going to cheat on their taxes, the STOs are not in the best position to police it, but they do their best," said Ellis Carter, a Phoenix attorney specializing in nonprofits who represents ASF.

Deceit by parents and schools aside, the state's largest STOs work extensively to ensure parents can direct income tax donations to their own children.

Henderson, ASF's executive director, acknowledged that STOs choose their wording carefully to describe their operations.

"We're using semantics to get around it," Henderson said of the federal tax law that prohibits scholarship charities from operating on earmarked donations.

"Recommendations" are allowed, she said. "Designations" are strictly forbidden.

In reality there is little difference between the two.

Federal tax code forbids tax-exempt charities, including STOs, from operating primarily "for the benefit of private interests."

STOs that allow specific student recommendations received more than \$30 million in tax credit donations last year.

"If I were a lawyer advising these groups, this would be something I would be worried about," said John D. Colombo, a University of Illinois law professor who specializes in tax-exempt organizations.

"I would be sweating at night over the private benefit issue."

WHITE OUT

Eleven Hispanic students attended Chandler's Valley Christian High School in 1996, the year before lawmakers created private school tax credits.

Minority students hardly registered at all at the religious campus, where 209 out of 224 students were white, according to figures the private school reported to the U.S. Department of Education.

Twelve years later, Valley Christian counted 10 Hispanics in its classrooms.

Tax credits were supposed to revolutionize school choice in Arizona. Income tax donations would open private schools to the masses, supporters claimed.

The revolution never came.

Rather, tax credits appear to have stalled school choice.



TIM HACKER, TRIBUNE

DOING IT RIGHT: Hispanic students have become a majority at St. Mary's Catholic High School in Phoenix, which in 2008 received \$1.5 million in tax credit scholarships.

A Tribune analysis of Arizona private school enrollment data, likely the first such examination here, found that the 20 schools receiving the most income tax money have been largely immune to demographic shifts taking place around them.

Hispanics comprised 15 percent of enrollment at these private schools in 1996. Their share remained unchanged in 2008.

By comparison, Hispanics make up 42 percent of students in the state's public schools, up nearly 10 percentage points after a decade of massive Hispanic population growth in Arizona, data from the state Department of Education shows.

The top private schools were 80 percent white in 1996. White students continue to fill the vast majority of spots — 78.5 percent in 2008, a drop of less than 2 percent.

Private schools do not release information about their students' household income. The only marker to such demographic change on their campuses is

through data documenting student ethnicity.

Private schools in the state have grown only slightly, about 6,900 students the past decade. Most of that expansion has come at new campuses that opened after the advent of private school tax credits.

Gilbert Christian Schools, formerly Surrey Garden Christian School, is one of these new campuses. Ninety-one percent of its students are white, enrollment data shows. In north Scottsdale, Notre Dame Catholic Preparatory opened in 2002 and now educates some 900 students, 87 percent of them white.

Some of tax credits' chief proponents agree that schools have used the infusion of millions of income tax dollars to increase tuition, rather than the diversity of their campuses.

"We have had some schools that have raised their tuition instead of adding more desks," said Henderson, the Arizona Scholarship Fund executive.

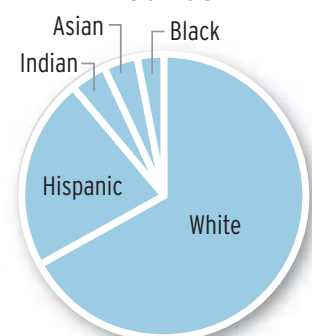
But even schools that added students, like Valley Christian, didn't necessarily add minorities.

Few schools receive as much tax credit scholarship money as the faith-based Chandler school. And its enrollment swelled by 87 percent from 1996 to 2008, the federal enrollment data shows.

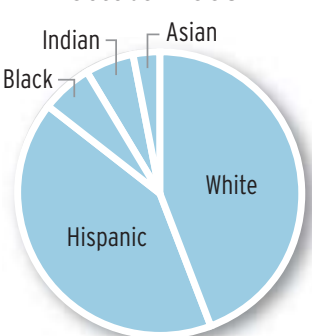
But the 195 additional students who now attend Valley Christian are nearly all white, and white students account for 95.7 percent of the private school's en-

Ethnicity in Arizona schools

Private school students 2007-08



Public school students October 2008



NOTE: Does not include 29 of 334 schools that did not report
SOURCE: National Center for Educational Statistics

SOURCE: Arizona Department of Education

TRIBUNE



"There are a lot of kids at Valley Christian High School today who are doing great things, who will do great things in the future, who would not be able to be there but for the scholarship tax credit."

REP. STEVE YARBROUGH, R-CHANDLER
EXECUTIVE DIRECTOR AND CO-FOUNDER
OF THE ARIZONA CHRISTIAN SCHOOL
TUITION ORGANIZATION (ACSTO)

rollment.

Yarbrough, the state lawmaker and Arizona Christian School Tuition Organization executive, co-founded Valley Christian in 1981 to offer East Valley families an education grounded in their Christian faith.

Through the scholarship charity, Yarbrough has helped Valley Christian receive more than \$1 million a year from tuition tax credits.

"It has been very, very important," Yarbrough said, "because there are a lot of kids at Valley Christian High School today who are doing great things, who will do great things in the future, who would not be able to be there but for the scholarship tax credit. Large numbers."

SERVING THE VULNERABLE

St. Mary's High School considers itself second to no private

school.

The Catholic campus competes directly with the state's most elite private schools — especially Brophy College Preparatory — in the classroom and, with particular intensity, on the football field.

St. Mary's is in downtown Phoenix, surrounded by some of the Valley's oldest and poorest neighborhoods.

It was a diverse campus even before private school tax credits began providing the school millions in new cash for financial aid. Hispanics filled 46 percent of its seats. Today, Hispanics make up a significant majority of St. Mary's students, 53 percent, just like the community around the school, data reported to the U.S. Education Department shows.

"For lots of different reasons,

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I think we here at St. Mary's have been able to serve greater Phoenix's population," said Rob Rogers, the school's assistant principal.

Just like its Catholic peer, Brophy, St. Mary's receives roughly a million dollars or more a year through tax credit scholarships. Brophy has made strides in diversifying its enrollment — Hispanics are about 15 percent of students, up from 8 percent in 1996, but that does not reflect their neighborhoods' diverse racial makeup.

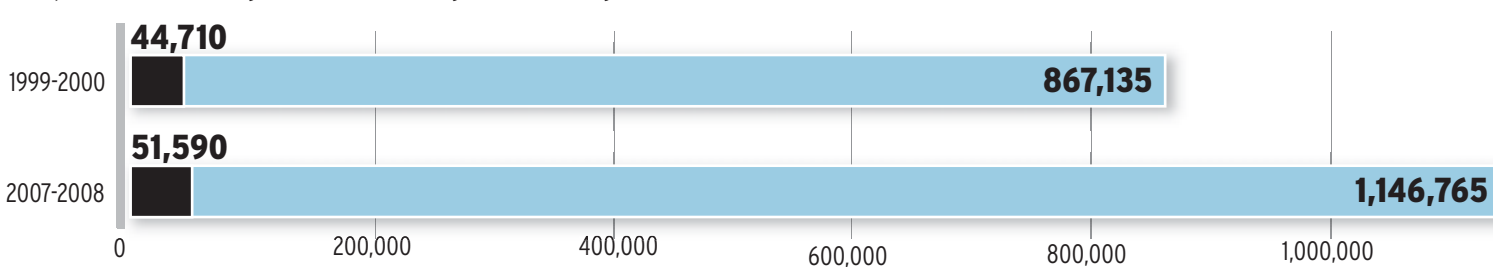
The difference appears to be which STO is providing the scholarships. St. Mary's gets most of its scholarships through the STO operated by the Diocese of Phoenix. But Brophy receives a majority of its scholarships from an STO created specifically for the school.

Of the 20 private schools that receive the most tax credit money, three experienced the same Hispanic enrollment growth as the state's public schools, the Tribune analysis found.

St. Mary's, Bourgade Catholic High School in east Phoenix, and Salpointe Catholic High School in Tucson each saw their minority population increase substantially. And each received a significant majority of their tax credit scholarships from STOs affiliated

School enrollment growth in Arizona

Enrollment at Arizona's private schools has increased slightly since the creation of tuition tax credits. But public schools have grown far more, taking on an even larger share of the state's schoolchildren.



NOTE: National Center for Education Statistics private school enrollment reports compiled every two years
SOURCE: Arizona Department of Education and National Center for Education Statistics

TRIBUNE

directly with the Roman Catholic Dioceses of Phoenix and Tucson, according to state revenue department records.

The Phoenix diocese's scholarship charity, the state's second largest, has long permitted donations earmarked for specific schools. To ensure underprivileged families benefit, it hired an outside company to assess families' financial need before deciding which students receive scholarships and how much of a student's tuition the scholarship will pay.

That selection process funneled larger sums of money to schools like Bourgade and St. Mary's, where the financial need is greatest.

"I don't think there's any way they could go here if they had to pay full tuition," Rogers said of St. Mary's students and the high

school's \$8,000 tuition rate.

As the economy continues to shrink and shed jobs, a greater number of St. Mary's families need assistance, said Liz Hansen, St. Mary's finance director.

Now there is likely to be far less money available to help.

In a major reversal of its previous philosophy, the Phoenix diocese this year began accepting donations that explicitly "recommend" which student should receive a tax credit scholarship.

Paul Mulligan, executive director of the Phoenix diocese's STO, said the Catholic scholarship charity is permitting recommendations with some trepidation.

The change comes after the diocese's tax credit donations dropped roughly \$1 million last year as Catholic school parents increasingly turned to organiza-

tions like the Arizona Christian School Tuition Organization to fund their children's private education through earmarked donations.

"People who don't like student recommendations have a stereotype that it's welfare for the rich," Mulligan said. "I think that's where people bring up a significant concern as to, 'Why is the Catholic church doing that?'"

Mulligan said the Phoenix diocese will spend a majority of the earmarked contribution for the students who donors intend their money to benefit. Then, the remaining dollars will go toward scholarships for low-income students.

The Phoenix diocese is closely monitoring its recommendation program to ensure that it doesn't just benefit affluent families. In six months, the STO plans to

evaluate whether it has increased tuition scholarships for low- and middle-income students as well, Mulligan said.

If it has not, he added, the diocese will eliminate student recommendations.

"We want to tilt the scale to the families that need it," Mulligan said. "We would never want to do something that ends up disfavoring the more vulnerable. The last thing we're going to do is create a system that takes people out of the game."

'NOT WHAT I FOUGHT FOR'

Arizona's tuition tax credits have been under legal attack from almost the moment they became law.

Their continued existence has depended more on courtroom

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victories, confirming the credits' constitutionality, than on political support. Many of the early and most important rulings came through the work of attorney and school choice advocate Clint Bolick.

"I defended them up to the Arizona Supreme Court," said Bolick, of the Goldwater Institute, a Phoenix think tank that advocates for limited government.

In the 1990s, as Arizona tax credits blazed a new trail for the national school choice movement, Bolick co-founded the Institute for Justice in Washington D.C. to support such Libertarian endeavors.

A few years ago while searching for a kindergarten for his son, Bolick saw firsthand the rigged system that private school tax credits have become. He and his wife went to an orientation meeting at Community Montessori School.

Their son attended preschool at the tiny north Phoenix cam-

pus, which provides students almost one-on-one attention from teachers.

Another parent at the meeting groused aloud about the school's expensive tuition, Bolick said. Community Montessori's director acknowledged preschool tuition is high but added that kindergarten students enroll for free.

"And I'm thinking, 'Gee, that's interesting,'" Bolick recounted during an interview in June. He wondered if it was a public charter school rather than a private school. Then the school director explained how income tax dollars pay for kindergarten tuition.

Community Montessori, the director told Bolick and the other parents, pairs up families to exchange tax credit donations to benefit each others' children.

"My jaw dropped and I thought, 'This is horrible,'" Bolick said. "This is not the program I fought for."

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"We want to tilt the scale to the families that need it. We would never want to do something that ends up disfavoring the more vulnerable."

PAUL MULLIGAN
EXECUTIVE DIRECTOR OF THE PHOENIX
DIOCESE'S STO

Private School Tuition Tax Credits timeline



See an interactive version of this timeline at
<http://www.eastvalleytribune.com/page/taxcredits>

- April 7, 1997:** Gov. Fife Symington signs Arizona's Private School Tuition Tax Credits into law; taxpayers can get a credit of up to \$500.
- September 1997:** Opponents file lawsuit against the new law; proponents counter-sue in October. Kotterman v. Killian is the result.
- Spring 1999:** Arizona Supreme Court upholds the tax credit law in Kotterman v. Killian; U.S. Supreme Court later declines to review the case.
- Feb. 15, 2000:** Winn v. Garriott filed, claiming the tax credit is a violation of the Establishment Clause of the First Amendment: "Congress shall make no law respecting an establishment of religion."
- 2001:** Tax credit raised to up to \$625 per joint tax filers.
- 2003:** Lawmakers adopt bill that requires reporting for the first time by school tuition organizations. Law takes effect Jan. 1, 2004.
- 2005:** Tax credit raised to up to \$825 per joint tax filers.
- 2006:** Tax credit raised to up to \$1,000 per joint tax filers.
- 2006:** Arizona Legislature creates a corporate private school tuition tax credit set to expire in 2011. The corporate credit has a cap - \$10 million - with a 20 percent increase each year allowed until the law expires. Law puts regulations on who can receive the corporate tax credit scholarships and limits the scholarship amount.
- Sept. 19, 2006:** Green v. Garriott filed, disputing the corporate private school tuition tax credit.
- March 12, 2009:** The Arizona Court of Appeals upholds the corporate scholarship tax credit program with Green v. Garriott.
- March 25, 2009:** The Arizona Supreme Court rules as unconstitutional a voucher program for students with special needs or who have previously been in foster care. The ruling cites an Arizona Constitution provision that prohibits the use of state funds to aid private and religious schools. The Cain v. Horne decision leads to legislation to create a new tax credit. The ruling also reaffirms Kotterman v. Killian, in which tax credits that fund scholarships were ruled constitutional.
- April 21, 2009:** 9th U.S. Circuit Court of Appeals ruling says a judge was wrong to dismiss the challenges to the 1997 individual income tax credit law. Ruling says plaintiffs have enough of a case to continue with the challenge, specifically because some of the school tuition organizations limit scholarships to religious schools.
- May 14, 2009:** School choice advocates - as a response to the April 21, 2009, ruling - ask a federal appeals court for a larger panel to review the three-judge panel's ruling that the Arizona individual tax credit may be unconstitutional.
- May 27, 2009:** Legislators approve "Lexie's Law," which expands an existing corporate tax credit law and allocates \$5 million to provide scholarships to kids with special needs or who were previously in foster care. The tax credit is aimed at families who previously benefited from a state voucher program that was later ruled unconstitutional.
- May 29, 2009:** Gov. Jan Brewer signs "Lexie's Law."
- July 13, 2009:** Brewer signs a law that allows insurance companies to participate in the previously limited corporate tax credit and eliminates the 2011 sunset on it. Brewer signs another law that allows for tax credit donations to go directly from an employee's paycheck to school tuition organizations.

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RIGGED PRIVILEGE

A Tribune investigation into Arizona's Private Schools Tax Credit Program

Tax credit law has no teeth

State cannot catch tax fraud, hold school tuition organizations accountable

By **RYAN GABRIELSON**
and **MICHELLE REESE**
TRIBUNE

When it comes to policing Arizona charities, the long arm of the law is a paralyzed limb.

The state's Private School Tuition Tax Credit program has made the regulatory paralysis especially obvious. Nonprofit charities control every part of the \$55-million-a-year tax subsidy program, which converts donations of income tax dollars into tuition scholarships for private school students.

A Tribune investigation of private school tax credits found the subsidies have largely failed to expand access to private education for low- and middle-income families, as lawmakers promised.

Instead, the state law created an industry of unaccountable middlemen — school tuition organizations, or "STOs" for short.

A handful of these scholarship charities work exhaustively to provide financial aid for underprivileged students, and spend miniscule amounts on administration.

A majority of STOs, however, blatantly violate the few regulations that lawmakers included in the statute, state and federal tax records show.

Officially, these nonprofits report to the Arizona Department of Revenue and the Internal Revenue Service.

But the state agency lacks the tools to detect even rampant misconduct. And the IRS has shrunk its auditing force dramatically in recent years.

"In Arizona, unless the IRS is going to come out and audit them, which doesn't happen as

often as people think, there's really no enforcement mechanism," said Ellis Carter, a Phoenix attorney who focuses her practice on nonprofits and represents Arizona Scholarship Fund, the third-largest STO.

The state law that governs private school tax credits has just two clear regulations — both of them unenforceable.

The first restriction forbids parents from taking a tax credit for a donation that paid tuition for their own child.

But parents can commit that brand of tax fraud with impunity because the state never learns which students receive tax credit scholarships.

Only STOs know which taxpayers make donations and which private school students benefit.

Scholarship charities provide the state with aggregate totals of donations received and tuition paid each year, but nothing else.

The Arizona Christian School Tuition Organization goes so far as to routinely shred its application materials after it cuts scholarship checks each spring, said Steve Yarbrough, the STO's executive director. Destroying the records protects families' private financial information, he said.

Without scholarship details, there is no evidence to prove the crime, said Georganna Meyer, the state revenue department's chief economist.

Meyer alone oversees Ari-



DARRYL WEBB, TRIBUNE

EYES OF THE STATE: Georganna Meyer, chief economist at the Arizona Department of Revenue, is the only state official who oversees private school tax credits.

zona's tax credits, a species of government subsidy of which private school tuition donations are by far the largest.

Over the private school credits' 12-year history, Meyer has tirelessly worked to track how the system operates, who benefits and whether scholarship charities follow the law, state tax records show.

She peppers STO executives with e-mails and phone calls when their financial statements are incomplete. Or when the charities write tuition checks to parents, not schools, raising concerns that the income tax dollars do not always fund private education.

"I fuss with them about that," Meyer said. "I've told them before, that the statute says the money goes ... for a child to go to a

school."

She jokes that her title should read, "Queen of tax credits."

But the economist ultimately has no control over the private school tax credits and the STOs they fund.

And Meyer is unable to enforce even the state law's simplest provision.

Scholarship charities must use 90 percent of their income tax donations to pay for private school tuition. That limits how much the STOs can spend on themselves, at least theoretically.

During the past six years, nearly two-thirds of STOs spent less than 90 percent on scholarships, according to state tax records.

Most have improved in this area, but some fell short by a wide margin.

State records show the Children's Scholarship Network of Arizona hasn't spent any of the \$47,000 it received in contributions for tuition. The White Mountain Tuition Support Foundation used only 61 percent of its \$400,000 on scholarships.

Meyer said she has no way to

penalize STOs for violating the 90 percent rule because state law doesn't specify how much time scholarship charities have to spend income tax donations.

"It goes back to the point that I've got, really, no authority over them," she said.

The state attorney general and auditor general consider nonprofit charities outside of their jurisdiction.

Widespread violation on the 90 percent rule is a symptom of problems with the state tax credit law itself.

"The STO statute is incredibly ambiguous," said Carter, the nonprofit attorney. "It really is horribly written."

Scholarship charity executives argue that the system works well as is.

STOs police themselves, said Harry Miller, executive director of the Tuition Organization for Private Schools. Until last month, Miller was president of the STO industry group, the Arizona School Tuition Organization Association.

When particular "bad players" are operating inappropriately, other STO executives will advise the wayward nonprofits on how to reform.

"The last thing we want is an STO that's out of compliance in any way," Miller said.

STOs also receive contributions for private school scholarships through a much smaller corporate tax credit program. Unlike the tax credits for individuals, the corporate program is tightly regulated, limiting donations and requiring that scholarships go to underprivileged students who are transferring from public schools. Corporate donations account for less than a quarter of all income tax credit money.

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"The last thing we want is an STO that's out of compliance in any way."

HARRY MILLER
EXECUTIVE DIRECTOR OF
THE TUITION ORGANIZATION FOR
PRIVATE SCHOOLS

Tribune research allows for in-depth look at tuition tax credits

TO OUR READERS

For years, the debate over Arizona's Private School Tuition Tax Credits has been mired in debate over whether the subsidy serves a public good. Proponents argue it is advancing school choice, the idea in which parents decide what kind of education their children receive, improving the public schools, too, by creating competition for students. Opponents counter it's little more than rhetoric cloaking an effort to take money from the public school system.

No side can prove definitively the oth-

er side wrong.

As the state Legislature debated whether to expand the private school tax credits in May, the Tribune began an investigation into how the program operates.

Reporters scrutinized records from the Arizona Department of Revenue, the Internal Revenue Service, the Arizona Corporation Commission, and the U.S. Department of Education, as well as scholarship charities' internal finance records, to piece together how the tax credits work and who benefits. Many interviews with private school parents explained how the system works outside

courtrooms and the statehouse floor.

Private schools do not release information about the income levels of their students. They do, however, provide the U.S. Department of Education with enrollment data that breaks down their student body's ethnic demographics.

Arizona experienced a seismic shift in its demographics between 1996 and 2008, particularly among school-age children.

Hispanics, long the state's largest minority, nearly became a majority of students in the public schools.

The Tribune analyzed enrollment data from the National Center for Education Statistics for the 20 Arizona private

schools that received the most tax credit scholarship money in 2008.

If tax credits provide access to private schools for all students, then private campuses should have seen similar, if not equal, Hispanic enrollment growth as public schools. But nearly all did not.

To ensure its methodology was sound, the newspaper presented its research to two of Arizona's leading demographers — Bill Schooling at the Arizona Department of Commerce and Jim Q. Chang at the Arizona School Facilities Board. The demographers confirmed that the Tribune's analysis has reached an accurate conclusion.

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Weather records keep falling • A7

Mesa school passes mold tests • A11

Wednesday, August 5, 2009

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High 112, Low 88
Partly Cloudy

Tomorrow's weather:
High 110, Low 88
Partly Cloudy

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Vol. 1, No. 110

RIGGED PRIVILEGE

A Tribune investigation into Arizona's Private Schools Tax Credit Program



SCHOLARSHIP FUNDING

2009/2010

BY THE BOOK SCHOOLS SKIRT THE LAW

Students from far to pay all or part of income tax money (STO). Through against your tax... have the scholarships directed to a... 1997, the state... 0 per year for... ARS 43-10... You do n... arsl a d ied - 2g ze

schola... expenses, provide competitive sa... the curriculum and programs available to each student. The... dollars bless every aspect of the school.

All of these blessings are at no cost to you! As a school family, our goal is to increase the donations to STOs by 30% or more in 2009. We are happy to further explain how you can direct your taxes to Christian Scholarship Foundation (formerly PCSF) or Arizona Christian School Tuition Organization (ACSTO), or you can learn more directly from their websites, www.pcssf.org and www.acsto.com.

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LIVE CHAT: Join reporters Ryan Gabrielson and Michelle Reese for a live Q&A on our Web site at 4 p.m.

THURSDAY: Get an early look at the third installment of Rigged Privilege.

ALSO ONLINE: Databases that show how many donations each school tuition organization has received, the scholarships they have given, and enrollment figures by school.

SUNDAY, AUG. 2

THE FIX: The tuition tax credits law was supposed to revolutionize school choice for disadvantaged children. Instead, it fostered a rigged system that keeps private education a privilege for the already privileged.

NO OVERSIGHT: The state has no way of ensuring that \$55 million a year in tax credits really goes toward scholarships for private school students as the law intended.

OUR RESEARCH: Records, data, parents show how the system works outside the courtroom and the statehouse floor.

IN TODAY'S PAPER, A4-A6

HOW-TO GUIDE: Many private schools teach parents how to skirt the law by lining up donors for their children. **PAGE A4**

PLOT TWIST: The tale of Maricopa County Schoolhouse Foundation begins with criminal indictments and fraud but ends as an example of tuition tax credits' promise for serving the underprivileged. **PAGE A6**

FRIDAY, AUG. 7

PERKS: Executives at two of Arizona's largest scholarship charities are using income tax donations to enrich themselves.

ALTERED VISION: Twelve years ago, Trent Franks envisioned a statewide system to enable poor kids to go to private schools. Most of the charities that formed as a result went in a different direction.

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RIGGED PRIVILEGE

A Tribune investigation into Arizona's Private Schools Tax Credit Program



Schools teach parents how to skirt law

Tuition soars as system benefits schools more than students

By RYAN GABRIELSON AND MICHELLE REESE
TRIBUNE

Gethsemane Lutheran School did not appeal to its faithful's sense of charity when asking for money to fund student scholarships.

Rather, the Tempe Christian elementary and middle school appealed to their bank accounts.

"You make money!" Gethsemane's Web site shouted in bold letters.

More than 300 private schools across Arizona receive money from the state's Private School Tuition Tax Credits program, which takes income tax dollars, otherwise destined for state coffers, to pay for private education.

A Tribune investigation of the tax credits found these subsidies have largely failed to increase access to private schools for low- and middle-income students and for minorities in particular.

Instead, schools that receive the most tax credit scholarships dramatically increased their tuition. Several campuses doubled the price.

And a small handful even mandate that parents make a tax credit donation to the private school as part of their children's tuition, violating state and federal law.

At dozens of private schools, enrollment materials include step-by-step instructions on how parents can work the tax credit system to get a majority, or all, of their children's tuition paid for at no personal cost.

The most ambitious administrators publish multipage guides on the subject.

Private education costs have risen so sharply that even executives at school tuition orga-

nizations have begun to criticize the schools they partner with to raise income tax donations and distribute scholarships.

"What's wrong with this picture?" said Chambria Henderson, director of the Arizona Scholarship Fund. "Shame on you schools for raising tuition beyond what would be normal if the tax credit weren't available."

However, many of the largest private school scholarship charities — particularly the Arizona Scholarship Fund — have aided and abetted the price hikes.

Henderson argues that schools alone are responsible for their tuition rates and how they use tax credit money.

Arizona's general fund gets shorted \$55 million a year through tax credits to pay student tuition.

That amount has swelled in recent years, up from \$42 million in 2005, records from the Arizona Department of Revenue show.

Lawmakers twice increased how much households can donate for tuition credits this decade. The price of private education has grown accordingly.

In their efforts to help parents recruit income tax donors, private schools sometimes make dubious claims or suggest activi-

ties that violate federal tax code.

Donors cannot, for instance, "make money" by donating their income tax dollars for a Gethsemane Lutheran student.

The school supported that contention by stating donors could claim a contribution as a deduction on their federal taxes, which is false if earmarked to benefit specific students. The Internal Revenue Service does not consider such donations to be charity, and therefore deductible.

Wendell Robson, Gethsemane's principal, did not respond to repeated requests for comment.

Gethsemane works with the Arizona Christian School Tuition Organization, the state's largest STO, to provide its families with tax credit scholarships.

Steve Yarbrough, ACSTO's executive director, said he was not aware of the statements on Gethsemane's Web site when the Tribune asked about the school's claims last month.

"With as many schools as we work with, more than 120, I'm not even sure that I've seen the Web sites for all of them by any means," Yarbrough said. "We do try to make sure they are giving accurate information."

He added that Gethsemane's choice of words was regrettable.

"I'm going to suggest clearly and strongly to them that they not make that sort of claim," Yarbrough said.

The "tax credit" page on Gethsemane's site is now blank, save for a link to ACSTO.

NO QUID PRO QUO

Summit School of Ahwatukee's handbook for parents on tuition tax credits is 14 pages long.

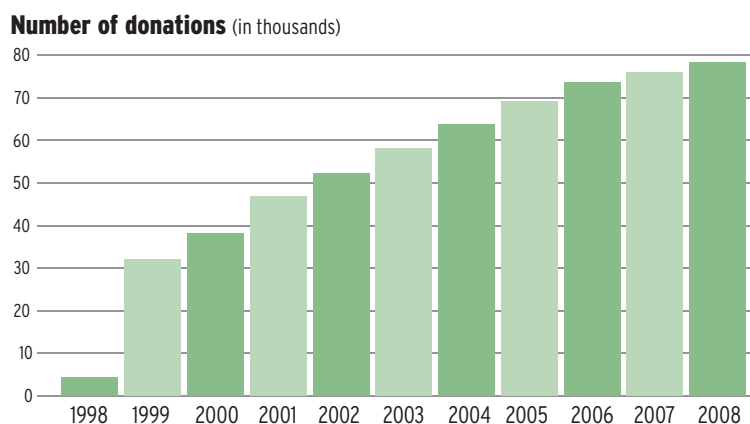
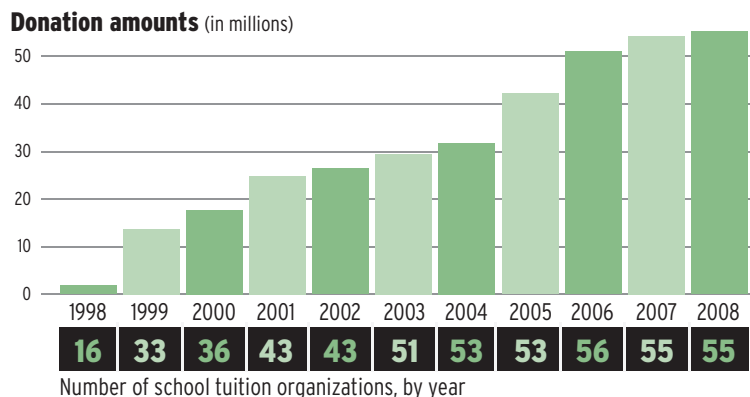


"What's wrong with this picture? Shame on you schools for raising tuition beyond what would be normal if the tax credit weren't available."

CHAMBRIA HENDERSON
DIRECTOR OF THE ARIZONA SCHOLARSHIP FUND

Private school tuition credits

In 1997, Arizona lawmakers created a way for taxpayers to take a portion of what they owe the state and redirect it to school tuition organizations, which dole it out to private schools and students. The program has grown since then, with organizations collecting about \$350 million in donations in 12 years.



A court case challenges the constitutionality of the tax credit based on separation of church and state. It is determined to be constitutional.

The maximum donation for married filing joint returns increases to \$625 from \$500.

The maximum donation for married filing joint returns increases to \$825 from \$625.

The maximum donation for married filing joint returns increases to \$1,000 from \$825.

SOURCE: Arizona Department of Revenue

Jayson Peters/TRIBUNE

CONTINUED ON A5



THOMAS BOGGAN, TRIBUNE

“All families at Summit pledged to make a contribution to the ASF Specific School Fund with Summit School of Ahwatukee designated as the recipient on their enrollment form.”

SUMMIT SCHOOL OF AHWATUKEE HANDBOOK ON PRIVATE SCHOOL TAX CREDITS

FROM PAGE A4

Its explanation of how to donate to the Arizona Scholarship Fund, its STO of choice, is more extensive than those available from the charity itself. The handbook contains five theoretical families, each with different financial circumstances, and details how they take a private school tax credit.

In the “frequently asked questions” section, the first query is basic.

Why should parents donate their income tax dollars specifically to Summit, the school, rather than to an individual student?

The school’s answer is even simpler: because they have to.

“All families at Summit pledged to make a contribution to the ASF Specific School Fund with Summit School of Ahwatukee designated as the recipient on their enrollment form,” the handbook states.

The condition violates the state’s tax credit law because it requires the donation as part of the parents’ tuition payment. The law forbids parents from taking a tax credit that benefits their own children.

What’s more, the mandatory tax credit also breaks federal tax code, which prohibits quid-pro-quo donations to nonprofit charities like STOs, in which donors receive something of personal value in exchange for their contribution.

In July, Summit altered its enrollment documents for the upcoming school year, requesting donations instead of mandating. The word change came after Tribune inquiries about the school’s use of tax credits.

Bill Andrew, chairman of Summit’s board of directors, said the statements in the private school’s handbook and application materials were inaccurate

and inappropriate.

“That’s actually very poorly worded,” Andrew said.

About half of Summit’s families made tax credit contributions to benefit the school itself, many of them believing it was a condition of enrollment, he acknowledged.

Summit has never expelled students because their family did not make the tax credit donation, Andrew said. “That was not our intent, or the spirit of what we were trying to do, and we never enforced it that way,” Andrew said.

Parents could get away with not making the donation, said Paul Bosch, whose son just finished eighth grade at Summit, but the school didn’t make the tax credit sound optional.

Bosch said he and his wife for years have used their \$1,000 private school tax credit to help pay tuition for a friend’s child at a different school, leaving them without income tax dollars to spare for Summit.

However, he helped Summit lean on other families for donations.

Summit requires parents to volunteer a certain number of hours to help the school. Bosch

said he met the quota by calling other Summit parents to remind them to make their tax credit donation for Summit.

“I hope I’m not being hypocritical,” Bosch said of his thoughts at the time.

The Bosches gave money out of their own pocket to Summit’s capital fund for buildings.

Henderson, the Arizona Scholarship Fund’s director, said the Summit mandate was, at best, problematic. Regardless, for years the scholarship charity accepted such donations on behalf of Summit and other private schools.

“I know of probably only two or three schools that have this requirement,” Henderson said, “and I shake every time I think about it.”

‘POUND THE PAVEMENT’

Private schools have turned parents into fundraisers.

Instructions for where and how to seek out income tax donors are included on Web pages, discussed at school meetings and handed out with copies of the student code of conduct. Administrators emphasize that parents think big, and consider asking anyone they know.

“The list could include: friends, family, co-workers, people with whom you do business, neighbors, fellow churchgoers, people at your gym or yoga studio, members of your professional association, and much more,” a flyer from the Tucson Waldorf School states.

Gilbert Christian Schools uses its monthly newsletters to remind parents to “pound the pavement” in search of potential donors.

Community Montessori, a private kindergarten in Phoenix, has parents of all its students join in.

“I tell parents, if you want to be a part of the school and feel like you’re not paying for it, you have to go out there and contribute and get out there and recruit family members and friends,” said Janet Wheeler, Community Montessori’s director.

The instruction and encouragement is ostensibly to help families with children in the schools.

But in many cases, it’s the schools that benefit most from the fundraising efforts.

Much like universities raise their prices each time Congress adds more financial aid for low-

income students, many Arizona private schools increased tuition each time the tax credit program expanded.

In 2005, the Goldwater Institute, a Phoenix think tank that advocates for limited government, reported that the private elementary schools charged \$3,688 a year on average; high schools were more expensive, at \$6,696.

Then in 2006, state lawmakers increased the amount that taxpayers can contribute each year to school tuition organizations from \$825 for married couples, to \$1,000.

For the school year just beginning, tuition at the private schools that receive the most tax credit scholarships is anecdotally as much as 30 percent higher than the average prices Goldwater found four years ago.

Notre Dame Preparatory in Scottsdale — which collected \$620,868 in tax credits last year — charges \$10,400 in yearly tuition, not counting application and registration fees. In 2004, families paid \$7,235 per student.

At the Phoenix Hebrew Academy, kindergarten tuition was \$9,600 last year; enrolling in grades first through eighth cost \$10,500. A kindergarten education at the academy cost \$7,800 in 2005; the elementary grades were \$7,500.

Brophy College Preparatory in Phoenix has almost doubled tuition since 2001, now charging more than \$12,000. The elite campus collects the second-most tax credit scholarship money, \$1.5 million last year.

THEIR OWN STO

“Cover everything in prayer!” the Flagstaff Community Christian School advises parents in a tip sheet about securing private

Top-dollar school tuition organizations, 2008

Individual income tax credit organization	Amount received	Scholarships given	Scholarships amount
Arizona Christian School Tuition Organization	\$11,554,910	5,584	\$10,964,557
Catholic Tuition Organization of the Diocese of Phoenix	\$9,783,082	5,663	\$10,380,028
Arizona Scholarship Fund	\$6,160,160	2,824	\$5,369,173
Institute for Better Education	\$4,615,726	2,290	\$3,784,240
Catholic Tuition Organization of the Diocese of Tucson	\$4,371,392	2,854	\$4,467,544
Jewish Tuition Organization (formerly Jewish Country Day School Scholarship Fund)	\$1,770,732	389	\$2,172,669
Arizona School Choice Trust	\$1,507,633	1,202	\$2,527,279
Arizona Tuition Organization	\$1,350,950	726	\$1,234,638
Arizona Private Education Scholarship Fund	\$1,272,939	480	\$779,616
Tuition Organization for Private Schools	\$1,270,106	778	\$1,154,783

NOTE: Money received in late 2008 would not be given out in scholarships the same calendar year; STOs can use up to 10 percent of donations for administrative costs

SOURCE: Arizona Department of Revenue

TRIBUNE

CONTINUED ON A6

RIGGED PRIVILEGE

A Tribune investigation into Arizona's Private Schools Tax Credit Program



SUBMITTED

ON CAMPUS: Northwest Christian School in Glendale is the largest recipient of tax credit scholarships.

FROM PAGE A5

school tax credit donations. "Let God orchestrate this for you and He will make sure this information gets into the right hands."

However, few private schools leave such matters to chance, or to higher powers.

The state tax credit law stipulates that STOs must be willing to provide scholarships to more than one school. The provision is intended to discourage private schools from setting up scholarship charities just for themselves, said Georganna Meyer, chief economist at the Arizona Department of Revenue.

Regardless, many campuses have done just that.

The state law stipulates that STOs must be willing to give scholarships to other schools, not that they actually do so.

"I encourage them, if just for the sake of appearances, do more than one school," Meyer said.

The Dynamite Montessori Foundation is an offshoot of a Cave Creek private school, Dynamite Montessori.

The scholarship charity gave its namesake \$23,154 in scholarships in 2008. It also provided three other Montessori schools just more than \$3,000, the state Revenue Department records show.

The Arizona Tuition Organization (AZTO), another tax credit charity, distributed \$1.2 million in scholarships from income tax donations in 2008. Of that, \$1 million paid tuition for students at Northwest Christian School in Glendale.

Matt Davidson, Northwest's superintendent, is on the AZTO board of directors.

Like the state's other large private schools, Northwest's

families do not limit themselves to one scholarship from one charity.

Northwest students, who go from kindergarten through high school, received the largest amount in tax credits last year, \$1.6 million, with scholarship money arriving from several different STOs.

About 200 students at Northwest applied for and received tuition money from multiple scholarship charities, said Tom Hartzler, the school's administrative services director.

If the schools do not operate their own STO, administrators typically form partnerships with one or more of the large scholarship charities, such as the Arizona Christian School Tuition Organization and the Arizona Scholarship Fund.

These partnerships help private schools ensure income tax dollars that parents lined up for their children's tuition arrive at the campus when the bill is due.

Such partnerships come in handy when problems surface. Like when an STO uses tax credit money donated for a student at one private school to, instead, pay tuition for another student at a different campus.

Carrie Slade, Summit School's business manager, said the Arizona Scholarship Fund has made that mistake on occasion. Slade said she helps parents work with the scholarship charity to track the donations by check number to prove that the Summit student has been shorted.

"And ASF says, 'Oh my gosh, you're right, we're so sorry,'" she said. "And they move the funds over right away. But we have to keep on top of them."

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Charity survived indictments to help poor

Foundation now 1 of few that give only to underprivileged

By RYAN GABRIELSON
TRIBUNE

The Maricopa County Schoolhouse Foundation is the most unusual of all Arizona's 55 school tuition organizations.

The charity's story began as a cautionary tale of how effortlessly Arizona's Private School Tuition Tax Credits can be abused.

Ultimately, though, the foundation has grown into one of just seven STOs that give scholarships exclusively to underprivileged students.

Cash poured into the charity from the very first year it opened.

In 2005, the charity received \$230,000 through tax credit donations to provide scholarships for students at private campuses.

There was a problem, though. The Schoolhouse Foundation is a nonprofit dedicated to serving homeless children.

Further, at its inception, the charity was an offshoot of the Thomas J. Pappas Schools — public schools where the Valley's most underprivileged attended class.

Sandra Dowling, then the five-term Maricopa County superintendent of schools, ran the campuses and the charity.

The Schoolhouse Foundation told the Internal Revenue Service it would provide homeless students with scholarships to attend private high schools, according to federal tax records.

The IRS then approved the Schoolhouse Foundation as a tax-exempt charity in July 2006.

Four months later, a grand jury indicted Dowling on 25 counts of misusing public money, bid rigging and depositing taxpayer cash into the new nonprofit.

Roughly a half-million dollars in tax credit donations sat in the Schoolhouse Foundation's bank account, for years unspent and unaccounted for. There was no consequence for failing to spend the state income tax money on private school tuition.

"I don't think anyone thought there would be the success in collecting the amount of money that was collected," said Marc Frazier, now the Schoolhouse Foundation's executive director.

And Pappas' students, denied basic skills by transient lives, were not destined for private schools.

The Schoolhouse Foundation did not give a single scholarship in its first two years, Arizona Department of Revenue records show.

"I don't think anyone thought there would be the success in collecting the amount of money that was collected."

MARC FRAZIER
SCHOOLHOUSE FOUNDATION'S
EXECUTIVE DIRECTOR
ON EARLY TAX CREDIT
CONTRIBUTIONS

The charity was attached to the county schools then, operating in the same office. In 2006, the county schools' Web site asked for "tuition" tax credits to help its public school students. The site made no mention that the state subsidy is intended for private schools.

The Pappas schools were on the brink of closure, with a multimillion-dollar deficit and Dowling fighting criminal charges.

She pleaded guilty in July 2008 to a single misdemeanor charge of violating state employment law; all the original charges were eventually dropped.

Frazier was the county schools' administrative services director under Dowling. He pleaded guilty last year to a misdemeanor, misuse of public money, for depositing a check, allegedly made out to the county school district, into the charity's bank account.

The county school district was so closely tied to the charity that the two were almost indistinguishable from each other, federal tax records show, with money moving between the two regularly.

The charges, allegations, and lawsuits swirling around the Pappas schools, Dowling and the foundation were confusing even to a judge assigned to the case.

"I still don't understand the criminal nature of what Mr. Frazier's charged with," Maricopa County Superior Court Judge Edward Burke said after accepting Frazier's guilty plea, a transcript of court records show.

Dowling hired David Bridger as the Schoolhouse Foundation's first executive director in 2005, and he held the job through 2007.

When contacted by the Tribune, Bridger largely refused to comment about the charity's use of tax credits.

"I just think the focus should be on the children, homeless children," he said.

Dowling said she had little knowledge of how the foundation operated and was not aware it

still existed.

"I was on the outside looking in on that one," she said.

The Schoolhouse Foundation's federal tax filing from 2005 lists Dowling as president of the charity's board of directors.

On the charity's first two annual reports to the state Revenue Department, Bridger totaled the hundreds of thousands of dollars it received in tax credit donations. Under the section for amount spent on scholarships, Bridger wrote zeros.

"I'd call him up and say, 'Really?'" said Georganna Meyer, the Revenue Department's chief economist, who oversees the tax credit program.

The Schoolhouse Foundation paid out its first scholarship in 2007, state records show. But even that created problems, as Bridger wrote a check to Xavier College Preparatory in Phoenix for a student's entire four-year tuition, roughly \$40,000.

"He just didn't know what he was doing," Frazier said of Bridger.

In July, Frazier allowed a Tribune reporter to inspect the charity's internal financial records, detailing which students it is giving scholarships to and which schools they attend. The balance sheets show that, since early 2008, the scholarship foundation has paid \$506,000 in tuition for students at a number of Catholic high schools, including Brophy and Xavier college preparatories.

Dayna Hirschberg, a Schoolhouse Foundation administrator, said the charity limits its scholarships to families whose income is less than \$40,000 a year.

Last year, after the Pappas schools closed, a public charter school, Children First Academy of Phoenix, opened in their place. The charity began making gifts to the academy. Jerry Lewis, the academy's assistant superintendent, said the Schoolhouse Foundation has purchased buses and computers and paid the school nurse's salary.

And now, four years and much turmoil later, it also appears to be one of the best examples of how Arizona's private school tax credit law can benefit the underprivileged.

"It's taken us this long," Frazier said, "to finally get it all organized and to have enough students apply and everything else to be able to use this money properly, in what it was intended to be used for."

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THURSDAY: Get an early look at the third installment of Rigged Privilege.



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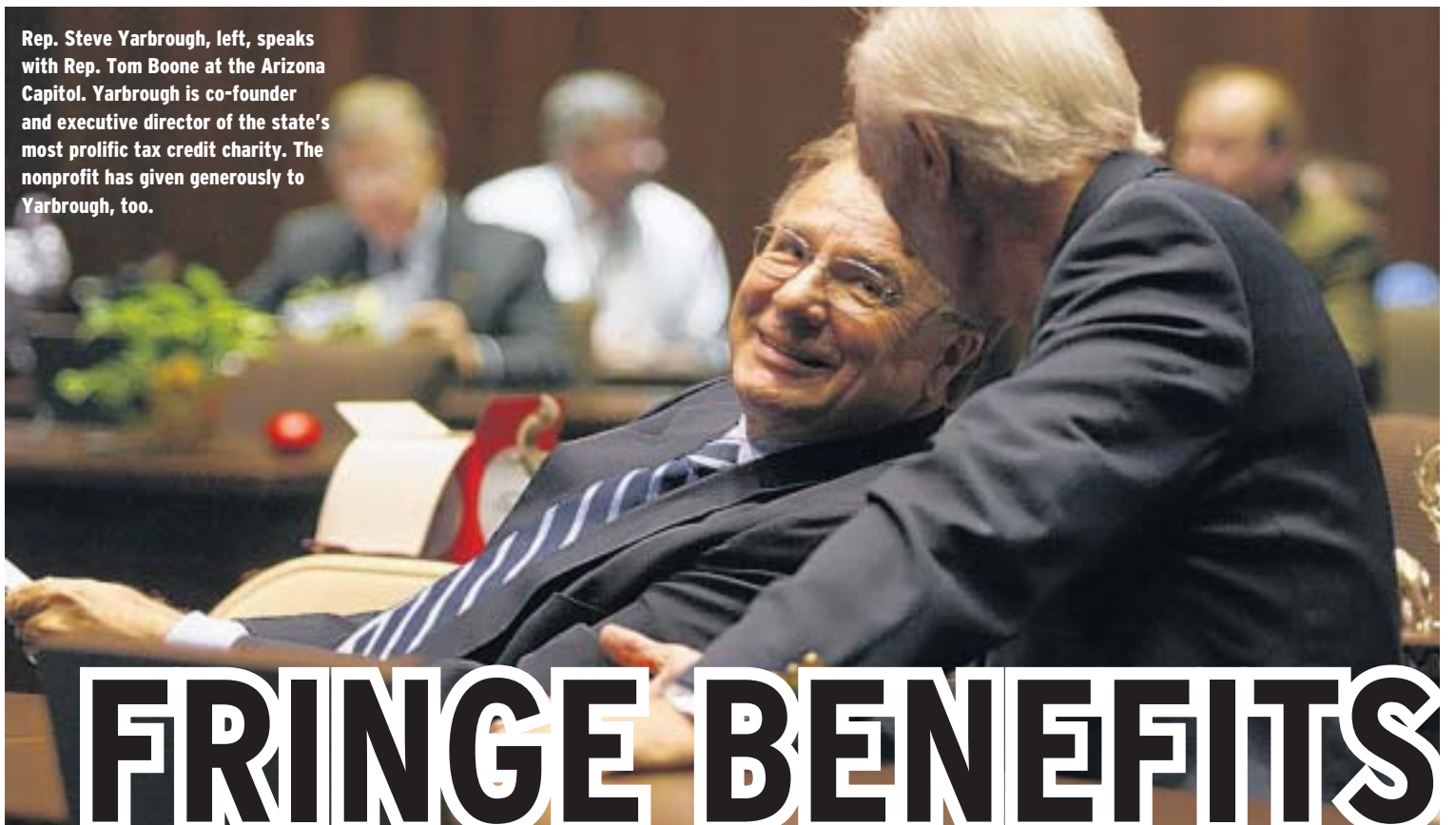
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RIGGED PRIVILEGE

A Tribune investigation into Arizona's Private Schools Tax Credit Program

Rep. Steve Yarbrough, left, speaks
with Rep. Tom Boone at the Arizona
Capitol. Yarbrough is co-founder
and executive director of the state's
most prolific tax credit charity. The
nonprofit has given generously to
Yarbrough, too.



FRINGE BENEFITS

CHARITIES GIVE EXECUTIVES EXTRA CASH, CARS, REAL ESTATE

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THE FIX: The tuition tax credits
law was supposed to revolutionize
school choice for disadvantaged
children. Instead it fostered a rigged
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a privilege for the already privileged.

NO OVERSIGHT: The state has no
way of ensuring that \$55 million
a year in tax credits really goes
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OUR RESEARCH: Records, data,
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HOW-TO GUIDE: Many private
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PLOT TWIST: The tale of Maricopa
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PERKS: Executives at two of Arizona's largest
scholarship charities are using income tax donations
to enrich themselves. **PAGE A4**

ALTERED VISION: Twelve years ago, Trent Franks
envisioned a statewide system to enable poor kids to
go to private schools. Most of the charities that formed
as a result went in a different direction. **PAGE A6**

COMMENTS FROM READERS: What people are saying
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RIGGED PRIVILEGE

A Tribune investigation into Arizona's Private Schools Tax Credit Program

"A number of people in the system are not altruistic. That breaks my heart. That discourages me. It's like power and money corrupt all things."

DEBRA PEARSON • AN EARLY TAX CREDIT SUPPORTER AND FORMER STO BOARD MEMBER

Some charities most generous to executives

STO chiefs take extra benefits, risk nonprofit status

By RYAN GABRIELSON AND MICHELLE REESE
TRIBUNE

Executives at two of Arizona's largest private school scholarship charities have used state income tax dollars to give themselves luxury cars, expensive real estate, jobs for relatives and friends, and extra cash hidden in the nonprofits' balance sheets.

The benefits are potentially illegal under federal tax code and put the charities at risk of crippling fines and even closure, according to tax experts interviewed by the Tribune.

The newspaper's investigation of Arizona's Private School Tuition Tax Credits found the \$55 million-a-year program has largely failed to expand access to private education for low- and middle-income families, as promised. And a pair of the scholarship charities, called school tuition organizations, which run the program, have enriched their executives and board members.

"A number of people in the system are not altruistic," said Debra Pearson, an early tax credit supporter and former STO board member. "That breaks my heart. That discourages me. It's like power and money corrupt all things."

The state has 55 STOs. But two of them — the Arizona Christian School Tuition Organization and the Arizona Scholarship Fund — dominate the industry, together collecting almost a third of all tax credit donations.

The personal profits these major STOs have provided executives appear to violate federal tax code, according to several nonprofit attorneys and tax experts the Tribune interviewed. Only auditors with the Internal Revenue Service can determine if scholarship charities' payments and purchases are "private inurement," and therefore unlawful.

Several of the deals ACSTO and ASF struck with their directors are questionable, putting their status as tax-exempt charities at risk.

ACSTO pays out more than \$10 million a year in scholarships for thousands of students' private religious educations. Under the stewardship of state Rep.

Steve Yarbrough, its co-founder and executive director, ACSTO is the state's most prolific tax credit charity.

And the nonprofit has given generously to Yarbrough, too.

Income tax donations to ACSTO have paid hundreds of thousands of dollars to private businesses owned by Yarbrough, a Republican lawmaker from Chandler, and other members of the charity's board of directors, federal tax records show.

To help him travel around, the scholarship charity has bought two Infiniti G35 luxury sedans.

At the third-largest STO, Arizona Scholarship Fund, Chamberia Henderson oversees a more than \$5 million-a-year operation providing tuition money to campuses of all shapes and sizes.

Henderson conceived the idea of tax credits to pay for private school tuition some two decades ago and then lobbied for it at the Arizona Legislature.

Like Yarbrough, she has used the scholarship charity she operates to furnish herself more than fringe benefits.

Nepotism is ASF's primary hiring policy. Henderson employs her three children and seven other relatives and friends, according to federal tax records.

ASF gifted Henderson money for a down payment to buy office space. The charity now rents that space from Henderson at a price well above the going rate for that class of commercial property.

The Tribune provided its findings to Yarbrough and Henderson last month. The executives confirmed the newspaper had accurate details about their benefits, though both argue the



THOMAS BOGGAN, TRIBUNE



"We think what we do is clearly appropriate under the law."

REP. STEVE YARBROUGH
CO-FOUNDER AND EXECUTIVE DIRECTOR
OF ACSTO

transactions do not illegally profit them at the charities' expense.

"We think what we do is clearly appropriate under the law," Yarbrough said.

Tax experts that the Tribune interviewed disagreed.

"The parties here are really pushing on the edge, in my judgment, by doing this kind of thing," said Bruce R. Hopkins, a tax attorney who runs the Nonprofit Law Center in Kansas City, Mo.

When charity executives take something from their organization (like a large salary or equipment) without giving back something of equal or greater value, that is a violation of federal tax code called "private inurement," said John D. Colombo, a University of Illinois law professor specializing in tax-exempt organizations.

Executives who receive illegal benefits face major fines of up to 200 percent of the benefits' value. In the most egregious cases, the IRS can strip charities of their tax-exempt status, a death sentence for nonprofits.

"If you are guilty of private inurement," Colombo said, "bad things happen to you."

PRIVATE GAIN

Steve Yarbrough turned private school scholarships into a second career.

In 1997, when tuition tax credits became state statute, Yarbrough largely closed his family law practice. He focused his time and energy on building the Arizona Christian School Tuition Organization.

It was, at first, a surprisingly difficult undertaking, Yarbrough said, considering tax credits essentially offer schools and parents free money.

"To try to get a church to do a mailing for an outside organization is not an easy thing to do," he said.

ACSTO is by far the most financially successful of the state's STOs.

Yarbrough, working full time as a charity executive and state lawmaker, deactivated his license with the State Bar of Arizona in 2004. The administrative change saved him a few hundred dollars a year in fees and made it easier to turn away former clients who wanted his representation again, he said.

ACSTO is the only party that receives his legal insights now.

Yarbrough does not supply his legal knowledge pro bono, though.

The scholarship charity pays him an extra \$12,000 each year as a retainer, on top of his \$96,000 salary, which ACSTO counts as "legal fees" in its federal tax fil-

ings.

Maret Vessella, the state bar's interim chief counsel, said lawyers are not permitted to do any legal work or charge fees unless they have an active license. Practicing law without that can bring censure and, in extreme cases, disbarment.

"An inactive license — it's the same thing as if it's suspended, in terms of you cannot practice law," Vessella said.

Yarbrough said he considers the legal fees part of his salary, not for him to represent the scholarship charity as an attorney. "Any legal work I'm doing at this point is basically just my business knowledge, my experience in that regard," he said.

Nonprofit charities file their own tax returns — the "Form 990" — even though they don't pay taxes. In exchange for freedom from income taxes, charities are supposed to accurately detail their revenues and expenses, what they pay top executives and whom they do business with.

ACSTO does not list all of Yarbrough's compensation in the same part of the filing, as the IRS requires.

Therefore, it is impossible to know how much the charity pays its executive director.

IRS auditors have caught numerous charities attempting to hide executive pay by tucking cash and perks in different itemized expenses.

Yarbrough's additional pay is not documented in ACSTO's tax filings; he does disclose that he provides the charity legal services.

ACSTO's filing for 2007 also states that David Harowitz, one of the charity's former board members and founders, volunteered his time as its primary attorney.

However, Yarbrough acknowledged that Harowitz also receives income from what ACSTO classifies as legal fees.

That line item typically totals almost \$60,000 a year, federal tax records show.

Any misstatement on ACSTO's filings to the IRS are accidental, Yarbrough said.

Harowitz did not respond to

CONTINUED ON A5



THOMAS BOGGAN, TRIBUNE



“The board just felt it wasn’t a wise financial decision to have something (valued at) close to half a million dollars as an asset of the organization to be just handed away to somebody else (if ASF dissolved).”

CHAMBRIA HENDERSON

ON WHY SHE BOUGHT OFFICE SPACE FOR ARIZONA SCHOLARSHIP FUND, BECOMING LANDLORD AS WELL AS EXECUTIVE DIRECTOR OF ARIZONA’S THIRD-LARGEST STO

FROM PAGE A4

requests for comment.

Yarbrough and Harowitz are generating more income from a different line item.

The scholarship charity pays HY Processing, a private data-entry corporation, more than \$400,000 a year. Those bills take up a majority of ACSTO’s administrative spending.

The “H” stands for Harowitz, who owns the company with “Y,” better known as Yarbrough, Arizona Corporation Commission records show.

Yarbrough said the company employs up to a dozen people during its busiest times of year to process scholarship applications, entering family income information into databases and finding excerpts from letters.

The ACSTO director would not provide HY’s internal financial records to the Tribune.

Yarbrough said he and Harowitz do not take any salary from the firm, though it does generate a profit for them. He would not disclose how much profit HY provides; ACSTO is the corporation’s only client.

Yarbrough insists that HY saves the scholarship charity money on administrative expenses but did not release any evidence to support his assertion.

“It is, obviously in my opinion, an arrangement with considerable benefit to ACSTO,” Yarbrough said in a written response to the Tribune’s questions.

The firm’s employees work from the same building as ACSTO and, in everything except name, are employees of the charity.

HY’s business arrangement puts the charity in peril, said Frances Hill, a University of Mi-

ami tax law professor.

“Very, very bad situation,” Hill said. “The IRS has been busy revoking the (tax) exempt status of any number of entities that have exactly that fact pattern.”

Yarbrough’s flashiest income is also listed at the back of the charity’s tax filings.

In 2002 and 2007, ACSTO bought automobiles, the first for \$36,000 and the second for \$44,000. Specifically, the scholarship charity purchased Infiniti G35 sedans that Yarbrough said he uses as his personal vehicle.

ACSTO does not count the sedans in the executive’s compensation; Yarbrough said he counts it as such in his own federal income tax filings.

“For the privilege of driving that car, I get to pay taxes,” he said.

OFFICE SPACE

The Arizona Scholarship Fund outgrew ChamBria Henderson’s two-bedroom condo even before it made the Mesa residence its headquarters in 2004.

Regardless, the scholarship charity only searched out a place of its own in 2006 and only by force.

Henderson’s homeowners association noticed ASF employees’ cars parked all over the narrow subdivision streets and threatened legal action.

The STO was already collecting and distributing millions of dollars. Henderson launched the charity in 1998 after lawmakers established the program that allows taxpayers to take money they owe the state general fund as income taxes and give it to STOs for student tuition.

She had devised the idea of giving taxpayers control over how their tax dollars fund educa-

tion through a tax credit, rather than vouchers. The scholarship charity allowed her to test the idea in the real world.

“I opened up Arizona Scholarship Fund to be a lab for this experiment,” Henderson said of private school tax credits.

Henderson also made it her own private business and ran ASF from home for eight years.

As the homeowners association moved to evict the charity in fall 2006, Henderson decided to buy office space herself, becoming ASF’s landlord and executive director.

Asked why ASF did not purchase its own office space, Henderson provided multiple, conflicting explanations.

First, Henderson said ASF’s board of directors, which includes herself and her oldest daughter, thought it was a bad idea for a charity to own property. If ASF ever dissolved, she added, the charity’s executives could not keep the buildings themselves.

“The board just felt it wasn’t a wise financial decision to have something (valued at) close to half a million dollars as an asset of the organization,” Henderson said, “to be just handed away to somebody else.”

Later, Henderson said ASF had no way to make such a purchase because her bank, Wells Fargo, does not provide mortgages to nonprofit charities.

That is false.

In fact, the bank regularly lends money to nonprofits and even seeks them out as customers, said Ferris Morrison, a Wells Fargo spokeswoman. “We do lots of business with” charities.

BALLOON PAYMENT

Henderson formed her own private, for-profit corporation

— ChamBria LLC — to buy the office space with a \$360,000 mortgage from Wells Fargo.

There was a problem, though. Henderson couldn’t afford to buy the 1,800-square-foot spread that she picked to be the charity’s new headquarters, near Baseline and Higley roads.

She took a second mortgage on her new condo to gather cash for a down payment. But she remained \$27,000 short of the roughly \$90,000 that Wells Fargo required, ASF’s federal tax filings show.

In September 2006, ASF’s board of directors agreed to lend that amount to Henderson.

The \$27,000 turned out to be a gift to the chief executive, not a loan.

Henderson charges ASF \$4,300 a month in rent. That includes the amount she owes ASF for the \$27,000, tax and rental records show.

Put simply, ASF uses income tax donations to make the payments on the loan it gave Henderson. She pays nothing.

The scholarship charity pays Henderson \$28 per square foot in rent for its office space, a fair market rate, she argues.

However, CB Richard Ellis, one of Arizona’s largest real estate firms, asks no more than \$26 per square foot for its most high-end commercial space in Mesa. Katherine Hauge, a CB spokeswoman, said most of its properties rent for far less.

Units in ASF’s office complex were advertised for \$16 per square foot on a Craigslist.org ad in May.

Debra Pearson, a former state lawmaker, served on ASF’s board at that time and said she urged Henderson against borrowing money from the charity.

Henderson ignored the advice.

“She would say, ‘I have the votes on the board to do it,’” Pearson said.

Henderson alone chooses who serves on ASF’s board.

ASF helped Henderson buy the office space in more ways than one; she also had the charity cosign the loan, making the nonprofit liable for Henderson’s personal debt.

Henderson provided mortgage records to the Tribune that show ChamBria LLC is required to repay the entire loan amount within five years.

Henderson will owe Wells Fargo roughly \$300,000 when the mortgage comes due in September 2011, the newspaper calculated using ASF’s tax filings and Henderson’s records. The executive acknowledged she intends for the charity to pay that bill.

In June, Henderson told the Tribune that ASF’s lease promises the charity can occupy its headquarters free of charge once the mortgage is repaid.

The lease does not include any such condition. When questioned about the disparity, Henderson admitted that she has not committed to provide ASF free rent at any point.

ASF’s tax filings to the IRS do not disclose that the charity is liable for its executive’s personal debt.

Federal tax code allows executives to lease office space to the charities they run so long as the price is fair, said Hopkins, the Kansas City nonprofit attorney.

“But the IRS would be all over this,” Hopkins said of ASF. “I mean, they would be looking at this to test it to see if the loan terms are reasonable, the rental agreement is reasonable. There are hundreds of rulings where organizations are denied (tax) exemption or lose exemption because they’re doing this kind of thing.”

ALL IN THE FAMILY

Most nonprofits are mom-and-pop shops.

A charity’s founder often works simultaneously as executive director, board member, fundraiser and receptionist. Many hire relatives and friends to do work for the nonprofit, often getting services at discounted prices, which leaves more money to spend on charity work.

But not all such arrangements are for public service.

Henderson hires her family and friends, and those of ASF’s board members, to help run the operation.

The executive’s oldest daughter, Kanani, oversees finances and technology for the charity, according to federal tax filings. Her son, Enoch, works in fundraising along with his sister-in-law, Khara Taylor. ASF pays Henderson’s other daughter, Leticia, for clerical work.

Such hires are legal so long as the charity can show they were made by an independent board, the compensation is a fair market value and the employee is equipped to do the job, said Jeff Hurwit, a Massachusetts attorney specializing in nonprofit law.

Most of the relatives and friends are paid to increase ASF’s tax credit donations, regardless of whether they are qualified.

“We had some people that were obviously close to us, friends and family, that said they had some background in fundraising and would like to attempt to fundraise on behalf of the organization,” Henderson said.

Several of these hires failed to raise enough in donations to cover the cost of their salary, Henderson said, and she fired them. However, the charity’s tax filings do not show any reduction in employees with personal ties to executives.

Pearson, the former ASF board member, said she cut ties with the charity when Henderson hired Pearson’s son, then in high school, to do complicated fundraising work.

These employment practices pose legal problems for the scholarship charity, Hurwit said. “This is just rife with improper action, it sounds like.”

RIGGED PRIVILEGE

A Tribune investigation into Arizona's Private Schools Tax Credit Program

Tax credit sponsor's vision unrealized

Franks expected law to send more poor kids to private schools

By **RYAN GABRIELSON**
and **MICHELLE REESE**
TRIBUNE

Trent Franks wanted to take money from the rich and give it to the poor.

Private education has long been the providence of the affluent. Low- and middle-income families often can't afford the cost.

Franks, now a U.S. congressman from Arizona, thought he had the answer. It was a scholarship charity in Phoenix called the Arizona School Choice Trust, which in the early 1990s was raising about \$100,000 a year to send low-income students to private schools of parents' choice.

"It was such a noble effort, and I could see that it was making a difference," said Franks, who was on the trust's board at the time.

The trust continues to do that, now with more than \$1 million in donations through Arizona's Private School Tuition Tax Credits. The subsidy takes income tax dollars, otherwise destined for state coffers, to pay for private education.

Franks said the trust inspired the way he wrote the tax credit legislation, which forbids parents from making a donation to pay their own children's tuition.

School tuition organizations, STOs for short, which run the tax credit system, would follow the trust's lead in providing scholarships to the underprivileged, the congressman believed.

A few of the scholarship charities have done so.

But not most, and the largest STOs have traveled far astray of the trust's model, accepting income tax donations earmarked to pay tuition for specific students, no matter how much parents earn.

"There are some myths asso-

ciated with supporting STOs and the scholarship programs, and that is that it's for everybody," said Michael Kelly, the school choice trust's executive director. "We don't subscribe to that."

A Tribune investigation of the tax credits found these subsidies have largely failed to increase access to private schools for low- and middle-income students and for minorities in particular.

The system is rife with abuse by scholarship charities, private schools and parents, the newspaper found.

And it has continued to grow in size and cost, with individual taxpayers shifting \$55 million in income tax dollars from the Arizona general fund to private schools last year, Arizona Department of Revenue records show. Since 1997, the total cost has been \$350 million.

The tax credit program remains untouched even as the state suffers through the worst economic conditions in its history.

Private school tax credits are helping the state during this crisis, the system's supporters argue, because the program takes students out of public classrooms and off the taxpayer rolls.

However, enrollment data shows that private schools have grown little — 6,800 students — in the 12 years since the tax credits became state law. Public schools, by comparison, have swelled by 280,000.

In 2006, state lawmakers created a second private school tax credit, to allow corporations to donate their income tax dollars to STOs.

That tax credit is far different from the one for individual taxpayers. The law limits how much income tax money can go to private schools in a single year and requires that scholarships go to low-income students who trans-



TRIBUNE FILE

TROUBLE AT THE CAPITOL: With revenue shortfalls for the current fiscal year projected to be near \$4 billion, programs around the state have faced budget cuts, including education. Education supporters have protested at the Capitol several times in the last few months.

fer from public schools.

Such programs help the school choice movement, and STOs should use them to expand educational options for all Arizona families, said Clint Bolick, a constitutional law expert for the Goldwater Institute.

"We should fight for universal school choice, but each (STO) really does have to search its soul to determine its own mission," said Bolick, who is also board chairman of the Arizona School Choice Trust.

With the advent of tuition tax credits, Franks said he expected a crop of new private schools to open. These campuses would specifically serve underprivileged students, who otherwise go to public schools.

In many cases, low-income students do not have a ready supply of relatives and family friends to make tax credit donations on their behalf.

The state law that Franks authored does not address whether donors can name the student to receive tuition money, though it does forbid parents from donating to pay their own child's tuition.

Franks said the state statute didn't need to address that, because STOs must be tax-exempt nonprofit charities. Federal tax code doesn't allow these charities to accept donations earmarked to benefit one individual.

However, that practice is commonplace at the largest STOs. Most years, about 97 percent of tax credit donations to the Arizona Scholarship Fund, the state's third-largest STO, are

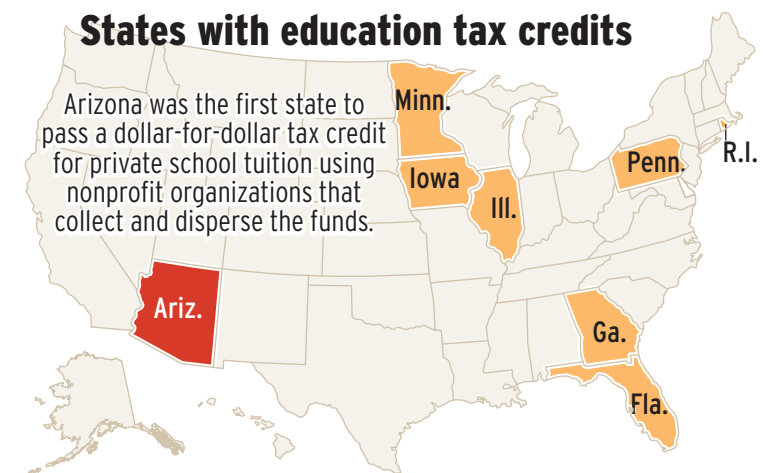


"It was such a noble effort, and I could see that it was making a difference."

TRENT FRANKS
NOW U.S. CONGRESSMAN WHO WAS ON THE BOARD OF ARIZONA SCHOOL CHOICE TRUST AND AUTHORED TAX CREDIT LEGISLATION

States with education tax credits

Arizona was the first state to pass a dollar-for-dollar tax credit for private school tuition using nonprofit organizations that collect and disperse the funds.

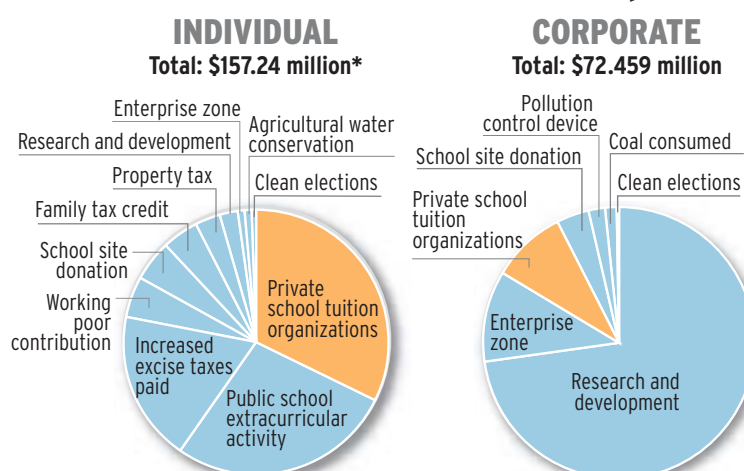


See an interactive map with information about each state's programs at www.eastvalleytribune.com/page/taxcredits

SOURCE: National Conference for State Legislators and state Web sites

TRIBUNE

2006 income tax credits, individual vs. corporate



SOURCE: Arizona Department of Revenue

* Does not include the \$124.93 million claimed as taxes paid to other states and countries

TRIBUNE

earmarked for specific students or specific private schools, said ChamBria Henderson, Arizona Scholarship Fund's executive director.

In comparison, the Arizona School Choice Trust prohibits earmarks for specific students. Donors can name which school to help, but the scholarship recipients must be from low-income families.

"We do not allow, permit or support recommendations," Kelly said. "If someone recommends a child, we do not support that."

Those kinds of standards, Franks said, are supposed to pervade the private school tax credit system.

The trust is one of just seven STOs in the state that base scholarships primarily on financial need.

"This is the rich giving willingly to a fund that gives to kids — most of the time, 95 percent of the time — that they don't even know that live in south Phoenix," he said.

CONTACT WRITER: (480) 898-5630

RIGGED PRIVILEGE

A Tribune investigation into Arizona's Private Schools Tax Credit Program

What readers are saying about Rigged Privilege

Reader comments run unedited.

THE FIX

The tuition tax credits law was supposed to revolutionize school choice for disadvantaged children. Instead it fostered a rigged system that keeps private education a privilege for the already privileged. (Appeared in print Aug. 2.)

"Tom Horne says these types of private institutions make the public schools step up and perform better. However, a public school gets all students rich, middle class, and poor. This forces a proper balance of diversified learners. These private schools get public funding as well. But, they decide who enrolls or who knows about there program. They do not play by the same rules but our educational leader supports them 100%."

EASTMESAMAN

"Why don't the poor take advantage of it? Lets see, \$10,000 in tuition while a person makes \$19,000. I can give \$1000 in August for tuition which I will get back only part in May because I don't pay high taxes. I don't have rich relatives, so I am still \$9K short. Maybe the cost of food,

rent and car repairs might keep me from 'benefiting' from this."

WATCHINGMESA

"This has been and always was a flawed program. There was never enough money in it to allow poorer people to attend private schools, but there was enough money to offset expenses for rich people. This is not muck-racking, for once the Tribune gets it right. All this was a bill to supplement people who could already afford it and as I recall, this was the main objection when it was started."

IRONS1

"What the STOs are doing is enabling tax fraud, and it is illegal. One may not take a tax deduction from a contribution to benefit a specific individual, no matter what your political party may be. Otherwise I could cut a deal with my neighbor and establish a scholarship to pay for his kid's tuition at the university, while he does the same for mine. Oh yeah, that's right! This is exactly what's happening, huh?"

STORMAZ100

"It's white collar crime like this that hurts the middle-class just as much as welfare fraud from

the poor. Face it, we're a disappearing minority."

OFTENCONFUSED

"One of my children has a disability, and I send him to a private school that specializes in educating special needs children. I have used the tax credit by donating to Arizona Scholarship Fund to support his school, but not to directly reduce his tuition. What this article describes is first and foremost a bad law, and also alleged tax fraud. I hope hundreds of people forward this article to the IRS, and demand enforcement. Then vote in a new legislature next year, and change the law."

WYTICAR

"Raise tuition - this how those who have keep those who have not out - the reason behind private schools.. elite score again - and abuse system - all i want to hear now is that the federal govt. and state govt. have received and are adjusting filings - sending bills w/interest and penalty for those who have abused the system - case closed."

PROFWOMAN

"The system doesn't limit itself to non-minorities. Minority people pay state tax also. They

have just as much right to apply this towards a private school as anybody else. It may be that they just aren't aware of the benefits and how it might apply to them. This is a good system that works, don't stop it."

PLCUNNING

"I don't understand why my tax dollars are expected to subsidize a child's religious education. Its a fractured and messed up system that has been sucking money out of our public education system for a decade; so that children can get taught that the earth is 6,000 years old and the cavemen were riding dinosaurs before a massive flood came."

LURXST

"Articles like this make me feel like maybe I still live in a free country, that has a real, independent press."

KENJ12

HOW-TO GUIDE

Many private schools teach parents how to skirt the law by lining up donors for their children. (Appeared in print Aug. 5.)

"Someone posted the other day that this is just like the Alt fuel scam a few years back and we all know what zip codes areas bought the most them seems to be the same crowd here lol the loud mouth republicans who scream if a welfare mom gets help with daycare sick world we live in."

LFTISBEST

"Our family uses the tax credit to pay SOME of our child's tuition. we are not rich, my husband works at Wal-mart :)The private school is the best fit for our child. We are so grateful for the program and I know our child would suffer if this program goes away :("

MOMMA28



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