

The Arizona School Tuition Organization Association Survey of Corporate Tuition Tax-Credit Scholarship Recipients' Family Income: School Years 2006-07 and 2007-08

By Vicki E. Murray, Ph.D.*

Executive Summary

Arizona school tuition organizations (STOs) participating in the corporate tuition tax-credit scholarship program are required by law to submit annual reports to the Arizona Department of Revenue, including verification of a completed independent review of financial statements. The law, however, does not require that participating STOs report scholarship recipients' annual family income. The Arizona School Tuition Organization Association (ASTOA) therefore decided to conduct voluntary annual surveys of participating STOs to determine the family income level of students being served.

Survey results indicate that family income of corporate tax-credit scholarship recipients for the 2006-07 and 2007-08 school years did not exceed income eligibility limits. For the 2006-07 school year the average scholarship family earned \$28,458, below the allowable annual income limit of \$68,450. The average scholarship family earned \$35,533 during 2007-08 school year, also below the annual income limit of \$70,676.¹

A total of 19 STOs have awarded corporate tuition tax-credit scholarships since the program's inception in September 2006.² All but six STOs distributing scholarship donations for the 2006-07 or 2007-08 school years participated in the ASTOA voluntary survey of scholarship recipients' family income. Those STOs account for 97 percent of all scholarship donations distributed for the 2006-07 and 2007-08 school years.³ Three of the four STOs awarding scholarships in the 2006-07 school year participated in the ASTOA survey and accounted for 95 percent of all scholarship donations distributed that school year. Fourteen of the 19 STOs awarding scholarships in the 2007-08 school year participated in the ASTOA survey and accounted for 98 percent of all scholarship donations distributed that school year.

The Arizona Corporate Tax-Credit Scholarship Program

On June 21, 2006, Arizona adopted a corporate tax-credit scholarship program that allows businesses to take credits against their state taxes for contributions to 501(c)(3) non-profit charitable organizations that raise money for scholarships, called school tuition organizations (STOs).⁴ The program went into effect on September 21, 2006, and will be up for renewal on June 30, 2011. In fiscal year 2007 (corresponding to the 2006-07 school year), aggregate corporate tax credits cannot exceed \$10 million. Each year thereafter, the aggregate tax-credit cap is increased by 20 percent, which amounts to \$12 million in fiscal year 2008 (corresponding to the 2007-08 school year), increasing to \$20.7 million in fiscal year 2011 (corresponding with the 2010-11 school year).⁵ Public school students and students entering kindergarten are eligible for corporate tuition tax-credit scholarships if their families' annual incomes do not exceed 185 percent of the income level required to qualify for the federal free- or reduced-price lunch program.⁶

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About the ASTOA Survey

Arizona STOs participating in the corporate tuition tax-credit scholarship program are required by law to submit annual reports to the state revenue department, including information about contributions received, scholarships awarded, and verification of a completed independent review of financial statements.⁷ The law, however, does not require participating STOs to include information about scholarship recipients' annual family income.

In June 2008 the Arizona School Tuition Organization Association (ASTOA) decided to begin conducting voluntary annual surveys of STOs participating corporate tax-credit scholarship program, including non-ASTOA member STOs, to make information about scholarship recipients' family income public (Reproduced in the Appendix).⁸ This analysis examines family income of students receiving scholarships in the 2006-07 and 2007-08 school years. Two school years are included in this analysis, while subsequent surveys will cover only one school year. Because the program became operational on September 21, 2006, STOs had only three months (through December 31, 2006) to collect donations. Only four STOs distributed scholarships for the 2006-07 school year given the brief time to collect and distribute corporate scholarship donations. Most participating STOs opted to wait until the 2007-08 school year to distribute scholarship donations raised in late 2006 and 2007.⁹ Subsequent annual surveys will examine family income of students receiving corporate tax-credit scholarships in school years 2008-09 through 2010-11.

How the ASTOA Survey Analysis Differs from Arizona Department of Revenue Annual Reports

The information in this analysis was provided by STOs participating in an email survey conducted from July 1, 2008, through August 1, 2008. This deadline was subsequently extended to August 15, 2008, to allow more interested STOs to collect the necessary information, beginning with the family incomes of students receiving corporate tax-credit scholarships. Since the ASTOA survey focuses on family income of corporate tax-credit scholarship recipients, the time frame covered is a given school year, not calendar or fiscal year in which school years overlap. Using a different time frame than analyses like the Arizona Department of Revenue annual reports means the number of scholarships and recipients identified will differ.

In addition to the time period covered, the number of scholarship recipients reported by STOs for the ASTOA survey may exceed the number identified by the Arizona Department of Revenue because many STOs award scholarships in lump-sum amounts to families for two or more children. Thus the number of scholarships *awarded* by STOs may be less than the number of actual scholarship *recipients*. To ensure the most accurate number of actual scholarship *recipients* and determine whether their families' incomes meet the income eligibility requirements, which depends on family size, ASTOA survey participants were asked to break down lump-sum scholarship awards used by two or more siblings from the same families. The governing statute does not expressly account for this possibility in its reporting requirements.¹⁰

The number of actual scholarship *recipients* also affects the average scholarship *amounts* awarded by STOs. Again, when lump-sum awards are made to two or more siblings from a single family, the number of actual scholarship *recipients* is greater than the number of *scholarships* STOs award. Because the ASTOA survey divides the total value of scholarships awarded by a higher number of actual recipients, average scholarship amounts reported in this analysis may be lower in some cases than those reported by the Arizona Department of Revenue.

Average Family Income: 2006-07 School Year

As previously explained, given the limited time to collect and distribute corporate tax-credit scholarship donations from September 21 to December 31, 2006, only four STOs awarded corporate tax-credit scholarship for the 2006-07 school year. The three participating STOs accounted for 95 percent of all scholarship donations distributed that school year. To be eligible for a corporate tax-credit scholarship, a student’s family income cannot exceed 185 percent of the income limit making a student eligible for reduced-price meals under the national school lunch program. For a family of four, this amount was \$68,450 for the 2006-07 school year.¹¹ The average family income of scholarship recipients that school year was \$28,458, and the average family size was four.

Table 1: Average Family Income of Scholarship Recipients, School Year 2006-07

STO	City	SY Scholarship Used	Average Family Income of Scholarship Recipients	Average Family Size of Scholarship Recipients	Average Scholarship Amount	# Scholarship Recipients
Catholic Tuition Organization of the Diocese of Tucson	Tucson	2006-07	\$29,871	4	\$4,258	55
Cheder Scholarship Organization	Tucson	2006-07	\$21,939	4	\$2,875	4
Cochise Christian STO	Hereford	2006-07	*	*	*	*
Institute for Better Education	Tucson	2006-07	\$33,563	4	\$2,368	5

Source: Author’s table based on data from the ASTOA voluntary survey.

Notes:

1. “SY” stands for school year. “STO” stands for school tuition organization.
2. The Cochise Christian School Tuition Organization did not respond to requests to participate in the survey; therefore average family size and income data were not available, indicated by the asterisk (*).
3. The number of scholarship recipients in this survey may exceed the number identified by the Arizona Department of Revenue. Many STOs award scholarships in lump-sum amounts to families for two or more children. Thus the number of scholarships awarded may not necessarily equal the number of actual scholarship recipients. ASTOA survey participants were asked to break down lump-sum scholarship awards to be used by siblings from the same families. In instances where precise amounts were unavailable, STOs provided average scholarship awards based on the lump-sum award amount and the number of siblings.
4. The average scholarship amounts in the ASTOA survey may differ from those reported by the Arizona Department of Revenue because of the different methodology used to identify the number of actual scholarship recipients, as described in note 3.
5. Another methodological difference between the ASTOA survey and the Arizona Department of Revenue annual reports is that the ASTOA survey covers scholarships awarded during school years, not calendar or fiscal years, which affect both the average scholarship amounts and the number of scholarship recipients.
6. The Catholic Tuition Organization of the Diocese of Tucson was not included in the Arizona Department of Revenue’s 2006 Annual Report because of the different reporting time period covered.

Average Family Income: 2007-08 School Year

Most STOs began collecting corporate donations in 2006 and distributed scholarships for the 2007-08 school year. Of the 19 STOs awarding corporate tax-credit scholarships that school year, 14 participated in the ASTOA survey and accounted for 98 percent of all scholarship donations distributed that school year. Two STOs were not able to provide complete data by the survey deadline, and three STOs did not respond to requests to participate in the survey.¹² Again, to be eligible for a corporate tax-credit scholarship, a student’s family income cannot exceed 185 percent of the income limit making a student eligible for reduced-price meals under the national school lunch program. For a

family of four, this amount was \$70,676 for the 2007-08 school year.¹³ The average family income of scholarship recipients that school year was \$35,533, and the average family size was four.

Table 2: Average Family Income of Scholarship Recipients, School Year 2007-08

STO	City	SY Scholarship Used	Average Family Income of Scholarship Recipients	Average Family Size of Scholarship Recipients	Average Scholarship Amount	# Scholarship Recipients
Arizona Corporate Scholarship Fund	Mesa	2007-08	\$39,180	4	\$225	3
Arizona Episcopal Schools Foundation	Tucson	2007-08	*	*	*	*
Arizona School Choice Trust	Glendale	2007-08	\$44,000	4	\$2,103	409
Brophy Community Foundation	Phoenix	2007-08	\$34,846	5	\$2,025	119
Catholic Tuition Organization of the Diocese of Phoenix	Phoenix	2007-08	\$36,968	4	\$2,500	517
Catholic Tuition Organization of the Diocese of Tucson	Tucson	2007-08	\$34,475	4	\$3,037	345
Chaparral Mission Scholarship Fund	Scottsdale	2007-08	*	*	\$3,000	*
Cheder Scholarship Organization	Tucson	2007-08	\$19,840	3	\$4,160	10
Christian Scholarship Fund of Arizona	Tucson	2007-08	*	*	*	*
Cochise Christian STO	Hereford	2007-08	*	*	*	*
Flagstaff Christian Scholarship Fund	Flagstaff	2007-08	\$42,673	5	\$2,873	44
Institute for Better Education	Tucson	2007-08	\$25,392	4	\$3,565	16
Jewish Tuition Organization	Scottsdale	2007-08	\$34,696	4	\$3,750	6
Maricopa County Schoolhouse Foundation	Phoenix	2007-08	*	*	*	*
New Valley Education Partners	Scottsdale	2007-08	*	*	*	*
Prescott Christian School Scholarship Foundation	Prescott	2007-08	\$31,278	5	\$1,400	18
School Choice Arizona	Chandler	2007-08	\$39,392	5	\$2,296	345
School Tuition Association of Yuma, Inc.	Yuma	2007-08	\$39,531	4	\$735	16
Tuition Organization for Private Schools	Mesa	2007-08	\$38,787	5	\$1,575	12

Source: Author's table based on data from the ASTOA voluntary survey.

Notes:

1. "SY" stands for school year. "STO" stands for school tuition organization.
2. Average family sizes and income data are not available, indicated by the asterisk (*). The Arizona Episcopal Schools Foundation wanted to participate in the ASTOA survey but was unable to supply the necessary data by the survey deadline. They plan to participate in future annual ASTOA surveys. The Chaparral Mission Scholarship Fund awarded one scholarship worth \$3,000, which was used at the American Indian Christian Mission School. The STO was unable to obtain family income data by the survey deadline. The following STOs did not respond to requests to participate in the survey: Cochise Christian School Tuition Organization; Maricopa County Schoolhouse Foundation; and New Valley Education Partners.
3. The number of scholarship recipients in this survey may exceed the number identified by the Arizona Department of Revenue. Many STOs award scholarships in lump-sum amounts to families for two or more children. Thus the number of scholarships awarded may not necessarily equal the number of actual scholarship recipients. ASTOA survey participants were asked to break down lump-sum scholarship awards to be used by siblings from the same families. In instances where precise amounts were unavailable, STOs provided average scholarship awards based on the lump-sum award amount and the number of siblings.
4. The average scholarship amounts in the ASTOA survey may differ from those reported by the Arizona Department of Revenue because of the different methodology used to identify the number of actual scholarship recipients, as described in note 3.
5. Another methodological difference between the ASTOA survey and the Arizona Department of Revenue annual reports is that the ASTOA survey covers scholarships awarded during school years, not calendar or fiscal years, which affect both the average scholarship amounts and the number of scholarship recipients.

Comparing Average Family Income of Scholarship Recipients to Income Eligibility Limits

The average scholarship recipient in both school years came from a family of four. For the 2006-07 school year the average scholarship family earned \$28,458, compared to the allowable annual income of \$68,450 that school year. The average scholarship family earned \$35,533 during 2007-08 school year, below the annual income limit of \$70,676 that school year.

Table 3: Average Family Income and Eligibility Limits Compared, School Years 2006-07 and 2007-08

STO	City	SY Scholarship Used	Average Family Income of Scholarship Recipients	Average Family Size of Scholarship Recipients	Corresponding Income Limit (by SY and Family Size)
Arizona Corporate Scholarship Fund	Mesa	2007-08	\$39,180	4	\$70,676
Arizona Episcopal Schools Foundation	Tucson	2007-08	*	*	*
Arizona School Choice Trust	Glendale	2007-08	\$44,000	4	\$70,676
Brophy Community Foundation	Phoenix	2007-08	\$34,846	5	\$82,586
Catholic Tuition Organization of the Diocese of Phoenix	Phoenix	2007-08	\$36,968	4	\$70,676
Catholic Tuition Organization of the Diocese of Tucson	Tucson	2006-07	\$29,871	4	\$68,450
Catholic Tuition Organization of the Diocese of Tucson	Tucson	2007-08	\$35,348	4	\$70,676
Chaparral Mission Scholarship Fund	Scottsdale	2007-08	*	*	*
Cheder Scholarship Organization	Tucson	2006-07	\$21,939	4	\$68,450
Cheder Scholarship Organization	Tucson	2007-08	\$19,840	3	\$58,765
Christian Scholarship Fund of Arizona	Tucson	2007-08	*	*	*
Cochise Christian STO	Hereford	2006-07	*	*	*
Cochise Christian STO	Hereford	2007-08	*	*	*
Flagstaff Christian Scholarship Fund	Flagstaff	2007-08	\$42,673	5	\$82,586
Institute for Better Education	Tucson	2006-07	\$33,563	4	\$68,450
Institute for Better Education	Tucson	2007-08	\$25,392	4	\$70,676
Jewish Tuition Organization	Scottsdale	2007-08	\$34,696	4	\$70,676
Maricopa County Schoolhouse Foundation	Phoenix	2007-08	*	*	*
New Valley Education Partners	Scottsdale	2007-08	*	*	*
Prescott Christian School Scholarship Foundation	Prescott	2007-08	\$31,278	5	\$82,586
School Choice Arizona	Chandler	2007-08	\$39,392	5	\$82,586
School Tuition Association of Yuma, Inc.	Yuma	2007-08	\$39,531	4	\$70,676
Tuition Organization for Private Schools	Mesa	2007-08	\$38,787	5	\$82,586

Sources: Author's table based on data from the ASTOA voluntary survey and the U.S. Department of Agriculture, Food and Nutrition Service, Income Eligibility Guidelines for corresponding school years.

Notes:

1. "SY" stands for school year. "STO" stands for school tuition organization.
2. Average family sizes and income data are not available, indicated by the asterisk (*). The Arizona Episcopal Schools Foundation wanted to participate but was unable to supply the necessary data by the survey deadline. They plan to participate in future annual ASTOA surveys. The Chaparral Mission Scholarship Fund awarded one scholarship worth \$3,000, which was used at the American Indian Christian Mission School. The STO was unable to obtain family income data by the survey deadline. The following STOs did not respond to requests to participate in the survey: Cochise Christian School Tuition Organization; Maricopa County Schoolhouse Foundation; and New Valley Education Partners.

7. The Catholic Tuition Organization of the Diocese of Tucson was not included in the Arizona Department of Revenue's 2006 Annual Report because of the different reporting time period covered.

Conclusion

The Arizona School Tuition Organization Association (ASTOA) decided to conduct voluntary annual surveys of participating STOs to determine the income level of the students being served. Participating STOs accounted for 97 percent of all scholarship donations distributed for the 2006-07 and 2007-08 school years. Survey results indicate that family income of corporate tax-credit scholarship recipients for the 2006-07 and 2007-08 school years did not exceed income eligibility limits. For the 2006-07 school year the average scholarship family earned \$28,458, which is below the allowable annual income limit of \$68,450. The average scholarship family earned \$35,533 during 2007-08 school year, also below the annual income limit of \$70,676.

Appendix: Survey

ASTOA Corporate Income Tax-Credit Scholarship Survey of Participating Family Income
Due by August 1, 2008, to Vicki E. Murray [extended to August 15, 2008]
For School Years 2006-07 & 2007-08
Part I: School Tuition Organization Information
STO NAME
Address
City
Zip
Contact Person Name
Contact Person Title
Phone
Email
Website
Part II: Scholarship Recipients' Annual Family Incomes & Scholarship Amounts
Calendar Year Donations Collected
School Year Scholarship Used
Family Income of Scholarship Recipient
Family Size
Recipient Scholarship Amount
Notes: [used to break down lump-sum scholarships by the number of sibling recipients]

Endnotes:

¹ For a family of four, 185 percent of the allowable income limit was \$70,675.66 for the 2007-08 school year. The author rounded this figure to \$70,676. See the U.S. Department of Agriculture, Food and Nutrition Service, “Income Eligibility Guidelines” website, <http://www.fns.usda.gov/cnd/governance/notices/iegs/iegs.htm>. The Arizona Department of Revenue calculates this figure at \$70,674, likely due to a rounding difference. See the Arizona Department of Revenue, Office of Research and Analysis, “Corporate income Tax Credit for Contributions to School Tuition Organizations: Reporting for 2006,” August 7, 2007, p. 3, <http://www.azdor.gov/ResearchStats/corporateprivateschoolmenu.htm>.

² The Cochise Christian School Tuition Organization awarded scholarships in the 2006-07 school year but not in the 2007-08 school year.

³ Author’s calculation based on data from the Arizona Department of Revenue, Office of Research and Analysis, “Corporate income Tax Credit for Contributions to School Tuition Organizations,” 2006 and 2007 reports, <http://www.azdor.gov/ResearchStats/corporateprivateschoolmenu.htm>.

⁴ A school tuition organization (STO) is defined as “a charitable organization in this state that both: (a) Is exempt from federal taxation under section 501(c) (3) of the internal revenue code and that allocates ninety per cent of its annual revenue for educational scholarships or tuition grants to children to allow them to attend any qualified school of their parents’ choice. (b) Provides educational scholarships or tuition grants to students without limiting availability to only students of one school.” See A.R.S. § 43-1183.Q.2, “Credit for contributions to school tuition organization; definitions,” <http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/43/01183.htm&Title=43&DocType=ARS>.

⁵ Vicki E. Murray, “Fiscal Analysis of Arizona’s Corporate Tax Credit Scholarship Program,” prepared for the Institute for Justice in October 2006 and used in the successful legal defense of the program in *Green v. Garriot*. Available on the Institute for Justice “Arizona Corporate Tax Credit Scholarships” website, http://www.ij.org/schoolchoice/az_taxcredits3/index.html.

⁶ For information about the free- and reduced-lunch program, see the U.S. Department of Agriculture, Food and Nutrition Service, “National School Lunch Program” fact sheet, July 2008, <http://www.fns.usda.gov/cnd/lunch/AboutLunch/NSLPFactSheet.pdf>.

⁷ “Arizona’s corporate income tax credit for contributions to school tuition organizations is governed by A.R.S. § 43-1183.” See Arizona Department of Revenue, Office of Research and Analysis, “Corporate income Tax Credit for Contributions to School Tuition Organizations: Reporting for 2006,” August 7, 2007, p. 1, <http://www.azdor.gov/ResearchStats/corporateprivateschoolmenu.htm>. For the statute, see: <http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/43/01183.htm&Title=43&DocType=ARS>.

⁸ For ASTOA member STOs, see: http://www.astoa.com/education/sto_roster/.

⁹ Arizona Department of Revenue, Office of Research and Analysis, “Corporate income Tax Credit for Contributions to School Tuition Organizations: Reporting for 2006,” August 7, 2007, pp. 2-3, <http://www.azdor.gov/ResearchStats/corporateprivateschoolmenu.htm>.

¹⁰ For reporting requirements for the corporate tuition tax credit scholarship program, see the Arizona Department of Revenue, Office of Research and Analysis, “Corporate income Tax Credit for Contributions to School Tuition Organizations,” 2006 and 2007 reports, p. 1 of each report, <http://www.azdor.gov/ResearchStats/corporateprivateschoolmenu.htm>; cf. See A.R.S. § 43-1183.M, “Credit for contributions to school tuition organization; definitions,” <http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/43/01183.htm&Title=43&DocType=ARS>.

¹¹ U.S. Department of Agriculture, Food and Nutrition Service, “Income Eligibility Guidelines” website, <http://www.fns.usda.gov/cnd/governance/notices/iegs/iegs.htm>; cf. Arizona Department of Revenue, Office of Research and Analysis, “Corporate income Tax Credit for Contributions to School Tuition Organizations: Reporting for 2006,” August 7, 2007, p. 3, <http://www.azdor.gov/ResearchStats/corporateprivateschoolmenu.htm>.

¹² The Arizona Episcopal Schools Foundation awards scholarships used at two private schools. Those schools collect family income information, and the Arizona Episcopal Schools Foundation was unable to assemble it in time to participate in this year’s ASTOA survey. They plan to participate in subsequent annual surveys. The Chaparral Mission Scholarship Fund awarded one scholarship worth \$3,000, which was used at the American Indian Christian Mission School. The STO was unable to obtain family income data by the survey deadline. The following STOs did not respond to requests to participate in the survey: Cochise Christian School Tuition Organization; Maricopa County Schoolhouse Foundation; and New Valley Education Partners.

¹³ U.S. Department of Agriculture, Food and Nutrition Service, “Income Eligibility Guidelines” website, <http://www.fns.usda.gov/cnd/governance/notices/iegs/iegs.htm>.