

Voucher Schools Cash In

A *Rethinking Schools* investigative report on how a little-known accounting provision allows Milwaukee voucher schools to reap extra millions of dollars.

By Erik Gunn

Due to a little-known accounting loophole, Milwaukee's private school voucher program has allowed schools to collect nearly \$2.5 million in additional payments in the last three years solely on the basis of how much their school buildings are worth.

In Cleveland, the only other city in the country with a similar voucher program, voucher payments are tied to tuition. Under the Milwaukee program, Wisconsin taxpayers pay for vouchers significantly above tuition, based on per-pupil costs. Furthermore, due to a highly unusual accounting loophole, the schools are able to include in their costs the current market value of their buildings — even if those buildings had long ago been paid off.

Thanks to this obscure provision, Wisconsin awarded one Catholic school, St. Philip Neri, \$243,638 in 1999 on the basis of the reported \$400,000 market value of the school's facilities.

On a per-pupil basis, the loophole allowed St. Philip Neri to collect \$2,225 more per student than it otherwise would have received.

Rep. Christine Sinicki (D-Milwaukee), when told of the ramifications of the accounting loophole, said she was “flabbergasted.” Sinicki said she was particularly disturbed because the policy, in the name of allowing schools to recoup building costs incurred sometimes decades ago, permits them to use the current fair market value rather than what they actually paid.

“When you look at what building costs were, they were a lot less then,” she noted. “It’s not fair.”

Sinicki, who had been unaware of the



St. Adalbert's school in Milwaukee, built in 1908, which re-appraised its building at a current market value of \$1.2 million in order to boost its voucher payments.

accounting loophole until contacted by *Rethinking Schools*, said she is seeking legislation that would limit schools' voucher payments to what they charge in tuition to non-voucher students.

The windfall for the voucher schools hasn't come in separate payments where it could be easily tracked. Instead, it's buried in the calculations of what each school participating in the voucher program gets for every voucher pupil it enrolls.

Rethinking Schools examined hundreds of financial documents filed by private schools participating in the voucher program for the school years ending in 1999, 2000, and 2001. The newspaper calculated that, under the terms of the voucher formula, schools collected a total of \$2.47 million in payments tied solely to the current market value of school facilities — in other

words, \$2.47 million more than they otherwise would have received based on per-pupil costs. None of this \$2.47 million was related to current debt payments, mortgages, or rent.

Because most schools are amortizing the property valuation over either 10 or 16 years, the final overpayments likely will be significantly higher.

To better understand the questionable assumptions behind the accounting loophole, look at it this way. Suppose that 30 years ago, a private taxpayer bought a home for \$50,000 and has subsequently paid off the home. The voucher accounting provision is like saying that taxpayer could obtain a home appraisal at current market value — potentially as much as three or four times higher than the original price — and then seek a tax deduction on the basis

of what the homeowner would pay for a mortgage at that current value (even though the homeowner wouldn't need to take out a new mortgage to get the deduction).

SCHOOL WINDFALLS

While St. Philip Neri received the biggest one-time windfall to any private school under the provision, other schools received significant amounts. Salam School, operated by the Islamic Society of Milwaukee Inc., benefited the most of any voucher school, taking in an extra \$316,892 in voucher money over three years on the strength of the school's \$1.8 million building.

Dozens of other schools collected money in smaller amounts under the provision, ranging from a few thousand dollars to more than \$100,000.

Rita Cheng, an associate dean and accounting professor at the University of Wisconsin-Milwaukee whose research interests include government policy and accounting, told *Rethinking Schools* that the building charge provision appears to be defensible as a means for voucher schools to charge the state for the cost of using up and eventually replacing their buildings.

In allowing schools to receive state help in building a nest-egg to replace their buildings, however, the provision underscores that Wisconsin's voucher law subsidizes private schools in a way that tuition-paying parents do not.

In essence, the building charges — like other provisions in the voucher formula that end up boosting payments over what schools normally charge as tuition — wind up being a sort of state religious subsidy, says Chris Ahmuty, executive director of the American Civil Liberties Union's Wisconsin chapter, which has opposed the voucher program on church-state separation grounds.

"With anything that increases the payment that goes to the school beyond tuition, there's no other way to look at that but as a subsidy to the school," Ahmuty said. "Schools with religious missions have been subsidizing their tuition for years and years because it fosters their religious mission. What is happening now is that the state is taking over that subsidy."

The source of the windfall is a perfectly

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legal provision in the state's voucher formula, but one that has former State Supt. John Benson scratching his head — although he signed it — and gives private schools an advantage that no public school enjoys.

Benson, who retired last year, told *Rethinking Schools* he wasn't involved in the day-to-day drafting of the rule, and its impact has clearly irked him. "It's quite interesting for those of us who are not supporters of using the public treasury to pay for private religious schools to see how these private schools have managed to all of a sudden drive their per-pupil costs up so as to receive the full allowable payment per pupil per year."

The estimate is a conservative one. In making its calculations, *Rethinking Schools* excluded figures from the value of a school's property whenever there were doubts about the figures' origins or significance. For example, a number of schools listed not only the "fair market value" of a property, but also listed "additions" to the fair market value that were not otherwise explained. Those "additions" were not included in the *Rethinking Schools*' calculations.

The Milwaukee voucher program was launched a decade ago, allowing poor families in the Milwaukee Public School (MPS) district to enroll their children, at state expense, in private, non-religious schools. A 1998 state Supreme Court ruling opened the program to religious schools, expanding it significantly.

Under the program, pupils who qualify based on income are permitted to enroll in private schools, with the state sending to each private school an amount of money for every pupil enrolled.

The schools' voucher payments are not

based on tuition. Instead, a school's payment is determined based on reports it submits to the state that establish the per-pupil cost the school incurs in educating children. The state pays that amount for each voucher student to the private school, with the payment capped at what MPS received in per-pupil state aid. The maximum payment in 1998-99 was \$4,894. It rose to \$5,106 in 1999-2000 and \$5,326 in 2000-2001.

Starting with the 1998-99 school year, when religious schools first took part in the program, the Wisconsin Department of Public Instruction began authorizing schools to formally calculate a building cost in determining what they receive, said Robert Soldner, director of the school management services team at the DPI.

Those calculations, however, aren't limited to present-day costs, such as paying a mortgage or paying rent. Instead, they also allow schools to, in essence, receive a rebate through the voucher program for buildings that have been completely paid for years ago. Moreover, that subsidy is not based on what the schools or affiliated organizations, such as churches, paid for the buildings when they were built or purchased. Instead, it's based on the buildings' current market value.

DPI officials say the effort was to create for private schools an equivalent to the subsidies local public school districts receive — and have received since the 1950s — when they build new buildings.

The difference, however, is that school districts received those subsidies at the time they incurred the costs of building. Thus, what they received is proportionate to what they've spent on the property.

The voucher formula, however, ignores the question of what it actually cost to build a facility. In essence, it allows a school to leverage the increase in value that their properties have experienced over decades as a result of real estate inflation.

HOW THE LOOPHOLE WORKS

At issue are actually two separate provisions in the voucher formula. One applies to schools that own their own buildings, and the other applies to schools that use buildings rent-free owned by some other entity — typically a sponsoring church.

Here's how it works:

The state rules call for each school to report operating expenses each year. Those expenses are divided by the total number of students enrolled (not just voucher students) in the school to get a per-pupil expense figure.

The school's per-pupil voucher payment is based on which ever is less: the school's per-pupil expenses, or the ceiling on the per-pupil voucher amount, which is based on state aid amounts going to Milwaukee Public Schools.

Starting in 1999, the state enabled schools to include in their costs a cost associated with the school's buildings. Those costs don't just include rent or mortgage payments, but are also based on the underlying value of the property, even if no rent or mortgage is being paid.

Under the provision, a school that owns its building free and clear seeks an appraisal on the property when it enters the voucher program. For most schools, this occurred in 1999, when the formula was changed to include this provision.

Schools that obtain an appraisal for their building's fair market value can charge the full amount as part of their costs on a one-time basis, or they can charge it in increments of 6.25 percent spread over 16 years.

The market value is adjusted in part by how much of the building is considered to apply to the voucher program, and by other factors.

That figure is then applied along with other capital costs in calculating a school's voucher award.

Take, for example, St. Josephat Parish School in Milwaukee. In 1999, the school's filing with the state valued its property at \$590,000. The school spread the value over 16 years, factoring in \$36,875 a year in building costs into its overall costs.

According to *Rethinking Schools'* calculations, the effect of being able to levy that additional charge raised the school's voucher payments by \$218 per pupil in the 1998-99 school year, \$221 in 1999-2000, and by \$294 per pupil in 2000-01. As a consequence, the parish collected a total of \$75,087 more than it would have otherwise.

Most schools that use the provision amortize the figure over the 16-year peri-

Unlike Cleveland, Milwaukee voucher payments are not tied to tuition, allowing schools to reap extra millions of dollars.

od. A few do not, however. Exercising the building charge on a one-time basis is how St. Philip Neri was able to collect nearly a quarter-million dollars more in a single year.

A separate "Building Usage Charge" provision implemented in 2001 enables schools that use buildings owned and provided by an affiliated institution, such as a church, to receive additional money. Although these schools do not themselves own or rent the facility, they are able to charge the voucher program according to the market value of the buildings.

Under that provision, schools obtain an appraisal for the property they use and then include 10.5 percent of that figure as part of their annual per-pupil costs. The provision made a big difference for Gospel Lutheran School, to the tune of \$46,000. That's how much the Building Usage Charge netted the school in 2001.

Although the Building Usage Charge didn't come into being until 2001, a few schools have been aggressive in applying it retroactively to 1999 and 2000, submitting amended financial forms in order to do so. The regulations allow such amended forms.

That's how St. John Kanty school managed to collect \$152,748 in voucher payments above and beyond its other reported operating expenses. According to *Rethinking Schools'* calculations of the school's amended filings, if the school's costs were calculated without the building charge, they would have come to \$2,839 a pupil. The building charge bumped the number up to \$3,650. The same thing happened in 2000, when building charges increased costs to \$4,402 from \$3,561, and in 2001, when the charges increased costs to \$4,659 from \$3,830.

SCHOOLS TAKE ADVANTAGE

Overall, allowing private schools to charge the voucher program for the value of the property they either own or use enabled four schools to collect more than \$100,000 in a single year over what they otherwise would have received: St. Philip Neri, Salam, the Harambee Community School (which received \$146,660 in 1999) and St. Anthony's (which received \$110,292 in 2001).

Other leaders include:

— St. Adalbert's, \$94,500 more in 1999, \$85,052 more in 2001, and \$70,557 more in 2000;

— Our Lady of Sorrows, \$78,964 more in 2001;

— Corpus Christi, \$67,483 more in 2001;

— Mt. Calvary Lutheran, \$64,103 more in 2001;

— Christ Memorial Lutheran, \$62,311 more in 2001.

For a number of schools, adding a building charge pushed their per-pupil voucher payment up to the state-imposed ceiling. Without it, St. Philip Neri would have received \$2,669 for every voucher student in 1999; with it, the school took in an additional \$2,225 per pupil, to bring its voucher payment to \$4,894, that year's state ceiling.

North Milwaukee Christian's building charge in 1999 boosted its payment by \$2,083 — from \$2,811 to the state cap of \$4,894. St. Alexander's building charge hiked its payment in 2001 an additional \$1,141, from \$4,185 to that year's cap of \$5,326.

Other schools that had increases of \$1,000 or more in per-pupil payments, thanks to the buildings charges, include:

— St. Paul's, \$1,200 in 2001, and \$1,106 in 2000;

— St. Helen's, \$1,081 in 2001;

— Our Lady of Sorrows, \$1,078 in 2001;

— Salam, \$1,050 in 1999.

HOW DID THIS HAPPEN?

The provision as it is applied would be like enabling a public school with property already fully paid for and free of debt to turn around and get a boost in its aid from the state, simply by obtaining a current

appraisal and then increasing its costs by that amount under the state aid formula.

David Carlson, director of the DPI's school finance team, acknowledges that no such provision exists applying to public schools. For public schools, "the fact that they own a building does not in any way qualify them for additional aid," Carlson told *Rethinking Schools*.

Steven Dold, assistant state superintendent at DPI, told *Rethinking Schools* that the provisions were part of efforts by the DPI to create uniformity in how schools accounted for the costs of their facilities under the private school voucher program.

"The decision was based on the fact

that, from an accounting perspective, it was appropriate to reflect some amount of value attributable to that building."

The argument is that public schools receive aid for costs they incur in building or purchasing a building, and so private schools participating in the voucher program should be able to get an equivalent sort of assistance.

What about schools that don't own facilities, but use them free of charge? Why do they get to build the value of those properties into their formula and then charge DPI? That provision, in essence, was a product of the fact that some schools aggressively pushed the envelope in their accounting practices.

"Some schools were recording [facilities] costs and others were not," DPI's Robert Soldner said. The agency faced a policy decision over whether to "attempt to take back from some schools that have it or make the playing field the same for everybody." Instead of opting to challenge the schools that had recorded the costs, the agency decided to permit the practice. ■

Erik Gunn is a Milwaukee-area journalist.

Top Examples of Extra Money Received Due to Building Charge

School	Building fair market value (school-owned) ¹	Building fair market value (owned by others) ¹	annual building charge	Cost per pupil (as reported) ²	Maximum Voucher Amount ²	Cost per pupil (excluding building charge)	Payment per pupil attributable to building charge	Number of voucher students	Per-pupil building charge times no. of voucher students
St. Philip Neri 1999	\$400,000		\$400,000 ⁴	\$4,945	\$4,894*	\$2,669	\$2225	109.5	\$243,638
Harambee 1999	\$845,675		\$845,675 ⁴	\$6,741	\$4,894*	\$4,296	\$598	245.25	\$146,660
Salam 2000			\$165,375	\$3,849*	\$5,106	\$3,076	\$773	143.5	\$110,926
St. Anthony 2001		\$1,300,000	\$136,500	\$4,394*	\$5,326	\$4,030	\$364	303	\$110,292
Salam 2001		\$1,620,000 ¹	\$170,100	\$4,482*	\$5,326	\$3,911	\$571	180.5	\$103,066
Salam 1999			\$162,222 ³	\$4,254*	\$4,894	\$3,204	\$1050	98	\$102,900
St. Adalbert's 1999	n/a	n/a	\$119,013 ³	\$4,922	\$4,894*	\$4,334	\$560	168.75	\$94,500
St. Adalbert's 2001		\$1,196,714	\$125,610	\$5,362	\$5,326*	\$4,855	\$371	229.25	\$85,052

Notes:

1. Building market value reflects the percentage the school has attributed to choice. Most schools attribute 100% of the building to choice, so the market value is the same as reported. A few schools attribute less than 100% to choice, and the market value is lowered accordingly on their statements. *Rethinking Schools'* calculations of the annual building charge is lowered accordingly, as well.

2. Schools receive the lesser of either "Cost per pupil" or "maximum voucher amount." The figure with asterisk is that which the school actually received.

3. The derivation of this 'Building Usage Charge' is not clear in state records, but appears to have been applied retroactively as permitted by regulations.

4. Schools that elected to take 100% of building value in one year instead of amortizing. **A complete chart is available online at www.rethinkingschools.org**