



Improving A.R.S. §43-1089.01 to Leverage the Public School Tax Credit to Improve Child Health Across Arizona

Executive Summary

While the Public School Tax Credit outlined in A.R.S. §43-1089.01 is not an ideal way to fund public schools, the statute provides a novel way to improve child health outcomes across Arizona. Opportunity exists to leverage this credit to support health and wellness programming in public schools in a more equitable way. The policy has the capacity to address drivers of childhood obesity. Childhood obesity is a public health crisis that disproportionately impacts minority, lower income, and rural communities in Arizona. AZDOR data indicate that tax credit dollars are inequitably distributed across the state with most going to well-resourced, suburban high schools. This creates greater disparities for schools and children in low-resourced lower grade schools in rural and urban settings. Notably, these children and communities have higher rates of obesity which increases risk of chronic diseases that have lifelong health implications and significant economic impacts to individuals and the state. Improvements to the policy would address this public health crisis, support child health, and allow taxpayers an enhanced way to help their communities.

Policy Recommendations

1. Extend or make permanent the provision to include capital items, community school meal programs, student consumable health care supplies, and playground equipment and shade structures for playground equipment.
2. Implement a weighted tax credit policy for schools that are defined as rural or serve a higher concentration of for low-income students.
3. Set the donation amount to equal to the amount that can be donated to a private school, annually index the credit amount to inflation.
4. Adjust reporting timeline to better align to school year & centralized resources to help the public use the tax credit.

Background

The Public School Tax Credit (tax credit) was established in 1997 through House Bill (HB) 2074. Since 1998, taxpayers have been eligible to claim a non-refundable tax credit up to \$200 as an individual and \$400 as married filing jointly for contributions made to public schools for eligible programs. Since 2000, tax credit contributions have increased at an average rate of 5.4% annually resulting in an average of \$41.5 million per year collected through this mechanism (AZDOR, 2023)¹; \$40.8 million was received in 2022 (AZDOR, 2023).¹ Of this amount, district public schools received \$32.4 million.¹ When examining the data closely, not all schools benefit equally. Historically, tax credit dollars have been concentrated in metropolitan areas, at the high school level, and within the wealthiest school districts in the state. This leaves lower resourced schools and early-grade schools throughout the state with less opportunity to support student health, nutrition and wellness needs. More often the schools experiencing the greatest inequities are those in geographically rural or isolated areas, schools with greater concentrations of student poverty, and schools with greater percentages of Hispanic, Black, American Indian/Alaska Native, and Pacific Islander students.^{2,3} In 2022, 42% of the funds were concentrated within eight of the over 200 school districts and 10 districts received more than \$1 million each.¹ Figure 1 shows a simplified funding diagram. Examining where the funds are directed matters because tax credit dollars are removed from the traditional state algorithm that aims to distribute resources across schools.

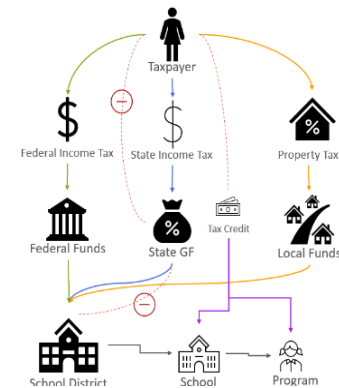


Figure 1: Simplified Diagram of Public

How is Tax Policy Connected to Child Health?

Eligible activities, programs, and purposes defined by A.R.S. §43-1089.01 are uniquely aligned to factors that influence health outcomes, often called determinants of health. These determinants include things like nutrition, access to safe spaces for play, and infrastructure to support physical activities, sports, and extracurriculars. All have impacts on the health of children over the course of their lifetimes.

Childhood obesity rates across Arizona have increased since 2003 with three groups bearing the greatest burden: children whose family income is <100% of the FPL, Hispanic or Latino children, and those who utilize public insurance.² In Arizona the percentage of children 10-17 years old who are either overweight or obese is 30.7%.³ Additionally, reports from state agencies and education coalitions indicate that access to physical education is not equal across grade and geography. Elementary school children across the state and children living in rural areas are the most likely to not have access to a physical education program.⁴ This has staggering implications for future healthcare utilization and direct and indirect cost implications for the state.

Between August of 2023 and January of 2024, a pilot study was conducted to gain additional insight from tax and accounting professionals from across the state help inform recommendations to improve the tax credit. This preliminary data provides a perspective not captured in studies to date and supports the strategic policy changes outlined in this brief. Ultimately, the recommendations are intended to help to drive additional funds to schools that have historically been left out of this mechanism, improve health outcomes for the most vulnerable Arizonans, and provide Arizona taxpayers an enhanced way to help their communities.

Policy Recommendations

1. *Extend or make permanent the provision to include capital items, community school meal programs, student consumable health care supplies, and playground equipment and shade structures for playground equipment.*

The extension of the list of qualified expenses is set to sunset June 30, 2024. Although the items included in this temporary list of allowable purchases made up for a small portion of total tax credit dollar expenditures (\$2.85 million) in 2022,¹ these categories have significant impact at the elementary school level where play structures and shade structures are more commonly found. Additionally, these qualified expenses do not require significant changes to the underlying legislation, making them more palatable for legislators from different backgrounds. It is recommended that this provision be made permanent or extended by a minimum of ten (10) years.

2. *Weighted tax credit for schools in small, isolated school districts OR for schools with a high poverty concentration.*

To address the inequity in tax credit dollars distribution it is recommended that a weighted multiplier be considered for small, isolated schools and schools that serve a higher concentration of lower-income students.

Small, Isolated (Rural) School District Adjustment

Using existing definitions and multipliers set out in A.R.S. §15-901 (B) (26) and A.R.S. §15-943.1 respectively (below),⁵ it is recommended that taxpayers directing their credit dollars to a small, isolated school be given credit for the multiplied amount. Small schools and isolated schools are proxy indicators for rural schools and using the existing definitions reduces confusion for agencies.

Small school district- Districts with fewer than 600 students in elementary and/or high school grades. Designated by the Superintendent of Public Instruction.

Small and isolated school district- District with fewer than 600 students, and its schools are at least 30 miles (or 15 miles if road conditions and terrain cause driving to be slow or hazardous) from another in-state district with schools that teach the same grade-level⁴. Designated by the Superintendent of Public Instruction.

Support Level Weights for Small School Districts Not Designated as Isolated Adjustment

Student Count	K-8 Grades	9-12 Grades
<100	1.399	1.559
≥100 & <500	1.278 + [.0003 x (500- student count)]	1.398 + [.0004 x (500- student count)]
≥500 & <600	1.158 + [.0012 x (600- student count)]	1.268 + [.0013 x (600- student count)]
600+	1.158	1.268

Example: A single taxpayer who allocates \$200 to a small elementary or middle (K-8) school district with less than 100 students that is not designated as isolated would receive a weighted credit of $\$200 \times 1.399 = \279.80 . The district would also receive \$279.80 rather than \$200.

Support Level Weights for Small School Districts Designated as Isolated Adjustment

Student Count	K-8 Grades	9-12 Grades
<100	1.559	1.669
≥100 & <500	1.358 + [.0005 x (500 – student count)]	1.468 + [.0005 x (500 – student count)]
≥ 500 & <600	1.158 + [.002 x (600 – student count)]	1.268 + [.002 x (600 – student count)]
600+	1.158	1.268

Example: A married couple filing jointly who allocates \$400 to an elementary or middle (K-8) school within a district with 354 students that is designated as isolated would receive a weighted credit of $\$400 \times 1.385 + [.0005 \times (500-354)] = \583.20 . The school would receive \$583.20.

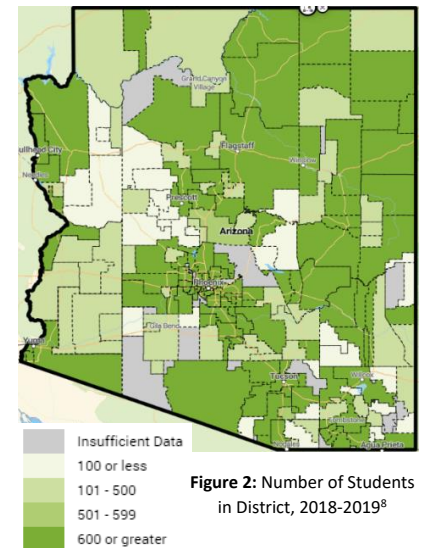


Figure 2: Number of Students in District, 2018-2019⁸

Low Income Student Concentration Adjustment

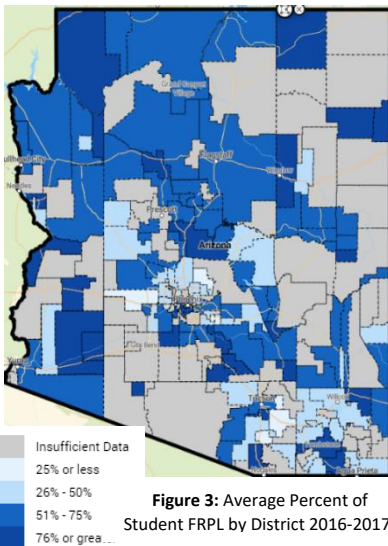


Figure 3: Average Percent of Student FRPL by District 2016-2017⁹

The percentage of students in a school who are eligible for Free & Reduced Price Lunch (FRLP) can provide a substitute measure for the concentration of low-income students in the school.⁶ The Arizona Department of Education (ADE) Health and Nutrition Services (HNS) Free and Reduced-Price Lunch Report provides the school level percentages annually.^{6,7} If a school is eligible for both proposed multipliers, the larger of the two multipliers should be used. As noted above, schools with higher concentrations of low-income students receive significantly fewer Public School Tax Credit dollars. Because rates of obesity are also higher among low-income children, these schools not only currently have a greater need to support health and wellness programs, but also fewer resources to support students.

Low Income Student Concentration Adjustment Percent Students Eligible for free or reduced-price lunch (FRPL) ⁷	Grades K-12
Low Poverty: ≤ 25.0% of students are eligible for FRPL	1.000
Mid-low Poverty: 25.1 to 50.0% of students are eligible for FRPL	1.100
Mid-high Poverty: 50.1 to 75.0% of students are eligible for FRPL	1.300
High Poverty: ≥75.1% of students are eligible for FRPL	1.500

Examples: A single taxpayer who allocates \$200 to a High Poverty school would receive a weighted credit of $\$200 \times 1.5 = \300 . The school would also receive \$300.

3. *Make the Public School Tax Credit donation amount equal to the donation amount for the Original Individual Private School Tax Credit and annually index the credit amount to inflation.*

In the same year the Public School Tax Credit was created, the Legislature also established an individual Private School Tax Credit. This credit, established in A.R.S. § 43-1089, allows individual taxpayers to contribute up to \$500 and taxpayers married filing jointly contribute up to \$1000. The statute was later updated to require AZDOR to adjust the Original Individual Private School Tax Credit amounts according to the average annual change in the metropolitan Phoenix consumer price index published by the United States Bureau of Labor Statistics. Furthermore, this change ensured that the dollar amounts would not be revised downward below the amounts allowed in the prior taxable year.¹⁰ This update did not include the Public School Tax Credit, therefore the amount that taxpayers can give have been frozen in time. Not indexing this credit for inflation over the past 26 years has systematically made the tax credit worth less to a taxpayer and forced a more favorable environment for private school tax credits. In 2023 the Public School Tax Credit donation amount remained \$200 for individual taxpayers and \$400 for joint taxpayers. By contract, in 2023 the maximum Original Individual Income Tax Credit donation amount is \$655 for single, married filing separate or head of household taxpayers and \$1308 for taxpayers who are married filing joint.¹¹ It is recommended that a one-time adjustment to the Public School Tax Credit be implemented to match the donation amounts for the Original Individual Private School Tax credit and add a provision to the statute that ensure the Public School Tax Credit undergoes the same annual adjustment for inflation.

4. *Adjust reporting timeline to better align to school year & centralized resources to help the public use the tax credit.*

The current reporting deadline is February 28. This deadline does not align with tax or school year calendars and in some regions in the state, this deadline falls within regional school closures. Alignment of reporting to the school year is minimally disruptive adjustment that better supports school reporting and provides more accurate data comparisons.

In addition to this, there is a lack of easily accessible information about the tax credit for taxpayers to access. While AZDOR provides some information, each district and school are left to come up with their own resources to educate their communities about the tax credit. In order to better help taxpayers access this basic information the creation of a centralized information page within the Department of Education website is recommended. This page should include information such as the correct tax form and school codes. Ideally this webpage should also provide information to taxpayers on how tax credit dollars are distributed.

Impact of Recommendations

Recommendation 1. The extension or permanent inclusion of the Capital Items, Community school meal programs, student consumable health care supplies, and playground equipment and shade structures for playground equipment would allow schools and districts to leverage funds for programs and improvements. According to reports from Save Our Schools Arizona Network,^{12,13} this can address some of the largest challenges faced in rural and under-resourced communities by providing funding for infrastructure improvements, including qualified capital items and playground equipment. The extension of this provision can provide a means to increase physical activity, afterschool community nutrition, and other health and wellness promotion efforts.

Recommendation 2. Arizona has only recently adjusted the education funding algorithms to account for poverty concentration. Despite this, the state has primarily relied on two programs to provide additional support to schools with high concentrations of low income students. Schools that are eligible for these funds must meet both the poverty concentration requirements and receive an 'A' grade to qualify for funds. These guidelines leave many low-resource, underperforming schools behind. This further exacerbates the disparities. Poverty impacts districts of all sizes and locations, but more than 23% of rural children live in poverty.¹² Within suburban and urban districts, poverty rates are highest among schools with the greatest percentage of Hispanic students.¹³ The use of the multipliers outlined in Recommendation 2 are intended to help ease funding constraints and provide improves programs and activities for small, isolated (rural) and high poverty concentration schools. Using a multiplier ensures that these children are not left behind.

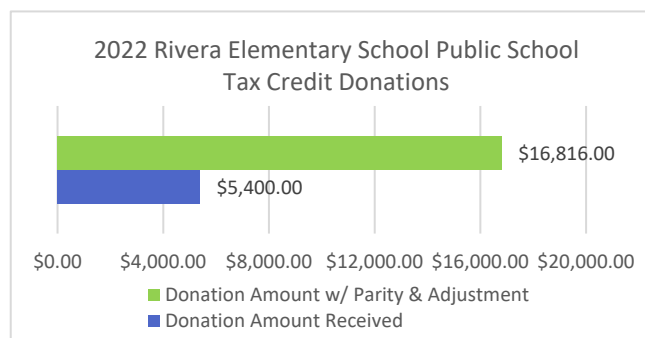
Example of Low-Income Student Concentration Adjustment: Rivera Elementary School, Sunnyside USD, Pima County

Rivera Elementary School is a Title 1 school that had a FRPL percentage of 89% for SY 2022-23.^{2,14} The school received a total tax credit donation of \$2600 for this school year.¹⁵ If a multiplier had been applied, this High poverty school would have received \$3900 for the same school year; a difference of \$1300. While this might not seem like a lot, the school could have doubled the amount used to pay for athletic and/or sports programming for its students, arguably providing additional opportunities to improve child health and wellness within a low-resourced school and community. Further, because a multiplier increases the credit a taxpayer receives and reduced the amount owed, this adjustment has the potential to motivate more Arizona taxpayers to use the tax credit or to designate their credit dollars to schools with the greatest needs.

Recommendation 3. A one-time adjustment to the Publics School Tax Credit to bring the credit amount equal to the Original Individual Private School Tax Credit will bring public schools into modern times. More importantly, indexing the amount that a taxpayer can give each year for inflation makes the public school credit more equitable when compared to the private school tax credit. Indexing also ensures that schools and taxpayers are both receiving a benefit that keeps up with cost-of-living.

Case Study for Parity and Adjustment for Inflation: Rivera Elementary School, Sunnyside USD, Pima County

In 2022, the adjusted Original Individual Income Tax Credit donation amount was \$1,245 for those filing married jointly and \$623 for individuals.¹⁶ When looking at the River Elementary School data, had this parity and inflation adjusted amount been in place, the school would have received \$16,816 in tax credit dollars rather than the \$5400 reported by the district for that year. This **\$11,416** difference would have facilitated additional opportunities to improve child health and wellness within a low-resourced school and community.



Recommendation 4. Adjusting the reporting deadline to align with school year or tax deadlines rather than February 28 provides more clarity when reporting tax credit funds. Critically, the centralizing of a reliable resource webpage addresses barriers that taxpayers encounter. Preliminary findings from the pilot study indicate that tax and accounting professionals also perceive the lack of trusted, easy to access information as a reason for underutilization of the tax credit. The centralizing of information on the AZDOE website also ensures that all schools have a resource that they can refer to parents, community members and others. The inclusion of basic information describing the tax credit, the forms, and the school codes necessary for using the credit will also ensure that the information made available is the most accurate it can be. Finally, this resource would also allow for a means to share tax credit expenditure reports and increase transparency of where and how these dollars are used. As one participant in the study shared:

"It's really important now, especially when people want transparency, and we need to get our school systems back to where they were."

Acknowledgements:

Cynthia Thomson, RD, PhD, Director, Zuckerman Family Center for Prevention and Health Promotion, Mel & Enid Zuckerman College of Public Health, University of Arizona.

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