



**ARIZONA STATE SENATE**  
*Fifty-Sixth Legislature, First Regular Session*

FACT SHEET FOR H.B. 2014

STOs; scholarships; corporate tax credits

Purpose

Increases the aggregate annual cap on the corporate and insurer Credit for Contributions to School Tuition Organizations for Displaced Students or Students with Disabilities (Credit) and the cap on an educational scholarship or tuition grant (scholarship or grant) issued under the Credit.

Background

A school tuition organization (STO) is a nonprofit organization exempt from federal taxation that allocates at least 90 percent of its revenue for scholarships or grants. A corporation or insurer may receive a Credit against income tax liability for contributions made to an STO that issues scholarships or grants to students with disabilities or students who are or have been in foster care before graduating high school or obtaining a general equivalency diploma.

Credits must be preapproved by the Arizona Department of Revenue and are subject to an aggregate cap of \$6 million in a fiscal year. A scholarship or grant issued under the Credit may not exceed the lesser of: 1) the cost of tuition for the student to attend the nongovernmental school; or 2) 90 percent of the Basic State Aid (BSA) that otherwise would be computed for the student under the school finance formula (formula) (A.R.S. §§ [43-1183](#); [43-1184](#); [43-1505](#); and [43-1603](#)).

The formula entitles school districts and charter schools to funding in an amount known as the equalization base, which is equal to the sum of the base support level (BSL), additional assistance and, for school districts only, the transportation support level. The BSL is calculated using the school's weighted student count, which increases the student count for funding purposes. In addition to weights for school size and student grade level, statute prescribes categories for certain student programs, known as Group B weights. Group B weights for programs for children with disabilities range from 0.292 to 7.947, depending on the program ([A.R.S. Title 15, Chapter 9](#)).

The Joint Legislative Budget Committee (JLBC) fiscal note estimates that increasing the aggregate Credit cap would reduce state General Fund revenues by up to \$4 million in FY 2023, \$9 million in FY 2024 and \$14 million in FY 2025 and in subsequent fiscal years, if corporations and insurers claim Credits in the full amounts available under the new aggregate caps. Additionally, the JLBC estimates that Urban Revenue Sharing Fund distributions to cities and town would decrease by \$720,000 in FY 2025, \$1.6 million in FY 2026 and \$2.5 million in FY 2027 ([JLBC fiscal note](#)).

Provisions

1. Increases the aggregate annual Credit cap from \$6 million to:
  - a) \$10 million in FY 2023;
  - b) \$15 million in FY 2024; and
  - c) \$20 million in FY 2025 and each subsequent year.

FACT SHEET

H.B. 2014

Page 2

2. Increases the maximum student scholarship or grant under the Credit to the full amount of formula funding that would otherwise be calculated for the student, from the lesser of the student's cost of tuition or 90 percent of formula funding.
3. Makes technical and conforming changes.
4. Becomes effective on the general effective date.

House Action

WM	2/15/23	DPA	6-4-0-0
3 <sup>rd</sup> Read	3/7/23		31-29-0

Prepared by Senate Research

March 9, 2023

LB/sr