

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

March 1, 2009

TO: Honorable Steve Ogden, Chair, Senate Committee on Finance

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: SB475 by Wentworth (Relating to the exemption from ad valorem taxation of property owned by certain organizations engaged primarily in performing charitable functions.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB475, As Introduced: a negative impact of (\$420,000) through the biennium ending August 31, 2011.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2010	\$0
2011	(\$420,000)
2012	(\$488,000)
2013	(\$521,000)
2014	(\$558,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/ (Cost) from <i>Foundation School Fund 193</i>	Probable Revenue Gain/(Loss) from <i>School Districts - Net Impact</i>	Probable Revenue Gain/(Loss) from <i>Counties</i>	Probable Revenue Gain/(Loss) from <i>Cities</i>
2010	\$0	\$0	\$0	\$0
2011	(\$420,000)	(\$139,000)	(\$178,000)	(\$152,000)
2012	(\$488,000)	(\$108,000)	(\$188,000)	(\$160,000)
2013	(\$521,000)	(\$121,000)	(\$201,000)	(\$170,000)
2014	(\$558,000)	(\$133,000)	(\$215,000)	(\$182,000)

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code, regarding taxable property and exemptions.

The bill would make an ad valorem taxation exemption for qualified charitable organizations mandatory, if certain conditions are met. Section 11.184(b) of the Code, which currently makes this exemption optional, would be repealed.

The bill would extend an exemption from ad valorem taxation to property owned by corporation that is not a qualified charitable organization, if certain conditions were met. The required conditions

include (1) qualifying as a 501(c)(2) organization under federal tax law; (2) holding title to the property, collecting income from the property, and turning the income less expenses over to a qualified charitable organization; and (3) the property would be exempt from ad valorem taxation if it was owned by the qualified charitable organization. The qualified charitable organization would be required to get a determination letter from the Comptroller's Office.

The bill would be effective January 1, 2010.

Methodology

The bill's requirement of mandatory exemptions for qualifying charitable organizations would create a cost to cities, counties, school districts, and the state through the operation of the school finance formulas. Currently, some taxing units grant the exemption and some do not. The cost was estimated based on a survey of large appraisal districts to determine the value of currently non exempt property that would be exempted under the bill. The appropriate tax rates were applied to the value losses to estimate the tax revenue losses. All costs were estimated over the five year projection period.

The mechanics of the school finance system would transfer the costs related to the compressed tier to the state and would transfer a portion of the debt (facilities funding) and enrichment costs to the state, reducing the fiscal impact to school districts.

Local Government Impact

Because of the operation of the hold harmless provisions of HB 1, 79th Legislature, Third Called Session (2006), the school district cost related to the compressed tier would be transferred to the state. Portions of the enrichment cost and the school district debt (facilities) cost would also be transferred to the state after a one-year lag because of the operation of the enrichment and facilities funding formulas.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, MN, SD, SJS