LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 29, 2013

TO: Honorable Harvey Hilderbran, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB2497** by Workman (Relating to an exemption from ad valorem taxation of real property used to operate a child-care facility.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2497, As Introduced: a negative impact of ($4,401,000) through the biennium ending August 31, 2015.

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
2014	$0
2015	($4,401,000)
2016	($14,531,000)
2017	($21,770,000)
2018	($25,079,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *Foundation School Fund* 193	Probable Revenue Gain/(Loss) from *School Districts*	Probable Revenue Gain/(Loss) from *Counties*	Probable Revenue Gain/(Loss) from *Cities*
2014	$0	$0	$0	$0
2015	($4,401,000)	($6,992,000)	($3,473,000)	($3,849,000)
2016	($14,531,000)	($9,368,000)	($7,260,000)	($8,058,000)
2017	($21,770,000)	($5,868,000)	($8,366,000)	($9,302,000)
2018	($25,079,000)	($6,881,000)	($9,641,000)	($10,737,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Other Special Districts*
2014	$0
2015	($2,539,000)
2016	($5,303,000)
2017	($6,105,000)
2018	($7,030,000)

Fiscal Analysis

This bill would amend Section 11 of the Tax Code related to property tax exemptions to add a new section that would grant a property tax exemption on the real property of a qualified child care facility. To qualify the property would be required to be used for providing developmental and educational services for attending children, the property must be reasonably necessary for the operation of the facility and the operating entity must be accredited. The use of the property for incidental non-child care functions would be permitted if those functions benefit the attending children, or the staff and faculty. The exemption would not apply to any portion of the property not used as a child care facility.

The bill would make conforming changes in the Tax Code.

The bill would be effective on January 1, 2014, contingent on a constitutional amendment.

Methodology

The bill's proposed exemption of the real property of qualified child care centers would create a cost to units of local government and to the state through the operation of the school finance formula.

A listing of all child care facilities licensed in Texas (about 9,500) was obtained from the Department of Family and Protective Services. An average real property taxable value was derived from a sample of the child care facilities using appraisal district records. The average taxable value was multiplied by the number of eligible accredited child care facilities to estimate the property value that would be subject to exemption. The percentage of all licensed child care facilities that are currently accredited is only about 5.5 percent but this percentage would be expected to grow rapidly under the bill because of the resulting property tax advantage. About 58 percent of all licensed child care facilities in Texas are currently either exempt or are leased and do not add any cost to this estimate.

The applicable projected tax rates were applied to estimate the levy loss to special districts, cities and counties, and to estimate the initial school district loss. Because of the operation of the hold harmless provisions of the Education Code, about 60 percent of the school district cost related to the compressed rate would be transferred to the state in the first year of a taxable property value loss and 100 percent in later years. Because lagged year property values are used in the enrichment formula, school districts lose enrichment funding (state savings) in the first year of a taxable property value reduction. In the second and successive years the enrichment cost and a portion of the school district debt (facilities) cost are transferred to the state through the relevant funding formulas. All costs were estimated over the five year projection period.

Local Government Impact

The fiscal implication to units of local government is reflected in the table above and is contingent upon passage of a constitutional amendment authorizing the exemption.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS