LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 10, 2013

TO: Honorable Tommy Williams, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **SB1455** by Taylor (Relating to the exemption from ad valorem taxation of real property leased to and used by certain schools.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1455, As Introduced: a negative impact of ($1,837,000) 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	($1,837,000)
2016	($4,168,000)
2017	($4,387,000)
2018	($4,616,000)

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	($1,837,000)	($2,920,000)	($1,450,000)	($1,607,000)
2016	($4,168,000)	($857,000)	($1,526,000)	($1,694,000)
2017	($4,387,000)	($921,000)	($1,607,000)	($1,786,000)
2018	($4,616,000)	($991,000)	($1,691,000)	($1,884,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Other Special Districts*
2014	$0
2015	($1,060,000)
2016	($1,115,000)
2017	($1,173,000)
2018	($1,233,000)

Fiscal Analysis

This bill would add new Section 11.211 to the Tax Code to require a property tax exemption of the real properly that a qualified person owns and leases to a school that is qualified as a school under current law (11.21(d), Tax Code). To qualify, a school would be required to meet the following requirements:

1) the real property must be used exclusively for educational functions;
2) the real property must be reasonably necessary for the operation of the school;
3) the owner must certify by affidavit that the rent for the lease of the real property will be reduced by an amount equal to the amount by which the taxes on the property are reduced as a result of the exemption;
4) the owner must provide the school with a disclosure stating the amount by which the taxes are reduced and the method the owner will use to ensure that the rent fully reflects the reduction; and
5) the rent must reflect the tax reduction through a monthly or annual credit against the rent.

The bill would take effect on January 1, 2014, contingent on the passage of a constitutional amendment.

Methodology

The bill's proposed exemption of real property leased to schools and reimbursement of the resulting tax savings to the schools through a rent credit would create a fiscal cost if the lessee is a charter school or any qualified school (alternative school) other than a school district receiving formula funding from the state under Chapter 41 or 42 of the Texas Education Code (regular school district). The regular school district (and other taxing units) would lose taxable value and the associated property tax revenue to the new exemption resulting in a cost to the regular school district, other taxing units, and to the state through the operation of the school funding formulas. In these instances the bill would, in effect, result in a transfer of property taxes from the regular school district and other taxing units to the alternative school within the regular school district's boundaries.

The value of real property leased by alternative schools was estimated based on information from the Texas Charter Schools Association and appraisal districts. 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 is transferred to the state in the first year the bill takes effect and 100 percent in year two and 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 included in the tables above.

Source Agencies: 304 Comptroller of Public Accounts
LBB Staff: UP, KK, SD, SJS