

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 11, 2015

TO: Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB545 by Taylor, Larry (Relating to the exemption from ad valorem taxation of real property leased to and used by certain schools.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for SB545, As Engrossed: a negative impact of (\$1,078,000) through the biennium ending August 31, 2017.

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
2016	\$0
2017	(\$1,078,000)
2018	(\$5,423,000)
2019	(\$5,974,000)
2020	(\$6,581,000)

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
2016	\$0	\$0	\$0	\$0
2017	(\$1,078,000)	(\$5,484,000)	(\$1,995,000)	(\$1,969,000)
2018	(\$5,423,000)	(\$1,831,000)	(\$2,211,000)	(\$2,177,000)
2019	(\$5,974,000)	(\$2,044,000)	(\$2,449,000)	(\$2,408,000)
2020	(\$6,581,000)	(\$2,282,000)	(\$2,714,000)	(\$2,663,000)

Fiscal Year	Probable Revenue Gain/(Loss) from <i>Other Special Districts</i>
2016	\$0
2017	(\$1,387,000)
2018	(\$1,535,000)
2019	(\$1,699,000)
2020	(\$1,881,000)

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code, regarding property taxation and exemptions, to grant a property tax exemption on the real property a person owns and leases to a qualified open-enrollment charter school if:

- 1) the real property is used exclusively by the school for educational functions;
- 2) the real property is reasonably necessary for the operation of the school;
- 3) the owner certifies by affidavit to the school that the rent for the lease of the real property will be reduced by an amount equal to the tax savings;
- 4) the owner provides the school with a disclosure document stating the amount by which the taxes on the real property are reduced as a result of the exemption and the method the owner will implement to ensure that the property rent fully reflects the reduction; and
- 5) the rent charged for the lease of the real property reflects the reduction in the amount of taxes on the property resulting from the exemption through a monthly or annual credit against the rent.

The charter school would be required to qualify as a school under current law (Section 11.21(d), Tax Code).

The bill would take effect on January 1, 2016, contingent on voter approval of a constitutional amendment.

Methodology

The bill's proposed exemption of real property leased to charter schools and reimbursement of the resulting tax savings to the charter schools through a rent credit would create a fiscal cost. The non-charter (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.

The value of real property leased by charter schools was estimated based on information from the Texas Charter Schools Association, the Texas Education Agency, and appraisal districts. Projected tax rates were applied through the five-year projection period to estimate the school district loss that would be transferred to the state. Under the hold harmless provisions of the Education Code, only a small portion of each year's additional school district loss related to the compressed rate would be transferred to the state while in subsequent years 100 percent of the loss would be transferred to the state. Because lagged year property values are used in the enrichment formula, school districts lose enrichment funding (a state gain) in the first year of a taxable property value reduction. In the second and successive years the enrichment loss and a portion of the school district debt (facilities) loss are transferred to the state through the relevant funding formulas.

Local Government Impact

The estimated fiscal implication to units of local government is reflected in the table above.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS, JSp