

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 20, 2015

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

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 Introduced**

Passage of the bill would grant a property tax exemption on the real property a person owns and leases to a qualified school under certain conditions. To the extent that public schools with taxing authority lease the property, there could be a gain to those school districts if the school district property tax loss was more than offset by the gain from the facilities rent reduction based on the total property tax reduction provided by the bill.

To the extent that schools without taxing authority lease the property there would be a tax revenue loss to the public school districts with taxing authority and a cost to the state through the operation of the school funding formula.

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

The bill's proposed property tax exemption of certain real property leased to a school would create a cost to units of local government other than school districts. To the extent that public schools with taxing authority lease the property, there could be a gain to those school districts if the school district property tax loss was more than offset by a gain from the facilities rent reduction based on the total property tax reduction provided by the bill.

To the extent that schools without taxing authority lease the property there would be a tax revenue loss to the public school districts with taxing authority and a cost to the state through the

operation of the school funding formula. The actual number and value of properties that would be exempted under the restrictions imposed by the bill is unknown, and the kind of school that would lease the property is unknown. Consequently, the fiscal impact cannot be estimated.

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

Local Government Impact

Passage of the bill would grant a property tax exemption on the real property a person owns and leases to a qualified school under certain conditions. The proposed property tax exemption would create a cost to units of local government other than school districts. To the extent that public schools with taxing authority lease the property, there could be a gain to those school districts if the school district property tax loss was more than offset by a gain from the facilities rent reduction based on the total property tax reduction provided by the bill. To the extent that schools without taxing authority lease the property there would be a tax revenue loss to the public school districts with taxing authority.

Source Agencies: 304 Comptroller of Public Accounts

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