

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION**

**April 30, 2023**

**TO:** Honorable Morgan Meyer, Chair, House Committee on Ways & Means

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HB3691** by Hefner (Relating to the exemption from ad valorem taxation of certain property owned by a charitable organization that is engaged in providing housing and related facilities and services to persons who are at least 62 years of age.), **As Introduced**

**Passage of the bill would allow a charitable organization that qualified for an exemption under Tax Code Section 11.18 in the preceding year to continue to qualify for the exemption if the organization's unreimbursed amount is less than four percent of the charitable organization's net resident revenue under certain conditions. As a result, taxable property values could be reduced and the related costs to the Foundation School Fund could be increased through the operation of the school finance formulas.**

The bill would amend Chapter 11 of the Tax Code, relating to Taxable Property and Exemptions, to expand eligibility for the exemption for certain charitable organizations, as defined by the bill, providing housing and related services to individuals who are 62 years of age or older.

The bill would allow a charitable organization that qualified for an exemption under Tax Code Section 11.18 in the preceding year to continue to qualify for the exemption if the organization's unreimbursed amount is less than four percent of the charitable organization's net resident revenue under certain conditions. A charitable organization that qualifies under this provision is entitled to receive the exemption for the current tax year, but not for more than one tax year in each five tax years. The bill establishes a claw back provision in the amount of the tax that would otherwise would have been imposed, plus penalty and interest, for the preceding and current tax year if the charitable organization fails to provide the necessary level of housing and services required by the bill.

The bill would allow organizations to qualify as a charitable organization under the proposed new definition by requiring the provision of charitable housing and services in an unreimbursed amount that is not less than four percent of the charitable organization's net resident revenue, which is an existing requirement for the housing and related services exemption. However, this bill would further expand qualifications to include, alternatively, organizations located in counties with a population of less than 58,000 that have been designated a "health professionals shortage area," or organizations that operate housing developments restricted to very low-income (as assigned by 12 U.S.C. Section 1701q(k)(8)) individuals who are 62 years of age or older. There are currently 197 counties with populations under 58,000 and over 200 counties that the Texas Health and Human Services agency designated as Health Professional Shortage Areas.

These changes would likely result in an increase in the number of eligible organizations, which would then result in lost property tax revenue for the local taxing units and a cost to the state via the school funding formula. However, the number of potentially qualifying organizations are unknown, and the revenue loss cannot be determined.

**Local Government Impact**

Passage of the bill would allow a charitable organization that qualified for an exemption under Tax Code Section 11.18 in the preceding year to continue to qualify for the exemption if the organization's unreimbursed

amount is less than four percent of the charitable organization's net resident revenue under certain conditions. As a result, taxable property values could be reduced. However, the no-new-revenue and voter-approval tax rates as provided by Section 26.04, Tax Code could be higher as a consequence of the reduced taxable value proposed by the bill.

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** JMc, KK, SD, BRI