

SUBJECT: Property-tax exemption for charitable organization's child-care services

COMMITTEE: Ways and Means — favorable, without amendment

VOTE: 9 ayes — Oliveira, McCall, Craddick, Hartnett, Y. Davis, Heflin, Keffer, Ramsay, Ritter

0 nays

2 absent — Bonnen, Hilbert

SENATE VOTE: On final passage, May 3 — 30-0, on Local and Uncontested Calendar

WITNESSES: For — John A. Widner, Day Care Association of Fort Worth and Tarrant County

Against — None

BACKGROUND: Tax Code, sec. 11.18 exempts from ad valorem taxation buildings and tangible personal property owned by charitable organizations. To qualify for the tax exemption, a charitable organization must be organized exclusively to perform religious, charitable, scientific, literary, or educational purposes, and must engage in performing one or more of 20 charitable functions listed.

DIGEST: SB 1007 would add providing certain types of child care to the list of charitable functions that qualify a charitable organization for an exemption from property taxes.

The organization would have to provide the child care directly in a facility licensed by the Department of Protective and Regulatory Services (DPRS), through a contract with such a facility, or in association with a provider of a Head Start program that provided educational services to children in a DPRS-licensed facility. The organization would have to provide the care with donated funds, state funds, federal funds, or a combination thereof, without regard to the beneficiaries' ability to pay, or with money derived from child-care fees on a sliding scale based on the beneficiaries' ability to pay.

The bill would take effect January 1, 2002, and would apply only to a tax year beginning on or after that date.

**SUPPORTERS
SAY:**

SB 1007 would recognize the invaluable service provided by child-care facilities that offer services to low-income, working parents by ensuring that facilities that meet certain strict requirements are eligible for a property-tax exemption.

SB 1007 would not expand the exemption significantly. Most nonprofit child-care facilities are religiously affiliated and so already receive a tax exemption. Of the approximately 2,100 nonprofit centers licensed by DPRS, about 89 percent are religiously affiliated. Other nonprofit facilities are eligible for an exemption because they are affiliated with educational or athletic programs. By explicitly listing child-care facilities in the Tax Code, SB 1007 would fulfill the original intent of the list of exemptions to include nonprofit child-care facilities.

Because the exemption in SB 1007 would be drawn narrowly, the bill would have no fiscal implication for the state or local governments, according to the bill's fiscal note. Any loss of property-tax revenue would be well warranted to enhance educational and developmental services for children.

Child-care facilities would have to meet the specific criteria in the bill and in current law to qualify for the exemption. They would have to be licensed by DPRS, meet the requirements for charities in the statutes, receive state, federal, or charitable funds, and provide subsidized care. As with all requests for tax exemptions, appraisal districts, taxpayers, and, if necessary, the courts would scrutinize all requests by child-care facilities to ensure that they were qualified.

**OPPONENTS
SAY:**

SB 1007 could result in tax exemptions for organizations that do not receive them now, meaning that local governments would have to make up the lost tax revenue from other sources. This could be unfair to other property owners. Property-tax exemptions merely shift the tax burden to other taxpayers or inhibit the ability of taxing units to raise the tax revenue they need to provide services.