

SUBJECT: Allowing counties to adopt tax exemptions for child-care facilities

COMMITTEE: Ways & Means — favorable, without amendment

VOTE: 9 ayes — Meyer, Thierry, Button, Craddick, Gervin-Hawkins, Muñoz, Raymond, Shine, Turner

2 nays — Hefner, Noble

SENATE VOTE: On final passage (May 1) — 25 - 6

WITNESSES: None (*considered in a formal meeting on May 4*)

BACKGROUND: Concerns have been raised that high operating costs have resulted in a shortage of employees for many child-care facilities.

DIGEST: SB 1145 would establish a tax exemption that could be adopted by a county or municipality for all or part of the appraised value of real property used for a child-care facility.

Definitions. The bill would define a "child-care facility" as a facility licensed by the Health and Human Services Commission (HHSC) to provide assessment, care, training, education, custody, treatment, or supervision for children not related to the owner or operator for all or part of the day, regardless of whether or not the facility charged for its services.

"Qualifying child-care facility" would be defined as a child-care facility wherein the owner or operator participated in the Texas Rising Star Program and at least 20 percent of the total number of the children enrolled at the facility received subsidized child-care services through the Texas Workforce Commission.

Tax exemption. Under the bill, an eligible individual would be entitled to a tax exemption from the relevant county or municipality for all or part of the appraised value of:

- the real property that the person owned and operated as a qualifying child-care facility; or
- the portion of the real property that the person owned and leased to a person who used the property to operate a qualifying child-care facility.

The county or municipality could establish the exemption as a percentage of the appraised value of the property. The exemption would have to be at least 50 percent of the appraised value of the property.

Qualifications. To qualify for the exemption, the property would have to be used exclusively to provide developmental and educational services for children attending the child-care facility and be reasonably necessary for the operation of the child-care facility.

Property that was used for functions other than those established by the bill would not result in the loss of an exemption if such functions were incidental to providing developmental and educational services to children and would benefit the children or the faculty and staff of the child-care facility.

The exemption would apply only to the value of the portion of the property that was used for these purposes.

Affidavit. A person claiming an exemption would have to include with the person's application an affidavit certifying to the chief appraiser that the person had disclosed to the child-care facility the amount by which taxes were reduced and the method and amount by which rent was reduced reflecting the reduction. The affidavit also would be required to certify that the person did not charge rent for the lease in an amount that exceeded that which was charged to other tenants for similar space or the average rent for a comparable property.

Restrictions. The bill would prohibit a person from claiming the exemption if the person received a homestead exemption on that property or if any part of that property was leased to another person for use as a

principal residence.

The bill would not subject exempted property with a leasehold interest to certain statutory requirements for leaseholds and other possessory interests.

The bill would make conforming changes to the Tax Code to reflect the addition of the tax exemption.

The bill would take effect January 1, 2024, only if the constitutional amendment proposed by the 88th Legislature authorizing such a property tax exemption was approved by the voters. The bill would apply only to property taxes imposed for a tax year beginning on or after the effective date.

NOTES: SB 1145 is the enabling legislation for SJR 64 by West.