

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** H.B. 136

**SHORT TITLE:** Exemption Child Care Property

**SPONSOR(S):** Rep. Insko

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	(\$)				
	<b><u>FY 1999-00</u></b>	<b><u>FY 2000-01</u></b>	<b><u>FY 2001-02</u></b>	<b><u>FY 2002-03</u></b>	<b><u>FY 2003-04</u></b>
<b>REVENUES</b>	<u>No General Fund Impact</u>				
Local Governments	(36,552)	(39,172)	(41,981)	(44,991)	(48,217)
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> County and City Governments.					
<b>EFFECTIVE DATE:</b> Tax years beginning on or after July 1, 1999.					

**BILL SUMMARY:** Under current law the land, buildings and other business property owned by non-profit educational institutions are exempt from property tax. This bill extends the definition of educational institutions to include child care centers, and specifically designates all child care centers as educational. As such, all qualifying non-profit child care centers would be exempt from property tax.

**ASSUMPTIONS AND METHODOLOGY:** In order to qualify for the exemption a child care center must serve three or more pre-school age children, or nine or more school age children. To receive the exemption the property must be owned by a non-profit educational institution, and must be used “wholly and exclusively” for child care. As a result, a child care center located in a residence would not qualify. The land, buildings, and personal property used in the provision of child care would be exempt from property tax.

Records from the Internal Revenue Service indicate that there are more than 28,500 501(c) 3 non-profit, tax exempt organizations in North Carolina. Of these 152 list “nursery school” or “day care center” as one of their primary activities, and indicated to the IRS that they hold physical assets. Twenty-three centers were removed from the list by fiscal research because it appeared from their name that they provided only adult day care or would likely be exempt from

property tax because of their association with a church or other religious group. This shortened the list to 128. The Department of Health and Human Services, Child Development Division reviewed this list and removed several centers from those potentially impacted because of their affiliation with a church or other previously exempted non-profit organization. They also removed center from the list that are known to provide adult day care instead of child day care.

A survey of county assessors with potentially impacted centers in their area revealed that fourteen of those centers were currently being taxed.

<b>Center</b>	<b>County</b>	<b>Land &amp; Building Value</b>
Cobb Child Care	Craven	211,700
Community Ridge Day Care Center Inc.	Catawba	*
Faith Child Care and Development Center Inc.	Iredell	37,770
Ruthies Day Care Center Inc.	Iredell	65,450
Summit House	Guilford	69,200
Albemarle Educational Foundation, Inc.	Pasquotank	1,042,900
Campus Child Care Center Inc.	Wake	284,624
Community Child Care Center, Inc.	Durham	73,500
Creative Pre School, Inc.	Mitchell	50,273
East Side Improvement Association, Inc.	Randolph	431,580
Little Miracles Day Care	Moore	125,140
School for Young Children, Inc.	Caldwell	181,700
Service League of Hickory, NC Inc.	Catawba	313,200
Chapel Hill Day Care Center	Orange	488,127
<b>TOTAL</b>		<b>\$ 3,375,164</b>
* No estimate is available just for the day care, is it is one room in a much larger facility.		

As is indicated by the above chart, the land and building values of these facilities totaled approximately \$3.4 million. Assuming that each facility also had an additional \$20,000 in tangible personal property, the total tax value of these day care centers, in 1999, is \$3.7 million. The historic average growth rate for total statewide valuations (7.17%) was used to grow the estimate for future years.

The 1997-98 weighted average property tax rate for all governmental jurisdictions in the state (cities and counties) was \$0.968 per \$100.00 of assessed value. The rate has varied from in the past ten years from a low of \$0.938 per \$100.00 (1988-89) to a high of \$0.994 per \$100.00 (1993-94 and 1994-95). Because of increasing pressures to build schools and provide other services, this note assumes a rate of \$1.00 per \$100.00 of assessed value for the five year period of the note. As such, the minimum loss associated with this bill is as follows:

	<b>FY 1999-00</b>	<b>FY 2000-01</b>	<b>FY 2001-02</b>	<b>FY 2002-03</b>	<b>FY 2003-04</b>
<b>Property Value</b>	\$3,655,164	\$ 3,917,239	\$ 4,198,105	\$ 4,499,109	\$ 4,821,696
<b>Tax Liability</b>	\$ 36,552	\$ 39,172	\$ 41,981	\$ 44,991	\$ 48,217

Further conversations with county tax officials suggest that there may be more than fourteen non-profit centers that own property. However, the county tax officials have no way to know if they centers actually are non-profit, unless the center voluntarily reports that information. As such, this estimate represents the minimum potential loss. Fiscal Research does not anticipate that the impacted number of centers would increase dramatically beyond fourteen.

**FISCAL RESEARCH DIVISION 733-4910**

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**DATE:** Monday, March 15, 1999



**Signed Copy Located in the NCGA Principal Clerk's Offices**