NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 1573 (First Edition)

SHORT TITLE: Health Care Facility and CCRC Tax Exempt

SPONSOR(S): Rep. Jarrell, et al.

FISCAL IMPACT

Yes ( ) **No ( )** **No Estimate Available (X)**

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
REVENUES					
General Fund			**No General Fund Impact**		
Local Government			See Assumptions and Methodology		
EXPENDITURES					

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: County and Municipal Governments

EFFECTIVE DATE: Section 1 becomes effective October 1, 2000, and applies to bonds or notes issued on or after that date. Section 2 becomes effective July 1, 2000. The remainder of the bill is effective when it becomes law.

BILL SUMMARY:
Under G.S. 131A-21, any health care facility funded through Medical Care Commission bonds or notes is exempt from property tax for the life of that bond or note. Section 1 of the bill clarifies that the exemption only applies to the portion of the facility funded by the Medical Care Commission bond or note, or the principal amount of that bond or note, whichever is smaller. Section 2 of the bill extends the sunset on the property tax exemption for Continuing Care Retirement Communities to July 1, 2001.

ASSUMPTIONS AND METHODOLOGY:
Section 1: Since its inception in 1975, the Medical Care Commission (MCC), has issued approximately $5 billion in bonds or notes to fund the creation and expansion of North Carolina health care facilities. According to the MCC staff, approximately 10% of these bonds or notes have been issued to CCRCs.

Until recently these bonds were issued almost exclusively to fund the creation of an entirely new facility. In the last five years the MCC has seen a significant increase in the number of applications for the renovation and expansion of existing facilities. The MCC anticipates this trend to continue and accelerate over time.

According to Department of Revenue officials and local county assessors, there has been some confusion as to whether the entire facility should be exempt from tax solely because MCC bonds or notes fund a portion of the facility. At this point, Fiscal Research is aware of at least two CCRCs that are requesting a property tax exemption for their entire facility based on partial Medical Care Commission bond funding.

Because the bill is prospective, the legislation will not impact facilities funded under existing bonds. MCC staff also believe that this will not impact the state's non-profit hospitals since these hospitals already receive a property tax exemption for most of their holdings under G.S. 105-278.8 (charitable hospital). As a result, most of these hospital facilities are exempt from property tax with or without MCC funding. The primary impact will occur in communities with Continuing Care Retirement Communities that will apply for MCC funding in the future, since many of these facilities are or could be subject to property tax. Since Fiscal Research cannot anticipate the amount of bonds to be issued in the future to these facilities, no fiscal estimate is possible.

Section 2: G.S. 105-278.6A allows a Continuing Care Retirement Center (CCRC) that fails to qualify as charitable to receive a property tax exemption for its property if it meets all of the following requirements:

1. The center owns the property and uses it for a retirement community that includes a skilled nursing facility or an adult care facility, and also includes independent living units. Its ground and buildings must be on a single site and it must be designed for elderly residents.
2. The center must be nonprofit and exempt from income tax, and its assets upon dissolution must revert to a 501 (c) (3) charitable organization.
3. The center must have an active fund raising program to assist it in providing services to those who do not have the financial resources to pay the fees.
4. The governing body of the institution must be selected by a charitable nonprofit organization or fraternal organization.
5. All of the center's revenues, less operating and capital expenses, must be applied to providing uncompensated goods and services to the elderly and to the local community, or applied to an endowment or reserve for that purpose.

The property tax exemption for these CCRCs is repealed for taxes imposed for taxable years beginning on or after July 1, 2000. The proposal extends the sunset on the property tax exemption for CCRCs set out in G.S. 105-278.6A to *July 1, 2001*. Technically, extending the property tax sunset one year has no fiscal impact on local governments. Prior to 1998, the non-charitable CCRCs were exempt from property tax. Since July 1, 1998, non-charitable CCRCs have been exempt from property taxes under G.S. 105-278.6A. Even with the impending sunset in 2000, local governments have not included CCRC revenue in their budget availability for FY 2000-2001. However, if the sunset were to expire in 2000 and the non-charitable CCRCs became fully taxable, then city and county governments could assess taxes on the property and receive an estimated $5.1 million in property tax revenues. There is no General Fund impact of the proposal.

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