

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 136 (Second Edition)

SHORT TITLE: Exempt Child Care Property

SPONSOR(S): Representative Insko

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>
REVENUES					
General Fund	No fiscal impact				
Local Governments	(\$39,172)	(\$41,981)	(\$44,991)	(\$48,217)	(\$51,674)
EXPENDITURES					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: City and County Governments					
EFFECTIVE DATE: Effective for taxable years beginning on or after July 1, 2000.					

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.

BACKGROUND

On April 13, 2000, the North Carolina Property Tax Commission ruled that the Orange County Board of Equalization and Review was correct in denying the Chapel Hill Day Care, Inc. a property tax exemption in 1997. From 1965 to 1995, this day care center operated in the Education Building of the United Church of Christ in Chapel Hill. The church only charged the day care center the cost of utilities and annually paid \$3,360 in tuition assistance. This church affiliation provided the center with a property tax exemption. Church involvement with the day care ceased in 1995 when the operation moved into a temporary facility before relocating to a new facility in Chapel Hill's Southern Village in 1996. The day care center argued that the

property tax exemption should now be granted because of the educational content of their program. The North Carolina Property Tax Commission ruled that the primary purpose of the day care was custodial for the 88 children in its charge, not “wholly and exclusively educational” as required by 105-278.4(a)(4).

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. 152 of these nonprofits 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 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 centers 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.

Center	County	Land & Building Value
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
TOTAL		\$ 3,375,164
* 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:

	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Property Value	\$3,655,164	\$ 3,917,239	\$ 4,198,105	\$ 4,499,109	\$ 4,821,696
Tax Liability	\$ 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 the 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. The numbers in the fiscal note chart are adjusted to reflect the July 1, 2000 effective date.

FISCAL RESEARCH DIVISION

733-4910

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