

STORAGE NAME: h1735s1.ft

DATE: April 3, 1998

**HOUSE OF REPRESENTATIVES
AS REVISED BY THE COMMITTEE ON
FINANCE AND TAXATION
BILL RESEARCH & ECONOMIC IMPACT STATEMENT**

BILL #: CS/HB 1735

RELATING TO: Ad Valorem Tax Exemption

SPONSOR(S): House Committee on Community Affairs and Representative Jones

COMPANION BILL(S): None

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:

- (1) COMMUNITY AFFAIRS YEAS 6 NAYS 2
 - (2) FINANCE AND TAXATION
 - (3) EDUCATION APPROPRIATIONS
 - (4)
 - (5)
-

I. SUMMARY:

This bill revises the definition of "educational institution" to include child care centers that are accredited by national or state accrediting authorities.

The bill has a significant fiscal impact on local government. Under the provisions of the committee substitute, an estimated 2,989 child care centers would be eligible or could become eligible for this ad valorem tax exemption. This could result in a loss of \$748,923,840 to local governments' property tax base.

The bill also reduces the authority of cities and counties to raise revenue in the aggregate. The potential reduction by \$748,923,840 to local governments' property tax base could result in a loss of \$16,476,324 in revenue using the state-wide average millage rate.

This bill is a mandate as provided by the Florida Constitution. To bind local governments, the bill must be enacted by a two-thirds vote of both houses of the Legislature.

II. SUBSTANTIVE RESEARCH:

A. PRESENT SITUATION:

Currently, chapter 196, Florida Statutes, provides for exemptions from taxes that are assessed on real or personal property. According to subsection (5) of section 196.012, Florida Statutes, "educational institution" means:

- 1) a federal, state, parochial, church or private school, college or university conducting regular classes and courses of study required for eligibility to certification by, accreditation to, or membership in the State Department of Education of Florida, Southern Association of Colleges and Schools, or the Florida Council of Independent Schools;
- 2) a nonprofit private school the principal activity of which is conducting regular classes and courses of study accepted for continuing postgraduate dental education credit by a board of the Division of Medical Quality Assurance;
- 3) educational direct-support organizations created pursuant to ss. 229.8021, 240.299 and 240.331, Florida Statutes; and
- 4) facilities located on the property of eligible entities which will become owned by those entities on a date certain.

Furthermore, educational institutions within the State of Florida and their property used by them or by any other exempt entity or educational institution exclusively for educational purposes are exempt from taxation.

An exemption from ad valorem taxation for "educational institutions" was originally provided by the Legislature in 1971 in chapter 71-133, Laws of Florida.

Subsequently, several clarifications and additions to the definition of "educational institution" have been added to section 196.012, F. S. Some of the changes include:

- the addition of federal schools;
- the addition of nonprofit private schools which provide postgraduate dental education; and
- the addition of direct-support organizations created pursuant to 229.8021, 240.299, and 240.331, Florida Statutes

According to the Florida Association of Child care Management, there are approximately 550 child care centers in Florida, currently accredited by national or state accrediting authorities.

B. EFFECT OF PROPOSED CHANGES:

CS/HB 1735 revises the definition of "educational institution" to include child care centers that are accredited by national or state accrediting authorities.

The bill has a significant fiscal impact on local government. Under the provisions of the committee substitute, an estimated 550 child care centers would be eligible and an estimated 2,439 child care centers could become eligible for this ad valorem tax exemption. This could result in a loss of \$748,923,840 to local governments' property tax base.

The bill also reduces the authority of cities and counties to raise revenue in the aggregate. The potential reduction by \$748,923,840 to local governments' property tax base could result in a loss of \$16,476,324 in revenue using the state-wide average ad valorem tax rate.

C. APPLICATION OF PRINCIPLES:

1. Less Government:

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

No.

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

No.

(3) any entitlement to a government service or benefit?

Yes, the bill allows preschools to continue to receive government services, such as urban infrastructure, police and fire protection without being required to pay ad valorem taxes.

b. If an agency or program is eliminated or reduced:

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

N/A

(2) what is the cost of such responsibility at the new level/agency?

N/A

(3) how is the new agency accountable to the people governed?

N/A

2. Lower Taxes:

- a. Does the bill increase anyone's taxes?

Not directly. However, local governments which have not reached their millage cap may raise the millage rate to compensate for the loss of these ad valorem tax dollars.

- b. Does the bill require or authorize an increase in any fees?

No.

- c. Does the bill reduce total taxes, both rates and revenues?

Yes. The bill exempts accredited child care centers from payment of ad valorem taxes, thereby reducing the amount of taxes paid by preschools and reducing the amount of revenue realized by local governments.

- d. Does the bill reduce total fees, both rates and revenues?

No.

- e. Does the bill authorize any fee or tax increase by any local government?

No.

3. Personal Responsibility:

- a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

No.

- b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

No.

4. Individual Freedom:

- a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

N/A

- b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

N/A

5. Family Empowerment:

a. If the bill purports to provide services to families or children:

(1) Who evaluates the family's needs?

N/A

(2) Who makes the decisions?

N/A

(3) Are private alternatives permitted?

N/A

(4) Are families required to participate in a program?

N/A

(5) Are families penalized for not participating in a program?

N/A

b. Does the bill directly affect the legal rights and obligations between family members?

N/A

c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

(1) parents and guardians?

N/A

(2) service providers?

N/A

(3) government employees/agencies?

N/A

D. STATUTE(S) AFFECTED:

Sections 196.012 and 196.198, Florida Statutes, are affected.

E. SECTION-BY-SECTION RESEARCH:

Section 1. Subsection (5) of section 196.012, Florida Statutes, is amended to include nationally accredited child care centers in the definition of "educational institutions."

Section 2. This act shall take effect upon becoming law.

III. FISCAL RESEARCH & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

N/A

2. Recurring Effects:

N/A

3. Long Run Effects Other Than Normal Growth:

N/A

4. Total Revenues and Expenditures:

N/A

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

Indeterminate.

2. Recurring Effects:

There are an estimated 6,100 child care centers in the State of Florida, 1,830 of which are currently exempt from ad valorem taxation and 1,281 of which are not owned or used for exempt purposes. Of the remaining 2,989 child care centers which could all become eligible for the exemption provided for in this bill, there are 550 centers that are accredited by national or state accrediting authorities. Thus, as any child care center that becomes accredited becomes exempt, it is assumed that those facilities which are not currently exempt from the ad valorem tax will seek and receive accreditation.

Assuming 2,989 exempt facilities, the bill reduces the authority of cities and counties to raise revenue in the aggregate. The potential reduction by \$748,923,840 to local governments' property tax base could result in a loss of \$16,476,324 in revenue using the state-wide average ad valorem tax rate.

3. Long Run Effects Other Than Normal Growth:

None are determined.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

None.

2. Direct Private Sector Benefits:

Accredited child care centers are exempt from payment of ad valorem taxes.

3. Effects on Competition, Private Enterprise and Employment Markets:

None.

D. FISCAL COMMENTS:

The bill is a mandate to local governments as provided in the Florida Constitution. The bill must have a two-thirds vote of the membership of each House to become law.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

The bill does not require counties or municipalities to spend funds or to take action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

The bill reduces the authority that municipalities or counties have to raise revenues. The estimate exceeds \$1.4 million, which reduces the authority that municipalities or counties have to raise revenues in the aggregate, as such authority existed on February 1, 1989. As such, the mandates provision of the Florida Constitution does apply.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

This bill does not reduce taxes shared with counties or municipalities.

V. COMMENTS:

The Florida League of Cities and the Florida Association of Counties object to the expansion of the definition of "educational institutions" to include child care centers.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

A committee substitute for House Bill 1735 was adopted by the House Committee on Community Affairs on March 12, 1998. The CS engrosses a strike everything amendment that was offered by the sponsor. In addition, the CS engrosses an amendment to the strike-everything amendment. The committee substitute differs from the bill in the following manner:

* In the strike-everything amendment the term "preschool" was removed from the definitions of Educational Institutions and replaced with "child care centers that *are eligible* for accreditation by national or state accrediting authorities." However, an amendment to the strike-everything amendment replaced "are eligible" with "child care centers that *are accredited* by national or state accrediting authorities."

* The strike-everything amendment also removes language from the bill changing the word "exclusively" to "predominantly" relating to educational institutions that are exempt from taxation for educational purposes.

* The strike-everything changed the date of enactment from "January 1, 1998" to "this act shall take effect upon becoming law."

VII. SIGNATURES:

COMMITTEE ON COMMUNITY AFFAIRS:

Prepared by:

Legislative Research Director:

Lisa C. Cervenka

Joan Highsmith-Smith

AS REVISED BY THE COMMITTEE ON FINANCE AND TAXATION:

Prepared by:

Legislative Research Director:

Kama D.S. Monroe, Esq.

Keith G. Baker, Ph.D.