

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 193 <1st Edition>
SHORT TITLE: Retirement Home Tax Change
SPONSOR(S): Rep. Jarrell

FISCAL IMPACT				
Yes (X)	No ()	No Estimate Available ()		
<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>
REVENUES				
General Fund		No General Fund Impact		
Local Governments		\$1.7 – 2.5 Million Minimum Loss		
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue, Local Governments.				
EFFECTIVE DATE: Effective for taxes imposed for taxable years beginning on or after July 1, 2001.				

BILL SUMMARY: The bill provides a property tax exemption for certain non-profit continuing care retirement communities (CCRC). To qualify for a full exemption the CCRC must meet the following criteria:

- 1). Be a 501(C)3 organization,
- 2). Be designed for elderly residents,
- 3). Include independent living units for the elderly,
- 4). Provide a skilled nursing or adult care facility,
- 5). Be licensed by the Department of Insurance as a CCRC, and
- 6). Either:
 - A). Have unreimbursed costs (charity care, Medicare and Medicaid gap) of providing health care, housing, or other services for residents unable to pay for all or part of the services, and unreimbursed costs of providing “community benefits” that exceed 5% of the total resident revenue, **OR**
 - B). Serve all residents without regard to their ability to pay.

CCRCs can also receive a partial exemption if they meet the requirements of 1 – 5 above but have a lower charity care and community benefit to resident revenue ratio between 1% and 5%.

If that ratio is greater than 4% the CCRC would qualify be able to exempt 80% of the value of their property. If the ratio is greater than 3%, then 60% could be exempt. If the ratio is greater than 2% a 40% exemption could apply. If the ratio is more than 1% a 20% exemption is possible. Community benefits are defined as the unreimbursed cost to the facility of providing charitable donations, donated volunteer services, donations and voluntary payments to government agencies, and services, including health, recreation, community research, and educational activities. These services can be provided to the community at large, including the elderly population.

ASSUMPTIONS AND METHODOLOGY: As of October 1999 the Department of Insurance reported that there are 48 Continuing Care Retirement Communities (CCRC) in North Carolina. Forty-two (42) of these facilities are non-profit institutions.

In the spring and summer of 2000 the North Carolina Association of Non-profit Homes for the Aging (NCANPHA) surveyed all 48 CCRCs to determine the amount of charity care provided by their member organizations. Thirty-two of the non-profit facilities or 76% provided at least some charity data. In this survey, and under the legislation, charity care is defined as the unreimbursed cost of services provided to residents, including the gap between what Medicare and Medicaid pays and the documented cost of the service. This survey revealed that 12 of the 32 non-profit facilities (38%) reported a charity care cost gap to annual resident revenue ratio of 5% or more. With the legislation these facilities will qualify for a total exemption from property taxes for their facility. The charity care cost gap, as well as the value and the tax loss reported by county assessors is as follows:

Facility Name	Resident Revenue	Cost Gap	Cost to Revenue Ratio	Value	Tax Loss
Buncombe County					
<i>Givens Estates</i>	6,576,152	671,295	10.21%	7,117,500	44,840
Chatham County					
<i>Pittsboro Christian Village*</i>	1,220,021	85,243	6.99%	3,616,506	20,368
Forsyth County					
<i>Arbor Acres</i>	9,912,940	700,646	7.07%	27,553,080	182,539
<i>Brookridge</i>	6,277,762	1,150,000	18.32%	16,419,000	108,776
<i>Moravian Home*</i>	6,831,395	594,725	8.71%	13,608,900	84,798
Guilford County					
<i>Masonic & Eastern Star</i>	1,451,200	2,486,564	171.35%	14,127,900	90,023
<i>Pres. Home of High Point*</i>	6,938,315	594,023	8.56%	2,015,500	530
Mecklenburg County					
<i>Aldersgate</i>	10,883,159	1,291,982	11.87%	50,692,340	370,054
<i>Carmel Hills</i>	1,026,802	76,958	7.49%	4,554,590	33,249
<i>Sharon Towers</i>	8,497,627	946,690	11.14%	21,175,880	154,584
Robeson County					
<i>Wesley Pines</i>	3,678,205	363,905	9.89%	4,579,246	37,092
Scotland County					
<i>Scotia Village</i>	4,798,963	332,172	6.92%	15,229,940	141,638
TOTAL	68,092,541	9,294,203	23%	180,690,382	1,268,491

Please note that in some cases (those noted with an *) the facility may qualify for a partial exemption under another statute. As such the numbers shown above are the net change.

The bill also grants a partial exemption from property tax for CCRCs that provide between 1% and 5% of their annual resident revenue in charity care and community benefits. Under the legislation a facility that has a charity and community benefit to resident revenue ratio of 4% or more qualifies for a 80% property tax exemption, while a CCRC with a 3% ratio qualifies for a 60% exemption, a facility with a 2% ratio qualifies for a 40% exemption and a facility with a 1% ratio qualifies for a 20% exemption.

According to the NCANPHA survey, ten of the thirty-three responding facilities (30%) will qualify for a partial exemption. The resident revenue, cost gap, cost to revenue ratio, and the percent exemption for each facility is listed below.

Facility Name	Resident Revenue	Cost Gap	Cost to Revenue Ratio	Exemption
Alamance County				
<i>Twin Lakes Center</i>	\$10,000,000	\$393,192	3.93%	60%
Catawba County				
<i>Abernethy Center</i>	\$18,094,504	\$555,211	3.07%	60%
Durham County				
<i>Croasdaile Village (new UMC)</i>	\$503,996	\$15,000	2.98%	40%
Gaston County				
<i>Covenant Village</i>	\$5,667,271	\$59,154	1.04%	20%
Guilford County				
<i>Friends Homes</i>	\$12,848,514	\$272,585	2.12%	40%
Henderson County				
<i>Carolina Village</i>	\$4,841,130	\$180,800	3.73%	60%
Mecklenburg County				
<i>Southminster</i>	\$8,882,000	\$301,000	3.39%	60%
Moore County				
<i>Quail Haven</i>	\$3,460,771	\$36,316	1.05%	20%
Orange County				
<i>Carol Woods</i>	\$12,590,755	\$125,444	1.00%	20%
Wake County				
<i>Glenaire</i>	\$6,725,687	\$95,699	1.42%	20%
Total	\$ 83,614,628	\$ 2,034,401	2.37%	40%

The property tax loss from these partial exemptions is as follows:

Facility Name	Value	Potential Tax Liability	New Tax Liability	Tax Loss
Alamance County				
<i>Twin Lakes Center</i>	19,635,180	\$103,085	\$41,234	\$61,851
Catawba County				

<i>Abernethy Center</i>	8,245,000	\$40,813	\$16,325	\$24,488
Durham County				
<i>Croasdaile Village (new UMC)</i>	2,950,344	\$27,429	\$16,458	\$10,972
Gaston County				
<i>Covenant Village</i>	16,368,200	\$135,038	\$108,030	\$27,008
Guilford County				
<i>Friends Homes</i>	19,886,900	\$126,719	\$76,032	\$50,688
Henderson County				
<i>Carolina Village</i>	18,552,800	\$92,764	\$37,106	\$55,658
Mecklenburg County				
<i>Southminster</i>	33,220,700	\$242,511	\$97,004	\$145,507
Moore County				
<i>Quail Haven</i>	5,875,654	\$28,790.70	\$23,033	\$5,758
Orange County				
<i>Carol Woods**</i>	N/A	N/A	N/A	N/A
Wake County				
<i>Glenaire</i>	31,237,964	\$228,037	\$182,430	\$45,607
Total	183,651,342	1,279,553	801,144	427,536

Please note that the facility marked with an ** has not applied for a property tax exemption although they appear to qualify under the temporary exemption. NCANPHA reports that the board voluntarily decided to pay the tax, and that the organization plans to continue to pay tax. As such the bill will have no impact on their behavior, although they would qualify for a partial exemption.

The North Carolina Department of Insurance reports that five (5) additional CCRCs are expected to be in operation in the next five years. Three (3) of these facilities are non-profit and could qualify for the exemption if they provided enough charity care and community benefit. The total expected value and potential tax losses, by county, are as follows:

Facility	Value	Potential Tax Loss
Alamance County		
<i>Village at Brookwood</i>	64,000,000	336,000
Cabarrus County		
<i>Taylor Glen</i>	25,000,000	140,000
Guilford County		
<i>Riverlanding</i>	51,000,000	324,972

Given the losses and potential losses listed above, the county loss ranges are as follows:

County	Tax Loss
Alamance	61,851 - 397,851
Buncombe	89,680
Cabarrus	0 - 140,000
Catawba	24,488
Chatham	20,368
Durham	10,972

Forsyth	376,113
Gaston	27,008
Guilford	141,241 - 466,213
Henderson	55,658
Mecklenburg	703,394
Moore	5,758
Robeson	37,092
Scotland	141,638
Wake	45,607
Total	1,696,028 - 2,497,00

While this estimate is based on the best data available Fiscal Research believes the actual cost of the exemptions could be higher for four reasons. First, some of the CCRCs that did not provide data might actual qualify for an exemption. Second, facilities that are near a break point may marginally increase their charitable or community activity to qualify for the higher exemption. Third, while the survey reports charity care numbers it does not reveal the cost CCRCs attribute to “community benefits”. While the NCANPHA states that these “community benefit” numbers will be relatively low the exact amount is unclear to Fiscal Research. Finally, because these numbers represent only the cost to counties and not municipalities the total local cost will be higher. As a result of these factors, the range listed about is actually a minimum estimate.

Note: While most local governments will see a revenue increase from 1999-00 to 2001-02 as a result of this bill, the change is actually shown as a loss to local governments. This is because the temporary exemption that shelters non-profit CCRCs from sales tax is scheduled to expire July 1, 2001. The annual cost to counties of the temporary exemption was estimated in 1998 to be approximately \$5.1 million. Thus the counties overall should see a revenue gain from 2000 of approximately \$2.6 - \$3.4 million. The exact impact will vary by county.

FISCAL RESEARCH DIVISION 733-4910

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