

SUBJECT: Exempting raw cocoa and green coffee in Harris County from taxation

COMMITTEE: Ways and Means — favorable, without amendment

VOTE: 6 ayes — Oliveira, McCall, Y. Davis, Keffer, Ramsay, Ritter
0 nays
5 absent — Craddick, Hartnett, Bonnen, Heflin, Hilbert

SENATE VOTE: On final passage, April 23 — voice vote

WITNESSES: For — Carlos De Aldecoa Bueno, Alistair Macnab, and Steve Stewart,
Greater Houston Coffee Association
Against — None

BACKGROUND: Under the Texas Constitution, art. 8, sec. 1(b), all tangible personal property, including inventories, held for the production of income are subject to ad valorem taxation unless specifically exempt under the Constitution.

DIGEST: SB 1574 would establish an exemption from ad valorem taxation for raw cocoa and green coffee held in Harris County.

Once an exemption was granted for these inventories, the owner would not have to claim the exemption in subsequent years. The exemption would apply to all inventories until the owner's qualification for the exemption changed. However, the Harris County chief appraiser could require a person whose inventories were exempt in a previous year to file a new application to confirm the owner's qualification for exemption.

The bill would take effect January 1, 2002, but only if Texas voters approved the constitutional amendment proposed by SJR 47, allowing the Legislature to create the exemption.

SUPPORTERS SAY: Exempting coffee and cocoa inventories from ad valorem taxation in Harris County would make the county eligible to be designated an exchange port for

coffee by the New York Board of Trade. The board has said that it will not consider the county's application unless coffee and cocoa are exempted from taxation. This designation would bring global recognition and marketing power to Houston, which would be one of only four designated coffee ports in the nation, along with New York, New Orleans, and Miami, and the only one west of the Mississippi. After Miami was certified as a coffee port in 1997, its coffee imports increased from 82,000 to 1.2 million bags in three years.

Although exempting coffee from property taxes would decrease local tax revenue in the short run, certification of Houston as a coffee port would spur long-term investment in warehouse facilities, create jobs, and bring additional business to trucking and distribution companies across the state. As many as five to 10 food-grade, state-of-the-art warehouses would be built in Harris County in the wake of certification. Increased property tax revenues due to this new construction, along with job growth and other statewide economic benefits, would more than make up for the short-term loss in tax revenue. The \$300,000 in annual tax revenue from coffee in Harris County is spread among three school districts.

Although other ports in Texas could serve as exchange ports, they are not eligible for certification. The board has stated that if it grants coffee-exchange status to a port in Texas, that port will be the Port of Houston in Harris County. Other ports, however, could benefit from Harris County's certification by arranging to transport coffee by land to warehouses in Harris County.

OPPONENTS
SAY:

Exempting coffee and cocoa from ad valorem taxation would decrease tax revenue for local governments in Harris County. Some school districts could be hurt by the drop in revenue.

Creating an exemption for a specific industry in a specific county would require other businesses and residential property owners in the county to bear more of the burden of funding governmental services. It also would set a bad precedent by encouraging other types of businesses to try to carve out similar exemptions for their benefit.

OTHER
OPPONENTS
SAY:

A tax exemption for coffee should not be granted only to Harris County. Other ports in Texas share Houston's proximity to coffee-growing regions and consumer markets. Ports in Corpus Christi or Brownsville also should benefit from any tax exemption on certain commodities.

NOTES:

SJR 47 by Gallegos, which would propose to amend the Constitution to allow the Legislature to establish the exemption for coffee and cocoa, is on today's Constitutional Amendments Calendar.