

SUBJECT: Property tax exemption for property leased from rural rail districts

COMMITTEE: Ways and Means — favorable, without amendment

VOTE: 5 ayes — Keffer, Ritter, Otto, Paxton, Pena

0 nays

4 absent — Bonnen, Y. Davis, Flores, Pitts

WITNESSES: For — Steven P. George, Texas Shortline and Regional Railroad Association/Fort Worth and Western Railroad

Against — None

BACKGROUND: Vernon's Texas Civil Statutes, ch. 13, art. 6550c authorizes the creation of rural rail transportation districts. A rural rail transportation district is a political subdivision of the state of Texas with the power to purchase, operate, or build railroad facilities. As of August 31, 2002, there were 18 rural rail transportation districts in the state. Art. 6550c, sec. 8 specifies that the property, revenues, and income of a district as well as the interest on bonds and notes issued by a district are not subject to taxation by either the state of Texas or a political subdivision of the state.

Under Tax Code, sec. 25.07, a leasehold in real property that is exempt from taxation to the owner of the property must be listed on the records of an appraisal district if the duration of the leasehold is be at least one year. Under Sec. 25.07(b), certain types of leasehold do not have to be listed. This exemption includes land owned by various public entities such as the permanent university fund, municipalities, public ports, navigation districts, and other entities.

DIGEST: Under HB 316, a leasehold or other possessory interest in exempt property that was part of a rail facility owned by a rural rail transportation district would not have to be listed on the records of an appraisal district.

The bill would take effect January 1, 2008, and would apply only to appraisal records for a tax year beginning on or after that date.

**SUPPORTERS  
SAY:**

HB 316 would clarify that land owned by a rural rail transportation district that was leased to another entity would not be subject to taxation by local jurisdictions, strengthening the ability of these public improvement organizations to maintain neglected rail lines in the state. Rural rail transportation districts were authorized by the 67th Legislature in 1981 to take over sections of rail that had been underused and had slipped into disrepair. Rural rail transportation districts effectively have served this purpose in many areas of the state. HB 316 would reinforce the ability of a rural rail transportation district to enter into a partnership with a private entity, safeguarding rail assets, improving transportation options, and providing an economic boost in areas with neglected rail infrastructure.

The legislation authorizing rural rail transportation districts (HB 1822 by Simpson, 67th Legislature) specified that property owned by these rail districts would be exempt from all taxes levied by any political subdivision of the state. However, because this exemption does not exist in the Tax Code, some confusion has existed regarding the authority of a local jurisdiction to tax property leased by a rural rail transportation district to a private entity. HB 316 would address this discrepancy by stating explicitly that a leasehold of property owned by a rural rail transportation district was exempt from taxation.

Taxing a private entity for activities that provide substantial public economic and transportation benefits would be counterproductive. A railroad operator partnering with a rural rail transportation district provides a public service by improving and maintaining rail lines that otherwise would be abandoned. Without the important services provided by a private organization leasing rail lines from a rural rail transportation district, these lines would be underused and neglected. By exempting these private partners from taxation, HB 316 would eliminate disincentives and encourage private entities to take on the responsibility of these important assets, improving transportation infrastructure throughout the state.

**OPPONENTS  
SAY:**

HB 316 unfairly would exempt from local taxation property leased by a business operating on rail lines owned by a rural rail transportation district. Under the bill, a business operating on rail facilities owned by a rural rail transportation district would stand to make substantial profit through use of those rail lines, while the property used to generate those profits would be untaxed. Requiring tax payment by a private, profit-based entity using a public asset would be neither unprecedented nor unreasonable. Local taxing jurisdictions such as school districts rely on

property taxes for their operations, and HB 316 would deny them property tax revenue from profitable rail lines.

OTHER  
OPPONENTS  
SAY:

HB 316 should apply retroactively to tax years prior to 2008. Conflicts exist currently between local taxing jurisdictions and entities operating on lines owned by rural rail transportation districts, and retroactively exempting these entities from taxation would settle these conflicts.