

- SUBJECT:** Defense base development authorities' taxable property
- COMMITTEE:** Defense and Veterans' Affairs — committee substituted recommended
- VOTE:** 9 ayes — Menéndez, R. Sheffield, Collier, Farias, Frank, R. Miller, Moody, Schaefer, Zedler
0 nays
- WITNESSES:** For — Wayne Alexander, Port San Antonio; David Marquez, County of Bexar; (*Registered, but did not testify:* Marshall Kenderdine and Luis Saenz, City of San Antonio; Chris Shields, Greater San Antonio Chamber of Commerce)

Against — None

On — (*Registered, but did not testify:* Chris Shields, Port San Antonio; Tim Wooten, Comptroller of Public Accounts)
- BACKGROUND:** Local Government Code, ch. 379B authorizes municipalities to create a defense base development authority at a base closed by the Defense Base Closure and Realignment Commission (BRAC).

Tax Code, secs. 11.01 and 21.02 stipulate that tangible property that is temporarily in the state is not subject to taxation.
- DIGEST:** CSHB 2387 would stipulate that a commercial product being made, assembled, or produced within a defense base development authority's jurisdiction was temporarily within the state for the purposes of Tax Code, secs. 11.01 and 21.02, and therefore exempt.

To qualify for the exemption, the commercial product would have to be made, assembled, or produced by an entity in the manufacturing sector, as defined by the North American Industry Classification System (NAICS). It also would have to meet guidelines established by the county commissioners court under Tax Code, sec. 312.002, which governs the eligibility of a taxing unit to participate in tax abatement and requires the taxing unit to set guidelines before offering the exemption.

Tangible personal property within the authority also would be exempt from taxation if the property owner demonstrated to the tax appraisal district that the property was intended to be attached or incorporated into the commercial product exempted from taxation by the bill.

The bill would take effect January 1, 2014.

**SUPPORTERS
SAY:**

CSHB 2387 would provide communities affected by a military base closure with an economic tool that helps defense base development authorities operating at former military installations attract and keep manufacturing businesses. Manufacturing, which ranges from electroplating and tire retreading to the construction of jet engines, creates high-paying jobs that benefit a region's economy. The bill also would allow Texas to compete with other states that do not assess taxes on certain manufactured goods.

Shuttering a military installation is devastating to a community's economy. CSHB 2387 would help in the transition of jobs and property so that a community once tied economically to a departed military presence could grow its commercial sector. Economic tools to help in this transition are important for communities still recovering from the previous rounds of installation closures. The Pentagon recently included \$2.4 billion to implement the base realignment and closure process in a budget proposal, so a tax exemption for certain manufactured goods makes sense as a way to lure investment and boost employment at authorities. This kind of investment would eclipse any projected loss in revenues that resulted from exempting commercial products and their related parts from taxation.

A similar provision in the Tax Code already provides an exemption for watercraft construction, and CSHB 2387 would make that language applicable to commercial products produced or assembled at authorities. The bill would not harm the discretion given to the state's chief appraisers — it merely would clarify the temporal status of manufactured goods at an authority. Appraisers still would have the final say in determining whether tangible property associated with the commercial product was taxable. Furthermore, the bill would grant discretion to the commissioners court in determining whether commercial products manufactured at an authority were eligible for exemption.

**OPPONENTS
SAY:**

CSHB 2387 could result in a loss of revenue to the state and local governments. The Legislative Budget Board (LBB) projected that,

depending on the eligibility criteria established by the commissioners court for the exemption of commercial products, the exemptions permitted under the bill could result in a loss of revenue to the state of about \$1.1 million in fiscal 2014-15.

Also, the bill would remove the discretion of local tax appraisers to determine whether a commercial product made, assembled, or produced at an authority was located temporarily in the state and whether it was taxable. Tangible property determined by a chief appraiser to be in the state temporarily already is exempt from taxation, and such decisions should remain in the hands of local appraisal districts.

NOTES:

The committee substitute differs from the bill as introduced in that CSHB 2387 would:

- specify that an eligible commercial product would have to be in the process of being manufactured, assembled, or produced at an authority;
- require the entity producing the commercial product to meet the NAICS definition as a manufacturing entity; and
- require that a commercial product at an authority meet guidelines established by the county commissioners court under Tax Code, sec. 312.002.

The LBB's fiscal note estimates a cost from the bill of \$1,074,000 in general revenue through fiscal 2014-15 resulting from property tax revenue loss to local units and to the state through the school funding formula. According to the LBB, this estimate depends on whether the businesses producing the commercial products meet the commissioners court guidelines under Tax Code, sec. 312.002 and whether they met guidelines in the future.