HOUSE
RESEARCH
ORGANIZATION bill analysis 4/17/2013

HB 1348
Menéndez

SUBJECT: Exempting property from taxation at defense base development authorities

COMMITTEE: Defense and Veterans' Affairs — favorable, without amendment

VOTE: 8 ayes — Menéndez, R. Sheffield, Collier, Farias, Frank, R. Miller, Schaefer, Zedler

0 nays

1 absent — Moody

WITNESSES: For — Wayne Alexander and Chris Shields, Port San Antonio; David Marquez, County of Bexar; (*Registered, but did not testify*: Gabe Farias, West San Antonio Chamber of Commerce; Marshall Kenderdine and Luis Saenz, City of San Antonio)

Against — None

On — (*Registered, but did not testify*: Tim Wooten, Comptroller of Public Accounts)

BACKGROUND: Local Government Code, ch. 379B authorizes a municipality to create a defense base development authority at a base closed by the Defense Base Closure and Realignment Commission.

Tax Code, secs. 11.01 and 21.02 stipulate that tangible property that is temporarily in the state is not subject to taxation.

DIGEST: HB 1348 would stipulate that a commercial aircraft under construction 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 from taxation. Tangible personal property within the authority also would be exempt from taxation if the owner demonstrated to the tax appraisal district that the property was designed to be attached or incorporated into the aircraft under construction.

The bill would take effect January 1, 2014, and would apply only to ad valorem taxes imposed for a tax year beginning on or after that date.

SUPPORTERS SAY:

HB 1348 would amend the law to specify that commercial aircraft under construction at defense base development authorities would not be taxable property. Recognizing these types of aircraft as being temporarily in the state for construction would relieve companies of a potentially large tax burden and boost business, create jobs, and allow Texas to compete with other states in attracting commercial aerospace operations.

Defense base development authorities, which have sprung up at former military installations to reinvigorate the economic viability of an area, attract commercial aircraft construction from companies such as Boeing and Lockheed Martin. This construction typically includes adding instrumentation and wiring as well as interior work before the aircraft is fit for service. The aircraft and parts are in the state only for this temporary construction period. HB 1348 would clarify that the commercial aircraft under construction was located temporarily in Texas, while providing a process for a property owner to demonstrate that the associated parts also should be exempted from taxation.

HB 1348 would help authorities attract and keep more aircraft construction companies. These companies are drawn to the infrastructure the authorities can provide, and they bring with them a highly skilled workforce, which benefits a community’s tax base. At Port San Antonio, an authority located at former Kelly Air Force Base, 14 aerospace-related firms combined employ about 4,000 people and generate about $1.5 billion for the economy. The bill would help unlock more investment at Port San Antonio and other defense base development authorities that could yield more jobs. Such long-term investment, which is key for an authority to thrive, would outweigh any projected loss in revenues that resulted from exempting commercial aircraft and their related parts from the rolls of taxable property.

A similar provision in the Tax Code already provides an exemption for watercraft construction, and HB 1348 would make that language applicable to aircraft construction as well. The bill would not harm the discretion given to the state’s chief appraisers — it merely would clarify the status of commercial aircraft under construction at an authority. Appraisers still would have the final say in determining whether tangible property associated with the airplane was taxable.

OPPONENTS SAY:

HB 1348 could result in the loss of tax revenue for the state and local governments at a time when budgets are lean. The Legislative Budget

Board (LBB) projected that the exemptions in HB 1348 would cost the state $399,000 in fiscal 2014-15, with further losses in tax revenue to local governments and a pair of school districts.

HB 1348 inappropriately would remove the discretion of local tax appraisers to determine whether a commercial aircraft under construction 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. Such decisions should remain in the hands of local authorities and not prescribed by state law.

NOTES: The LBB's fiscal note estimates a cost from the bill of $399,000 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.