



October 3, 2001

No. 140

AMENDMENTS WOULD CREATE TAX EXEMPTIONS, REDUCING MUCH-NEEDED STATE & LOCAL REVENUE

Three proposed state constitutional amendments on the November ballot would create new property-tax exemptions. All three would subsidize narrow special interests at the expense of state and local revenue that is desperately needed to maintain vital services.

PROPOSITION 10: TAX EXEMPTION FOR "GOODS IN TRANSIT"

Proposition 10 would authorize the Legislature to create a property-tax exemption for property that is stored temporarily en route to another location, either in Texas or outside the state. The beneficiary would be the warehouse industry, which already receives a "freeport exemption" that exempts interstate freight, but now seeks a further exemption for Texas goods bound for in-state destinations.

The Legislative Budget Board estimates that the exemption could cost school districts \$35.9 million in its first year of operation. Cities and counties could also lose substantial amounts of property tax revenue —\$19 million in the first year alone. School losses could be reimbursed by the state the next year, according to current school-finance formulas, but districts would always be in the hole by a year's revenue. The state, of course, would be left holding the bag—diverting much-needed revenue from more pressing needs to subsidize a small subsector of the state's economy.

And what would Texans gain from passing up this \$54.9 million in tax revenue? The chance to compete for warehouse jobs that pay less than \$30,000 a year, according to the U.S. Census Bureau's payroll data on warehousing and storage jobs in Texas.

Revenue losses could be even larger if companies take advantage of the opportunity to convert their own warehouses, which are not eligible for this tax break, to sham-independent property eligible for the proposed exemption.

The warehouse industry should pay its fair share of property taxes, which are needed to pay the teachers who train their future workers and to build the roads on which goods can travel to their warehouses.

PROPOSITION 3: TAX EXEMPTION FOR RAW COCOA, GREEN COFFEE IN HARRIS COUNTY

The epitome of a narrow special-interest exemption has to be Proposition 3, which would exempt green coffee and cocoa inventories in Harris County. This apparently would allow

the Port of Houston to apply to be designated as an "exchange port" for coffee by the New York Board of Trade.

Carving out an exemption for a one small sector of a community only serves to shift the cost of supporting public services onto other firms and residents of the community. In this case, the lost revenue would be only about \$300,000 a year, but passage of the amendment could open the door to others who are looking to reduce their tax bills. There are other Texas ports that could serve as exchange ports, and other industries that could claim a pressing need for a tax exemption.

The best rule is the simplest rule: All companies and individuals should pay their fair share of taxes. This proposed amendment demonstrates the absurd lengths to which violations of this rule can lead.

PROPOSITION 14: TAX EXEMPTION FOR TRAVEL TRAILERS

Proposition 14 would allow the Legislature to authorize taxing units, other than school districts, to give property tax exemptions to travel trailers.

These trailers are often used as homes by "Winter Texans" in the Lower Rio Grande Valley. The amendment would give their homes a special tax-free status not enjoyed by other homeowners. Particularly in the Valley, where many people live in substandard housing with inadequate basic services, affluent retirees should shoulder their fair share of the burden of supporting local governments.

Research has shown that businesses make site-location decision based primarily on proximity of markets, and the availability of skilled labor, and only secondarily on local tax levels. Similarly, Winter Texans are attracted to South Texas by the climate and recreational opportunities and will continue to trek south each Fall, regardless of their property taxes.

You are encouraged to copy and distribute this edition of

THE POLICY PAGE