LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 15, 2015

TO: Honorable Joe Straus, Speaker of the House, House of Representatives

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB1964** by Clardy (Relating to certain convention center hotel projects.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1964, As Passed 2nd House: a negative impact of ($170,000) through the biennium ending August 31, 2017.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2016	$0
2017	($170,000)
2018	($2,255,000)
2019	($3,870,000)
2020	($4,740,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from *General Revenue Fund* 1
2016	$0
2017	($170,000)
2018	($2,255,000)
2019	($3,870,000)
2020	($4,740,000)

Fiscal Analysis

The bill would amend Section 351.001(2) of the Tax Code to redefine "convention center facilities" or "convention center complex" to include a hotel that is owned in part by an eligible central municipality described by Subdivision (7)(D) and that is located within 1,000 feet of a convention center facility.

The bill would amend Section 351.001(7)(A) to allow eligible central municipalities to adopt a capital improvement plan to also "construct", not just expand, a convention center facility.

The bill would amend Section 351.001(7) to add new Subsections (C)-(E) to expand the definition of an eligible central municipality to other municipalities. Subsection (C) would include a municipality with a population of 116,000 or more that is located in two counties both of which have a population off 660,000 or more, and that has adopted a capital improvement plan for the construction or expansion of a convention center facility; Subsection (D) would include a municipality with a population of less than 50,000 that contains a general academic teaching institution that is not a component institution of a university system, as those terms are defined by Section 61.003, Education Code; and Subsection (E) would include a municipality with a population of 640,000 or more that is located on an international border, and that has adopted a capital improvement plan for the construction or expansion of a convention center facility. The bill would amend Section 351.102 of the Tax Code, which authorizes a municipality to pledge municipal hotel occupancy tax revenue to repay bond debt related to hotel projects, by amending Subsections (a) and (b) and adding Subsection (d).

The bill would amend Subsection (a) to remove language including a municipality having a population of more than 500,000 and that borders the United Mexican States. The bill would also amend Subsection (b) to extend its application to 1) a municipality with a population of 173,000 or more that is located in more than two counties, 2) a municipality with a population of 96,000 or more that is located in a county that borders Lake Palestine, 3) a municipality with population of 96,000 or more that is located in a county that contains the headwaters of the San Gabriel River, and 4) a municipality with a population of at least 99,900 but not more than 111,000 that is located in a county with a population of at least 135,000.

The bill would also amend this Subsection to expand the facilities ancillary to the hotel for which hotel tax revenue may be pledged to include meeting spaces, street and water and sewer infrastructure necessary for the operation of the hotel or ancillary facilities.

The bill would also add Subsection (d), which would not apply to an eligible central municipality described by Section 351.001(7)(D), to provide that an eligible central municipality that uses revenue derived from the tax imposed under this chapter or funds received under Subsection (c) for a hotel project may not reduce the percentage of revenue from the tax to a percentage that is less than the average percentage of that revenue allocated by the municipality for that purpose during the 36-month period preceding the date the municipality begins using the revenue or funds for the hotel project.

The bill would amend Section 151.429 of the Tax Code, regarding tax refunds for enterprise projects, to eliminate language to disqualify a qualified hotel project described by Section 2303.003(8)(B) of the Government Code from receiving a 100 percent refund of state sales tax and hotel tax.

The bill would amend Chapter 2303 of the Government Code to redefine a "qualified hotel project" to mean only a hotel proposed to be constructed by a municipality or a nonprofit municipally sponsored local government corporation created under the Texas Transportation Corporation Act, Chapter 431, Transportation Code, that is within 1,000 feet of a convention center owned by a municipality having a population of 1,500,000 or more, including shops, parking facilities, and any other facilities ancillary to the hotel.

The bill would amend Section 2303.5055(b) of the Government Code, regarding the refund of tax proceeds to a qualified hotel project, to make conforming changes with regarding the definition of a qualified hotel project in Chapter 2303 Government Code.

Methodology

The City of Frisco has begun planning for a resort convention center and hotel that would be a qualified hotel project; the planned hotel is not expected to be completed and operational before fiscal year 2018. Consequently, the municipality would not be entitled to receive state hotel tax and state sales tax revenue under Section 151.429(h), Tax Code, until sometime in fiscal year 2018.

The City of Nacogdoches has a prospective investor that is interested in purchasing and renovating the Fredonia hotel but is seeking additional funding beyond the investment that the interested buyer is prepared to make before agreeing to undertake the project. To address the investor's concerns and promote the project the city has agreed to use hotel occupancy taxes it would collect on the Fredonia to help renovate and operate the hotel.

The City of Tyler has acquired land and begun planning for a convention center and hotel that would be a qualified hotel project; the planned hotel would include 250 rooms and is not expected to be completed and operational before November, 2017 at the earliest. Consequently, the municipality would not be entitled to receive state hotel tax and state sales tax revenue under Section 151.429(h), Tax Code, until sometime in fiscal year 2018.

The City of Round Rock does not currently own land suitable for a qualified hotel project and is not actively planning for one. Consequently, that municipality would not be expected to be entitled to receive state hotel tax and state sales tax revenue before fiscal 2020.

The City of Odessa has purchased a site and expects to enter a development agreement regarding a downtown hotel and convention center later in 2015. The hotel would include 200 or more rooms and may be operational in 2017. Consequently, the owner of the qualified hotel project and the municipality would be entitled to receive state hotel tax and state sales tax revenue under Subsection 151.429(h), Tax Code, beginning late in fiscal 2017.

In fiscal year 2014, a total of $11,308,406 in state revenue was allocated for qualified hotel projects. Currently the cities of Dallas, Fort Worth and San Antonio receive allocations of state sales and use tax and state hotel tax associated with qualified hotel projects.

This estimate is based on the planned or an assumed room size for the prospective convention center hotels, an assumed average nightly room rate and annual average occupancy rate, an incremental gain in room nights sold in the state, and the ratio of state sales tax to state hotel tax revenues paid to the owners of the extant qualified hotel projects.

Local Government Impact

As eligible central municipalities Frisco, Nacogdoches, El Paso, Tyler, Round Rock, and Odessa could be entitled to state sales tax and state hotel tax associated with a qualified hotel project under Section 151.429(h) of the Tax Code via Section 351.102 of the Tax Code. Such funds must be deposited in a suspense account outside the state treasury to be paid to the owner of the qualified hotel project.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, CL, SD, AG