LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

May 17, 2017

TO: Honorable Craig Estes, Chair, Senate Committee on Natural Resources & Economic Development

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB1300** by Springer (Relating to the collection and use of certain hotel occupancy taxes.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1300, As Engrossed: a negative impact of ($3,192,000) through the biennium ending August 31, 2019.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2018	($2,694,000)
2019	($498,000)
2020	($498,000)
2021	($498,000)
2022	($498,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from *General Revenue Fund* 1	Change in Number of State Employees from FY 2017
2018	($2,694,000)	4.0
2019	($498,000)	4.0
2020	($498,000)	4.0
2021	($498,000)	4.0
2022	($498,000)	4.0

Fiscal Analysis

The bill would amend the Local Government Code and Tax Code relating to the collection and use of certain hotel occupancy taxes.

The bill would amend Chapter 334 of the Local Government Code, regarding sports and community venues, to define "active transportation" and to amend the definition of "venue" to include: 1) an area or facility for active transportation use that is part of a municipal parks and recreation system, and 2) an airport facility located in a municipality located on the international border. The bill would amend Section 334.1015 to apply the subchapter to a municipality located on the international border and would allow such a municipality to finance a venue project that is, or is a part of, a municipal parks and recreation system.

The bill would amend Chapters 351 and 352 of the Tax Code, regarding municipal and county hotel occupancy taxes, to add Sections 351.0043 and 352.0042 to require a "short-term rental marketplace" to collect and remit municipal and county hotel occupancy taxes. The bill would allow a short-term rental marketplace to enter into an agreement with the Comptroller to collect and remit to the comptroller the municipal and county hotel occupancy taxes, or enter into an agreement with a third-party vendor to remit the taxes that the short-term marketplace collects. If the Comptroller collects the taxes it would be required to deduct and deposit to the general revenue fund an amount equal to one-half of one percent of the amount of the taxes collected, but the deduction may not exceed $50,000 in each state fiscal year for any taxing jurisdiction. The bill would allow the Comptroller to adopt rules to implement and administer these sections.

The bill would amend Chapter 351 of the Tax Code to require a municipality that uses revenue from this tax for an electronic tax administration system to allow a person who collects and remits the tax to retain up to one percent of that tax revenue as reimbursement for the cost of collecting the tax. The bill would also limit the amount of this municipal tax that can be spent on a tax administration system, in each year, to the lesser of one percent or $75,000, and would prohibit a municipality from using revenue authorized for a tax administration system to conduct an audit.

This bill would also amend Chapter 351 of the Tax Code, regarding municipal hotel occupancy taxes, to amend Section 351.101(a)(7) to authorize a municipality that contains an intersection of Interstates 35E and 35W and at least two public universities, to use municipal hotel occupancy taxes for the promotion of tourism by the enhancement and upgrading of an existing sports facility or field.

This bill would amend Chapter 351 of the Tax Code, regarding municipal hotel occupancy taxes, to add new Section 351.101(o) to authorize a municipality that (1) has a population of not more than 10,000; (2) contains an outdoor gear and sporting goods retailer with retail space larger than 175,000 square feet; and (3) that hosts an annual wiener dog race, to use municipal hotel occupancy taxes to promote tourism and the convention and hotel industry by constructing, operating or expanding a sporting related facility or field owned by the municipality if the majority of the events at the facility or field are directly related to a sporting event in which the majority of participants are tourists who substantially increase economic activity at hotels in the municipality. The bill would place limitations on any reduction in the allocation of municipal hotel occupancy tax revenue related to advertising and conducting solicitations and promotional programs to attract tourists and convention delegates or registrants to the municipality or its vicinity in Section 351.101(a)(3) of the Tax Code.

The bill would amend Section 352.103, regarding the use of revenue for counties with no municipality, to add subsection (b) as an exception to the use of revenue that would apply only to a county with no municipality that owns an airport. The county so described could use county hotel occupancy tax revenue for general improvement and beautification projects that encourage tourism, and also for repairs and improvements to the county airport.

This bill would take effect January 1, 2018.

Methodology

The administrative cost includes a one-time technology cost of $2,455,000, an ongoing technology cost of $250,000, and the funds necessary to hire four accounts examiner IIIs to handle the anticipated increased workload. The short-term rental marketplace tax would be a new allocation for the Revenue Accounting/Tax Allocations Division. More than 800 local jurisdictions could receive allocations every month, necessitating four FTEs to implement and administer the new tax allocation.

Technology

There would be a one-time technology cost of $2,455,000 in fiscal 2018 for an estimated 16,500 hours of architecture, design, and programming activities. Local hotel taxes are not currently collected by the Comptroller's Office, requiring the agency to devise a means to collect all short-term rental taxes by jurisdiction and allocate the local tax. This would require a new complex tax system specifically for short-term rentals with outlets, jurisdictions and allocation, involving every aspect of tax administration including registration, reporting, collections, jurisdiction, allocation, return generation, electronic and mail payment processing, and audit systems. There would also be an ongoing technology cost of $250,000 for system maintenance and programming changes.

Local Government Impact

Sections 5 and 8 of the bill, relating to electronic tax administration systems, would affect all municipalities but would have no state revenue implications.

Sections 1-3, 6-7, 9, and 11 of the bill would affect the Cities of Denton, Buda, a municipality located on the international border, and Jim Hogg County. The bill would have no state revenue implications.

Sections 4 and 10 of the bill would affect municipalities and counties, but would otherwise have no state revenue implication except for revenue collected from the Comptroller's charge of one-half of one percent for services provided to the short-term rental marketplace. The impact on units of local government from these two sections would be expected to be positive but cannot be determined.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, SZ, SD, KK