

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

INTERIM CHARGE

On November 25, 2019, the Speaker of the House issued the following charge to the House Committee on Ways & Means:

“Monitor the agencies and programs under the Committee’s jurisdiction and oversee the implementation of relevant legislation passed by the 86th Legislature. Conduct active oversight of all associated rulemaking and other governmental actions taken to ensure intended legislative outcome of all legislation, including the following:

H.B. 4347, which relates to the use of hotel occupancy, sales, and mixed beverage tax revenue for qualified projects. Examine the effectiveness and efficiency of the hotel projects, qualified hotel projects, and uses of local hotel occupancy tax revenue. Examine the negative fiscal impact to the state resulting from the dedication of the state portion of those taxes.”

TEXAS HOTEL & LODGING ASSOCIATION

In response to the interim charge above, the Texas Hotel & Lodging Association (THLA) partnered with the affected cities, consultants who specialize in convention center hotel projects, and the broader travel and tourism industry and undertook a survey to determine the effectiveness and efficiency of all qualified hotel projects across the state.

The THLA is a nonprofit trade association with over 5,000 members that represents all segments of the lodging and tourism industry including hotel operators, convention and visitor bureaus, chambers of commerce, and vendors who work within the hospitality industry. THLA has grown to become the largest state hotel association in the nation.

The following report contains the results of the THLA survey along with an analysis and history of the qualified hotel project program.

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

EXECUTIVE SUMMARY

- The effectiveness and efficiency of the qualified hotel project (QHP) program is evident and the fiscal impact to the state has been positive. There is a direct correlation between the passage of legislation authorizing a city to participate in the program and the ability of that community to pursue the successful development of a hotel and convention center project.
- Since the passage of the first qualified hotel project bill 18 years ago, there has been eleven (11) qualified hotel projects constructed across the state that either previously received or are currently receiving state and local tax rebates.
- To date, the qualified hotel project program has rebated \$169 million in state hotel occupancy tax and sales taxes (according to information provided by the Comptroller of Public Accounts). Sixty percent of the state tax rebates have been generated from the hotel occupancy tax, with the remaining forty percent of the state tax rebates coming from the state sales and use tax.
- Three (3) qualified hotel projects (Houston's Hilton Americas, San Antonio's Grand Hyatt and the Omni Fort Worth) have completed their respective 10-year rebate period. As such, the State now retains all of the state hotel occupancy and sales and use taxes generated at those hotels.
- Based on the impact of the three qualified hotel projects that have completed the rebate period, it appears the State fully recoups its investment within 6-8 years after the rebate period ends (years 16-18 after the hotel opens).
- Furthermore, at the three qualified projects that have concluded their rebate period, the State is projected to realize a \$43 million net tax revenue *gain* within 10 years after the rebate period ends (years 11-20).
- Qualified hotel projects in Texas have created over 6,000 new jobs across the state and added over \$2.06 billion in capital investment that otherwise would not likely have occurred except for the program.
- Tourism has a substantial impact on the Texas economy, the state tax base, and Texas jobs. According to the Office of the Governor, travelers spent \$82.9 billion in Texas in 2019, generating \$4.7 billion in state tax revenues and supporting over 1.3 million Texas jobs.
- At least 19 additional qualified projects in 17 Texas cities are either under construction or are nearing the final stages of negotiations and anticipate making an application for a rebate of state taxes in the next 12-36 months.

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

- The policy rationale of the qualified hotel program is straightforward: strategically use short-term state and local tax dollars to leverage private investment and reap the long-term benefits of collecting more state and local tax revenue in the future, along with attracting large-scale capital investments, job-creation, and enhancing tourism to Texas. To date, it appears the State’s strategy is working well as it recoups and exceeds the money invested in these projects.
- After the ten-year state and local rebate period is over, the State benefits from the perpetual collection of new taxes at the hotel.
- The qualified hotel program incentivizes large capital expenditures that private interests alone typically cannot or will not undertake without public participation. Also, incident to the success of this program is that low interest rate, tax-exempt bonds are only available to the government and are a critical element to financing these projects. The rebated state and local taxes from the qualified hotel projects support the construction bonds and enable qualified municipalities to access this financing option that would not otherwise be available.
- The State also benefits from the state taxes collected at the other hotels located in a qualified city due to the increased hotel occupancy from convention guests who stay at neighboring hotels attributable to the enhanced convention activity at the “qualified hotel” (i.e. – the “spill over” effect).
- During the 86th Session, the Texas Legislature passed H.B. 4347 (by Anchia/Nelson) which substantially re-codified or amended the existing qualified hotel project laws and brought about much-needed streamlining, clarity and transparency to the program, including imposing more fiscal parameters on the amount of tax dollars that could be rebated and the number of projects that could be built within a municipality.
- Currently, the global pandemic stemming from COVID-19 has dealt a serious blow to the hotel and hospitality industry – especially the convention segment. Hotel occupancy levels dropped to single digits in many markets during March and April of 2020. COVID-19 also has undoubtedly had a negative impact on the anticipated construction timelines for dozens of qualified hotel projects underway across the State.
- However, because large convention center hotel projects take years to work through the pipeline, many of the projects under development now are likely to be well positioned to take advantage of a resurgent travel and convention market.
- The qualified hotel project tax rebate program will be a key ingredient in helping the tourism industry recover by providing crucial access to additional resources within the bond market thereby making the continuation of the program all the more imperative.

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

INTRODUCTION

The first laws authorizing a rebate of state hotel occupancy and state sales taxes for a qualified hotel project were approved by the Texas legislature in 1993 to assist the City of Houston with the development of a headquarters hotel located next to the City's then-new George R. Brown convention center.

H.B. 2282 (by Coleman/Henderson) was passed during the 73rd Session and authorized the City of Houston to receive a rebate of the state hotel occupancy taxes and the state sales taxes collected at a hotel located within one mile of the city's convention center (i.e. – a “qualified hotel project”). The legislation also included the authorization to pledge the rebated taxes to the bonds issued to construct the hotel and the facilities ancillary such as shops and parking facilities within one mile of the convention center. Lastly, H.B. 2282 also authorized the City of Houston to rebate the municipal portion of the hotel occupancy taxes generated at the new hotel project.

This legislation created a public-finance tool that had no official programmatic name. However, the “qualified hotel project” (**QHP**) has become a legal term-of-art and, for purposes of this report, the term “QHP program” will generally be used to describe the state and local tax rebate program authorized by Chapter 351, Tax Code.

PURPOSE OF THE QHP PROGRAM

The QHP program was created as a public-private financial tool to assist Texas municipalities with the financing of headquarter hotel facilities designed to support convention centers. These so-called “convention center hotels” are typically massive in size, generally larger than other hotels, due primarily to the fact that they not only contain more guest rooms than a traditional hotel but also vast areas of meeting space, restaurants, and other amenities that complement the convention center. As such, these facilities are expensive and thus challenging, if not impossible, to construct entirely with private-sector funding.

Hotels that are both adequately sized and conveniently located adjacent to a convention center are necessary to persuade meeting planners to pick a given site for its convention and thus critical to the success of a convention center.

Moreover, because tourism is vitally important to the local and state economy, the State of Texas and its local jurisdictions have a vested interest in helping to incentivize these hotel projects and stand to benefit from their creation. According to the Office of the Governor, travelers spent \$82.9 billion in Texas in 2019, generating \$4.7 billion in state tax revenues, supporting over 1.3 million Texas jobs.

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

QUALIFIED CITIES

Since the passage of the original legislation nearly 18 years ago, the legislature has, through the passage of several pieces of subsequent legislation, authorized a total of 48 cities to participate in the QHP program. See Appendix A for a listing of all qualified cities.

H.B. 4347

During the 86th Session, the Texas Legislature passed H.B. 4347 (by Anchia/Nelson) which created a new subchapter C in Chapter 351 of the Texas Tax Code. H.B. 4347 substantially re-codified or amended the existing QHP laws, much of which was decades old. H.B. 4347 brought some much-needed streamlining, clarity and transparency to the QHP program, including imposing more fiscal parameters on the amount of tax dollars that could be rebated and the number of projects that could be built within a municipality.

The laws created and amended by H.B. 4347 generally authorize certain municipalities in Texas to receive a rebate of the state hotel occupancy and state sales taxes collected at a qualified hotel located near a convention center for a ten-year period after the hotel project opens for initial occupancy. In addition to authorizing a rebate of certain state taxes, H.B. 4347 also re-codified the authorization for a municipality to also commit its local hotel occupancy taxes to qualified projects.

The rebated taxes can be used for the “payment of bonds or other obligations issued or incurred to acquire, lease, construct, and equip the hotel and any facilities ancillary to the hotel, including convention center entertainment-related facilities, restaurants, retail establishments, street and water and sewer infrastructure necessary for the operation of the hotel or ancillary facilities, and parking facilities within 1,000 feet of the hotel or convention center facility.”

After the 10-year period has elapsed, the rebates cease, and all state hotel taxes and state sales taxes collected at the hotel are remitted to and remain in the State’s general revenue fund.

ELIGIBILITY QUALIFICATIONS

With the passage of H.B. 4347, Chapter 351 now specifies a number of requirements an eligible city must meet in order to qualify for the rebates:

Authorized municipality: Foremost, in order to qualify for the tax rebates, the municipality must be one that is described by enabling legislation. Currently, 48 municipalities are authorized by statute to utilize the program.

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

Physical location and ownership of the project: In nearly all instances, the hotel project must be owned by or located on land owned by the municipality (or by a nonprofit corporation acting on behalf of an eligible municipality) and located within 1,000 feet of a qualified convention center facility owned by the municipality.

Requirements of the convention center facility: To qualify, a convention center facility must be,

- 1) primarily used to host conventions or meetings and configurable to simultaneously accommodate multiple events of different sizes and types;
- 2) at least 10,000 square feet of continuous meeting space;
- 3) wholly owned by a municipality; and
- 4) connected to a qualified hotel or have an exterior wall located not more than 1,000 feet from the nearest exterior wall of a qualified hotel.

The convention center facility cannot be located inside a hotel, sports stadium, or other structure but may share common infrastructure or facilities with the hotel.

Limitation on the number of QHP projects for medium-sized and smaller municipalities: Each qualified city with a population of less than 175,000 is limited to one convention center hotel project in perpetuity.

RESULTS OF THE QHP PROGRAM

Since inception, the QHP program found in Chapter 351 has effectively enabled nine (9) cities to construct eleven (11) projects: Houston (two projects), San Antonio, Fort Worth, Dallas, Nacogdoches, Amarillo, Irving (two projects), Arlington, and Odessa.

The eleven (11) projects have received a total of \$169 million in tax rebates from the State since 2004. Of the \$169 million rebated, \$101 million was generated from the state hotel occupancy taxes collected at the qualified hotel with \$68 million from the state sales tax – a 60% to 40% mix.

Three (3) of the projects -- the Houston Americas-Hilton Hotel, the San Antonio Grand Hyatt Hotel, and the Fort Worth Omni Hotel -- have concluded their respective ten-year rebate periods and are no longer receiving a state tax rebate.

Of the eight (8) projects still currently receiving a rebate, four (4) began their ten-year rebate period very recently and are in their first year of the program while three (3) projects have more than six years remaining in their rebate period.

Altogether, despite the fact the QHP program was statutorily authorized 18 years ago, it remains a relatively young tool in terms of utilization.

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

The following table provides information from the Comptroller of Public Accounts about the projects that have received rebates since 2004:

	City	Qualified Hotel Project	State Hotel Taxes Rebated	State Sales Taxes Rebated	Total State Taxes Rebated	Years Remaining for Rebate
1	Houston *	Houston Hilton Americas	\$23,231,843	\$16,973,076	\$40,204,919	0
2	San Antonio *	San Antonio Grand Hyatt	\$23,379,775	\$11,276,350	\$34,656,125	0
3	Fort Worth *	Fort Worth Omni	\$16,457,243	\$10,318,298	\$26,775,541	0
4	Dallas	Dallas Omni	\$24,719,659	\$18,003,308	\$42,722,967	1 yr., 1 mo.
5	Houston	Houston Marriott Marquis	\$10,013,341	\$8,467,763	\$18,481,104	6 yrs., 2 mo.
6	Nacogdoches	Fredonia	\$411,990	\$427,908	\$839,898	6 yrs., 8 mo.
7	Amarillo	Amarillo Embassy Suites	\$1,136,865	\$231,919	\$1,368,783	6 yrs., 11 mo.
8	Irving	Irving Texican Court	\$272,961	\$89,921	\$362,882	9 yrs., 6 mo.
9	Arlington	Arlington Lowes	\$505,990	\$875,642	\$1,381,632	9 yrs., 7 mo.
10	Irving	Irving Westin	\$816,360	\$1,413,355	\$2,229,715	9 yrs., 8 mo.
11	Odessa	Odessa Marriott	\$148,908	\$0	\$148,908	9 yrs., 9 mo.
	TOTALS		\$101,094,934	\$68,077,539	\$169,172,473	
	%		60%	40%		

* Cities with an asterisk have concluded their ten-year period and are no longer receiving rebates.

RETURN ON INVESTMENT: THE POSITIVE IMPACT OF THE QHP TO THE STATE

Information provided by the Comptroller of Public Accounts shows that in the 15-year period from 2004 to 2019, the State invested by virtue of the tax rebates, approximately \$101.6 million in three QHP projects located in Houston, San Antonio and Fort Worth. These projects have ceased receiving the rebate, and the State now retains all the state taxes generated at those properties.

In the six years (collectively) since the rebates ended, the State has recouped approximately \$44.5 million in state taxes. As the following table depicts, when projected out over a 10-year period after the rebate period ends (years 11-20), the State is projected to see \$43.7 million net gain in just these three projects. It is anticipated that there will be a similar return on investment over the ten-year period after the completion of the rebate period for the remaining QHPs currently receiving state tax rebates.

**House Committee on Ways and Means
Interim Committee Report - Qualified Hotel Projects**

Qualified Hotel Project	State Taxes Rebated Yrs. 1-10	Mixed Beverage Taxes Received by the State	Net Position	Projected Taxes Collected by State Yrs. 11-20	Projected Net Gain to State
Houston Hilton Americas	(\$40,204,919)	\$13,404,910	(\$26,800,008)	\$52,310,009	\$25,510,001
San Antonio Grand Hyatt	(\$34,656,125)	\$6,777,094	(\$27,879,031)	\$37,945,464	\$10,066,433
Fort Worth Omni	(\$26,775,541)	\$5,677,343	(\$21,098,198)	\$29,290,885	\$8,192,687
	(\$101,636,584)	\$25,859,347	(\$75,777,237)	\$119,546,359	\$43,769,122

** Projection only includes state hotel occupancy, sales, mixed beverage gross receipts and mixed beverage sales taxes. It does not include franchise taxes or other state taxes.*

It should be noted these hotels will, of course, continue to generate tax revenues for the State for many years, well beyond years 11-20. Simply put, after the ten-year period is over, the State benefits from the perpetual collection of taxes at these locations that would most likely not have been generated but for the QHP program.

It should also be noted that surrounding satellite hotels (non-headquarter hotels) receive the spill-over benefit which, in turn, results in the State collecting 100 percent of the hotel occupancy taxes at those locations. The supplemental state taxes are incident to large conventions, which routinely require satellite hotels to accommodate guests who did not or could not book a room at the headquarter hotel.

The policy rationale of the QHP program is fairly straightforward: use short-term state and local tax dollars to leverage private investment and reap the long-term benefits of collecting more tax revenue in the future, along with attracting large-scale capital investments, job-creation, and enhancing tourism.

To date, it appears the State’s strategy is working well as it recoups and exceeds the tax rebates it provided for these projects. In fact, the State is well on its way to approximately doubling its investment – which does not include the State collection of franchise taxes, car rental taxes, or ad valorem taxes.

For example, the Marriott Marquis Houston paid over \$4.84 million in ad valorem taxes in 2019 of which \$2.27 million went to Houston ISD – a Chapter 41 school district that sends money to the State under the wealth equalization program. When job creation and other related economic factors are taken into consideration, the program is an overwhelming win-win-win scenario.

The QHP certainly does not have a negative fiscal impact on the State. Without the state tax rebates, these hotels would likely never have been built as private financiers simply cannot and will not assume the full risk and financial burden of paying for a hotel at these scales. Moreover, it certainly does not harm the state to simply qualify a city to participate in the program (i.e. –

**House Committee on Ways and Means
Interim Committee Report - Qualified Hotel Projects**

pass enabling legislation) because if a city is authorized to utilize the program but never does, there is no fiscal impact to the State.

JOB CREATION & CAPITAL INVESTMENT

The overall positive economic benefit to the State of Texas from the QHP program is readily apparent. As the following table demonstrates, the QHP program in Chapter 351 has stimulated the creation of over:

- 6,341 new jobs, and
- \$2.06 billion in capital investment.

	City	Hotel Project	Jobs	Capital Construction Budget (Est.)
1	Amarillo	Embassy Suites	113	\$63,000,000
2	Arlington	Live! By Lowes	3,000	\$550,000,000
3	Dallas	Omni	501	\$346,000,000
4	Fort Worth	Omni	307	\$171,920,000
5	Houston	Hilton	700	\$190,000,000
6	Houston	Marriott Marquis	650	\$330,000,000
7	Irving	Westin	180	\$74,000,000
8	Irving	Valencia (Texican)	76	\$42,560,000
9	Nacogdoches	Fredonia	150	\$9,800,000
10	Odessa	Marriott	162	\$9,290,000
11	San Antonio	Grand Hyatt	502	\$280,840,000
	TOTALS		6,341	\$2,067,410,000

While the State does forgo certain tax revenue for ten years, the rebates provided by the QHP program ensure that the project can be undertaken in the first place. Simply stated, these convention center hotel projects would not have been constructed or opened for business without the QHP program.

As such, the QHP program incentivizes large capital expenditures that private interests alone typically cannot or will not undertake without public participation. Low interest rate, tax-exempt bonds are only available to the government and are a critical element to financing these projects. The rebated taxes support the construction bonds and enable qualified municipalities to access a financing option that would not otherwise be available.

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

The State of Texas has a vested interest in its local communities operating successful convention centers because tourism and conventions: 1) infuse hundreds of millions of dollars into the state general fund and 2) create a significant number of jobs for Texans.

According to the Office of the Governor, Economic Development & Tourism, over 1.3 million Texas jobs are created by travel with total salary and wages of \$59 billion. In 2019, travelers spent \$82.9 billion in Texas, generating \$4.7 billion in state tax revenues. Over 61,000 Texas businesses are directly attributable to travel and tourism spending.

A study conducted by the U.S. Travel Association in 2019 shows that nationwide, meetings and events contribute to \$22.4 billion in tax receipts, \$35.9 billion in payroll, and 1.1 million jobs. Convention center hotel projects give Texas communities the ability to attract a larger portion of the national meeting and event economy, generating revenues for the State.

COVID-19 & RECOVERY

The global pandemic stemming from COVID-19 dealt a serious blow to the hotel and hospitality industry – especially the convention segment. In most Texas markets, hotel occupancy levels dropped to single digits in March and April of 2020. Occupancy climbed modestly in the Summer but plateaued at about half the typical occupancy. In Houston, for example, industry economists predict that annual occupancy rates will settle at 41 percent in 2020 (down from 2019's rate of 63 percent) and will more fully recover beginning in 2024.

However, since large convention center hotel projects typically take several years to work through the pipeline and ultimately open, many of the projects under development now are likely to be timed well to take advantage of a resurgent travel and convention market. In fact, the QHP tax rebate program will act as a key ingredient in helping the industry recover by providing crucial access to additional financing options within the bond market.

This makes the continued state and local cooperation to promote tourism across the state all the more imperative. The QHP program is a strong example of a cooperative public-private effort that is well-positioned to help the Texas economy recover.

The following section of the report contains information regarding upcoming QHP projects currently in the pipeline. As is detailed, a running theme throughout these upcoming projects is the impact of COVID on the anticipated negotiation and construction timelines and the overall delay the pandemic has caused. What is also illustrated is the length of time these projects require to develop – many involving 5 to 10 years of planning, negotiations, design and construction.

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

QHPs OPERATING CURRENTLY

The following sections of the report detail the eleven (11) QHP projects that are operating in Texas that either received state rebates at some point or are currently receiving rebates.

HILTON AMERICAS HOUSTON (OPENED 2003)

After the passage of the bill in 1993 and years of negotiations, the City of Houston broke ground on July 28, 2001 on a \$165 million project to expand the GRB convention center and build an adjacent 1,200-room convention headquarters hotel connected to the convention center via two new skywalks. The new hotel, the Hilton Americas-Houston, was the first “qualified hotel project” to be partially financed with the rebated taxes from the QHP program created by H.B. 2282.

Opened in December 2003, right before Super Bowl XXXVIII, the Hilton Americas is Houston's largest hotel at over 1,200,000 square feet and its opening advanced the City into the ranks of the nation's top-tier convention cities. The hotel is 24 stories tall with 1,200 guest rooms and includes a 1600-car garage, a column-less 40,000 square foot ballroom, three restaurants, a swimming pool, spa and health club. Since the opening of the hotel in 2003 and up until the 2020 pandemic, the hotel employed between 500-1,000 people.

The City of Houston first began receiving QHP rebates from the State in February of 2004 and concluded receiving rebates from the program ten years later in January of 2014, making it the first project to complete the ten-year rebate period. During that time, the state rebated \$40.2 million in state hotel occupancy and sales taxes. Since the end of the rebate period six (6) years ago, the State of Texas has already collected \$32.3 million from the Hilton Americas-Houston in hotel and sales taxes plus an additional \$6.7 million in mixed beverage taxes. When added together, the State has, in just six years, witnessed a full return of its 10-year investment and the return on investment to the State from this project will only continue to grow.

THE GRAND HYATT SAN ANTONIO (OPENED 2005)

Pursuant to the passage of H.B. 2424 in 2003, the Grand Hyatt San Antonio, a 34-story, 1,003-room hotel connected to the Henry B. Gonzalez Convention Center, was approved by the San Antonio City Council in June of 2005 and opened March 24, 2008. The project cost was approximately \$280,000,000.

The state began rebating taxes to the City of San Antonio in March 2008 and concluded the ten-year rebate period February 2018, during which \$34.6 million were rebated to the City of San Antonio. Since the end of the rebate period approximately 18 months ago, the State of Texas has collected \$8.3 million from the Grand Hyatt hotel in hotel and sales taxes and another \$6.7

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

million in mixed beverage taxes. Each successive year, this project will continue to generate supplemental revenues for the State treasury.

OMNI FORT WORTH HOTEL (OPENED 2009)

Also pursuant to the passage of H.B. 2424 in 2003, the Omni Fort Worth Hotel broke ground on August 21, 2006 and opened January 12, 2009 as a 614-room facility with two restaurants, a bar, a coffee shop, and a gift shop. The project cost was approximately \$171 million and created over 300 permanent jobs.

The City of Fort Worth began receiving tax rebates from the State of Texas in March 2009 and concluded the rebate period in February 2019. During that time, the State rebated \$26.7 million in state hotel occupancy and sales taxes. Since the end of the rebate period roughly 18 months ago, the State has collected \$3.8 million from the Omni Fort Worth Hotel in hotel and sales taxes and another \$5.6 million in mixed beverage taxes. Each successive year, this project will continue to generate supplemental revenues for the State.

OMNI DALLAS HOTEL (OPENED 2011)

The Omni Dallas Hotel is a 23-story, 1001-room hotel that features several restaurants and bars along with a gift shop. The project was approved by the Dallas City Council on June 19, 2009 and broke ground on September 15, 2009. The \$486,000,000 project opened on November 11, 2011.

The City of Dallas began receiving rebates from the State in November 2011 and is currently in its ninth year of the ten-year rebate program. To date, the project has received \$42.7 million in state tax rebates. The state will end the rebate period in October 2021, at which time the State will retain all the state taxes from this project.

MARRIOTT MARQUIS HOUSTON (OPENED 2016)

Because the City of Houston (or a local government corporation acting on its behalf) was already qualified for the QHP program due to the passage of the original legislation in 1993, Houston First Corporation announced in January 2012 a new master plan for the convention center that called for its expansion and an additional convention center hotel. Several years later, the \$330 million Marriott Marquis opened on December 26, 2016, just in time for Houston to host Super Bowl LI in February 2017. The 1,000 guest rooms with a Texas-shaped lazy river created 650 jobs.

To date, the project has received \$18.4 million in state tax rebates. The Houston Marriott Marquis began receiving tax rebates from the State of Texas in December 2016 and the ten-year

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

period will cease November 2026. Beginning in November 2026, the State will retain all the state taxes from this project in perpetuity.

FREDONIA HOTEL (OPENED 2017)

The City of Nacogdoches utilized the QHP program to renovate and re-open the Fredonia Hotel, a historic hotel building that had been shuttered since 2013. After an \$11 million renovation, the City of Nacogdoches opened in 2017 and created approximately 150 jobs. The City began receiving tax rebates from the State in June 2017 and is slated to conclude the ten-year rebate period in May of 2027. To date, the City has received \$839,000 in state tax rebates. Once the ten-year rebate period is completed, the State will retain all the state taxes from this project in perpetuity.

AMARILLO EMBASSY SUITES (OPENED 2017)

In February 2015, the City of Amarillo approved an agreement to build a \$45 million Embassy Suites and convention center which opened in August 2017 with 226 rooms, two full-service restaurants, 19,000 square feet of flexible meeting space, and a 10,000 square foot ballroom. The project created over 130 jobs.

The City began receiving tax rebates from the State of Texas in September of 2017. Three years into the ten-year period, the City of Amarillo has received \$1,368,783 in rebates from the QHP program. Once the ten-year rebate period is completed, the State will retain all state taxes collected at this hotel in perpetuity.

IRVING WESTIN & TEXICAN COURT (OPENED 2019)

In 2016, the Irving City Council unanimously approved a master development agreement, paving the way for what became the \$113 million, 13-story, 350-room Westin Irving Convention Center Hotel at Las Colinas that opened in April 2019. The project created 180 jobs. The hotel supports the City's 275,000 square feet convention center which opened in 2011 and the \$180 million Toyota Music Factory -- a 7,000-person live performance venue operated by Live Nation that is also used as a secondary meeting location for groups conducting meetings or conventions at the Irving Convention Center. Irving has seen an increase in hotel rooms occupancy on weekends that overlap with performances at the Music Factory.

In November of 2018, the Valencia Group opened the Irving Texican Court, a \$42 million Spanish Mission-style hotel design featuring 152 rooms that also supports the City's convention center and created over 70 jobs.

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

One year into the ten-year rebate period, the City has received \$2.2 million in state tax rebates for the Westin Irving and \$362,000 for the Irving Texican Court. Once the ten-year rebate period is complete at these two qualified projects, the State will retain all the state taxes collected at these hotels in perpetuity.

ODESSA MARRIOTT HOTEL & CONFERENCE CENTER (OPENED 2019)

In September of 2017, the City of Odessa approved a development for a Marriott Hotel, conference center, and parking garage. Groundbreaking occurred in August of 2018, and the hotel and conference center opened on October 17, 2019. The hotel has 217 guestrooms and an 80,000 square-foot conference center.

The City invested \$31 million in the project, which anchors a downtown redevelopment. The City is taking on development costs of the convention center, an open-air plaza, a 300-car parking garage, and a remodeled Ector Theatre. To date, Odessa has received \$148,000 in state tax rebates. Once the ten-year rebate period is completed, the State will retain all the state taxes from this project in perpetuity.

PROJECTS UNDER CURRENT DEVELOPMENT OR PLANNING

The following 17 cities have a QHP project underway that are in various stages of negotiation, construction or completion but have not submitted an application. It is anticipated these projects will make an application to the State for a tax rebate sometime in the next 1-4 years.

For communities that have not yet implemented a qualified hotel project, they have consistently cited certain factors that affect their timing in implementing the project. Specifically, they cite the considerable time (often a number of years) that it takes to find an appropriate private sector development partner for this large a project, and the substantial time that must be invested to negotiate the development deals, find land parcels that will effectively meet the project needs, achieve a strong community consensus on how to “right-size” the project to best serve their community and economy, and the determination of the ultimate financing package for a project that involves hundreds of millions of dollars in investments. In each of these communities, the cities consider this QHP to be an economic tool that is vital and essential to their ability to initiate, pursue, and complete these negotiations and tremendously beneficial in its impact on the creation of economic activity and jobs

City of Abilene

In April 2016, the City of Abilene issued an RFP to solicit a partner to develop, finance, own, and operate a hotel property next to the Abilene Civic Center. After the passage of H.B. 2445, the Abilene City Council approved a Master Development Agreement in April 2019 wherein it

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

committed \$23.1 million to the project. In October 2019, the Texas Comptroller of Public Accounts issued a favorable Private Letter Ruling for the project. The City is now in final stages of designing a \$65 million 206-room Hilton Doubletree Convention Center Hotel. While the original plan was to break ground by September 2020, the impacts of COVID-19 has delayed the construction start date. The anticipated opening date is sometime in 2024. The project will create nearly 400 construction jobs and approximately 127 new permanent jobs. Upon opening, the City intends to make an application for a refund of State taxes pursuant to Chapter 351.

City of Arlington

Due to the passage of H.B. 4347, the City of Arlington and Loews Hotels & Co. are making plans to break ground on another hotel project in the City's entertainment district, just months after opening their first hotel. The new project will include a \$550 million, 888-room hotel as well as a 150,000 square-foot publicly owned convention center. The project requires \$50 million from the City over the next 30 years and should be completed by 2023. The plan also includes a \$200 million residential and office project at the Texas Rangers' former ballpark. The public-private partnership totals \$810 million. The city estimates the project will create more than 3,000 jobs, \$3.9 billion in taxable sales and \$2.8 billion in lodging sales over 30 years. Upon completion, the City intends to make an application for a refund and will be eligible for tax rebates for 30 years.

City of Cedar Hill

After the passage of H.B. 2445, the City of Cedar Hill reached an agreement with a developer for a \$32 million 136-room Aloft Hotel and 12,000 square foot convention center project, which broke ground in October 2020. Construction was shut down due to COVID-19 related issues and should re-start in November 2020. The project will provide the foundation for an expansion of retail and entertainment in the area. The hotel is projected to create 275 construction jobs and 45 permanent jobs and is scheduled to open in 2022. Upon opening, the City intends to make an application for a refund of State taxes pursuant to Chapter 351.

City of Cedar Park

The City of Cedar Park remains in discussion with several developers for a convention center hotel adjoining the Cedar Park Center, which the City is also considering expanding. However, development has been put on hold temporarily, as the City awaits better economic forecasts following the COVID-19 pandemic. City staff indicate they intend to make a decision about moving forward on the project by the end of 2020.

City of Conroe

After the passage of H.B. 4347, the City of Conroe entered into a professional services agreement for an approximately 250-room hotel, a convention center connected to the hotel containing approximately 44,000 square feet, food and beverage service facilities, and a four-level parking

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

garage with approximately 440 spaces. The total project budget is approximately \$90 million, with \$61 million allocated to the hotel and \$29 million to the convention center and parking facilities. The Convention Center will be financed by a pledge of ad valorem taxes and local hotel occupancy taxes that are authorized to be pledged under Chapter 351, Tax Code. It is estimated that the City will contribute \$27.7 million in local HOT and sales taxes and \$14.3 million in State HOT and sales taxes toward the \$29.0 million. The City expects that the bonds will be issued in December 2020 and is scheduled to break ground in January 2021 with an opening in June 2022. The project will create over 300 construction jobs and 124 permanent jobs and have an estimated economic impact of \$145 million over 10 years. Upon opening, the City intends to make an application for a refund of State taxes pursuant to Chapter 351.

City of El Paso

After the passage of H.B. 1964 in 2015, the City of El Paso embarked on four (4) hotel projects: The Marriott Autograph Paso del Norte Hotel, Courtyard Marriot, The Plaza Hotel Pioneer Park, and the Great Wolf Resorts.

The \$8 million, 151-room Courtyard Marriott opened on August 3, 2018. It created or supported 101 construction jobs and 25 permanent full-time employees. The City is currently in the process of requesting a rebate of the state taxes pursuant to Chapter 351, Texas Tax Code.

The 130-room Plaza Hotel Pioneer Park opened on June 15, 2020 at a cost of \$78 million and includes a 540-car parking garage. The Plaza development created an estimated 142 permanent full-time jobs and an estimated 300 construction jobs. The City is currently in the process of requesting a rebate of the state taxes pursuant to Chapter 351, Texas Tax Code.

Construction began on the 300-room Marriott Autograph Paso del Norte Hotel in the Spring of 2017 and is slated to open in December 2020. The project cost is \$70 million. It created 365 construction jobs and 146 permanent jobs. Upon opening, the City intends to make an application for a refund of State taxes pursuant to Chapter 351.

The Paso del Norte, Courtyard Marriott, and the Plaza Hotel Pioneer Park are all within walking distance of the City's Judson F. Williams Convention Center.

Unfortunately, due to the overwhelming negative financial effects of COVID-19, the City recently cancelled its agreement with Great Wolf Resorts. The City and Great Wolf Resorts spent several years negotiating, planning and designing the facility.

City of Fredericksburg

Pursuant to the passage of H.B. 2424, The City of Fredericksburg was nearing final negotiations on an agreement with a developer to build a Curio by Hilton conference center hotel. When the COVID-19 pandemic began, the developer lost its ability to finance their portion of the project.

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

Other developers have expressed interest in pursuing the project, and the City will wait to make any decisions on development until 2021. The 161-room hotel is expected to contain at least 17,000 square feet of meeting space. The estimated cost of the project is about \$74 million.

City of Frisco

Pursuant to the passage of H.B. 1964, the City of Frisco approved a \$400 million project for a 500-room Omni Hotel and 127,000 square foot conference center co-located with the PGA Global Headquarters and Education Facility. The City committed \$52 million in local hotel and sales tax incentives. The 20-year direct economic impact for the PGA Tournaments and the PGA Training & Education Facility is estimated to be \$342 million while the 20-year direct economic impact for the Omni Hotel and Convention Center is estimated to be \$2.2 billion. Groundbreaking was slated to begin in mid-March 2020 but safety concerns over spreading the coronavirus and the economic downturn has postponed construction until early 2023. The facility is now anticipated to open in 2025. The project will create 500 permanent jobs and 300 construction jobs. Upon opening, the City intends to make an application for a refund of State taxes pursuant to Chapter 351.

City of Grand Prairie

The City of Grand Prairie has approved a master development agreement for a \$54 million, 272-room dual flag hotel and a 12,500 square foot convention center along with restaurant and retail space. The surrounding development will feature over 291,000 square feet of net new commercial development. Construction should begin in early 2021; however, the COVID-19 crisis has delayed developer financing. The City anticipated the project to be completed by the end of 2022. The project will create 90 permanent jobs and approximately 200 construction jobs with a projected 20-year economic impact of over \$1.3B and over 1,700 jobs. Upon opening, the City intends to make an application for a refund of State taxes pursuant to Chapter 351.

City of Houston

In January 2020, the Houston City Council approved a 308-room, \$130 million W Hotel project next to the George R. Brown Convention Center atop Partnership Tower, which was designed to support the structure. Houston First has sought a hotel developer for the tower since 2014 and the project has been in the works since at least early 2018. The project is slated to create 745 construction jobs and employ at least 275 people. The City anticipates approximately \$43 million in incentives to be provided over 16 years. Upon opening, Houston First intends to make an application for a refund of State taxes pursuant to Chapter 351.

City of Katy

Pursuant to the passage of H.B. 2445 and H.B. 4347, the Katy Development Authority approved a development agreement in December 2018 for the 169-acre Katy Boardwalk project south of

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

Katy Mills Mall anchored by a new 43,000 square foot conference center in conjunction with a 300-room hotel that includes a restaurant, bar, pool and fitness center. The project plans include about 155,000 square feet of retail space and roughly 60,000 square feet of office space and will feature an 80-acre wet-bottom lake that will be a part of a nature preserve for migratory birds. The site will also feature two miles of walking paths, wooden boardwalks and green space to hold events.

In May 2020, the Katy City Council approved an amendment to the developer agreement that extended the agreement to December 31, 2020 due to delays related to the coronavirus pandemic, and that date is expected to be extended further via a third amendment to be entered into in November or December. While there is not a firm anticipated timeline on the hotel and conference center itself due to the uncertainty of the financial markets and obtaining developer financing for its portion of the project, development of the trail system continues.

City of Midland

In December 2019, the Midland City Council approved a \$20 million investment package for the construction of a 200-room hotel with 14,000 square feet of meeting space. The Marriott project will adjoin Midland's new Barbara and George H.W. Bush Convention Center which opened in September of 2019. Total project costs are approximately \$75 million. The project will also include 10,000 square feet of restaurant space and a 400-space multi-story parking garage. Construction is expected to begin in the fourth quarter of 2020 and to be completed in third quarter of 2022. Upon opening, the City intends to make an application for a refund of State taxes pursuant to Chapter 351.

City of Roanoke

In 2015, the City of Roanoke began initial discussions with a developer to examine the feasibility of a full-service convention center hotel facility. In June of 2018, the City was conveyed 3.27 acres where a nine-story, 257-room full-service Peabody Hotel and Conference Center will be constructed. The project will include retail, two restaurants, a bar, a spa and fitness center, a pool and the signature Peabody Duck Palace on the rooftop. The project includes a 42,000 square foot convention center and a 325-space underground parking garage. The total budget for the project is approximately \$150 million. The City intends to issue both taxable and tax-exempt bonds to finance the construction of the project and has committed a portion of the local hotel tax revenue to the payment of bond obligations. Construction will create between 130-175 jobs and 325 full-time jobs. Construction was anticipated to begin April 2020 and to take 24 months. However, due to the financial instability in the market caused by the COVID pandemic, the project has been delayed. Upon opening, the City intends to make an application for a refund of State taxes pursuant to Chapter 351.

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

City of Round Rock

The City of Round Rock began efforts to bring a Kalahari Resort to the City in 2014. After the passage of H.B. 1964, the City approved a series of incentives in December 2016. Throughout 2018, a series of agreements were approved that ultimately led to a May 2018 groundbreaking of a \$567 million Kalahari Resort facility with 975 guest rooms and a 200,000 square foot convention center. The project, which created 650 construction jobs and approximately 1,200 permanent jobs, is scheduled to open November 12, 2020. The City will make an application for a refund of State taxes in late 2020.

City of San Benito

After the passage of H.B. 4347, the San Benito City Commission approved a \$115 million hotel convention center project in July 2020. The project is now in the due diligence phase (i.e. – developing schedules of performance, preliminary drawings, project budget, etc.) and the developer and the City intend to finalize the budget by the end of the year. The convention center will include 23,000 square feet of meeting space, and the select service hotel will have 142 rooms. The City will support the project by committing 50 percent of local HOT tax for up to 120 months. The construction phase will last three years and should begin mid-2021 with a projected opening in 2024. Upon opening, the City intends to make an application for a refund of State taxes pursuant to Chapter 351.

City of Seabrook

The City of Seabrook is in preliminary stages of planning and zoning with a developer for the construction of an approximately 170-room boutique hotel and, a new 70 room extended stay hotel, and a 21,000 square foot conference center. COVID-19 has delayed some of the planning efforts. Currently, the City anticipates final zoning documents to be submitted sometime near the end of 2020.

City of Sugar Land

The City of Sugar Land's effort to secure a hotel and convention center began nearly 13 years ago via a 2007 citizen-led Visioning Task Force. In 2014, the City commissioned a feasibility study and subsequently identified the QHP rebate as a vital component for which, in turn, motivated the City to work to successfully pass H.B. 2424 in 2017. As a result, the City is now pursuing a public-private partnership to develop a hotel and convention center adjacent to the Smart Financial Centre. The project will anchor a larger Sugar Land Arts and Entertainment District that will be a destination for entertainment events, cultural arts, dining, retail and a major employment center. In January 2019, the City issued a Request for Statements of Interest to interested development groups. All responses indicated that the QHP rebate program would constitute a vital source of the capital stock for a project, without which it would be extremely difficult, if not impossible, to

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

finance. Due to the COVID-19 pandemic and resulting recession, the City of Sugar Land has temporarily paused the project and will resume planning in the next year.

City of Weatherford

Due to the passage of H.B. 4347, the City of Weatherford is currently preparing an RFP and expect to award a project in January 2021 for a 200-room full-service hotel with an estimated 25,000 square feet of meeting space. Design work should commence in March 2021 with the objective opening of a hotel sometime in early 2023. The City anticipates the project will include single and multi-family residential development, 42,000 square feet of office and 68,000 square feet of retail and dining. Upon opening, the City intends to make an application for a refund of State taxes pursuant to Chapter 351.

City of Webster

Pursuant to the passage of H.B. 4347, the City of Webster approved a development agreement for an approximately \$175,000,000 hotel project with 350 rooms and a 22,000 square foot conference center. The City is awaiting a private letter ruling from the Comptroller of Public Accounts and, pending that ruling, anticipates breaking ground near the beginning of 2021 with hopes of the project opening by 2023. However, the COVID-19 pandemic could cause those timelines to slide. The project will create 1,000 construction jobs and 350 permanent jobs.

Survey Responses Submitted By Other Qualified Cities

Several other authorized cities responded to the THLA survey by stating that preliminary negotiations and pre-development efforts have been initiated but have been delayed due to the COVID-19 pandemic. As such, no specific development agreement had been approved and no project was seriously underway. Those response were submitted by:

- The City of Pearland,
- The City of Prosper,
- The City of Kyle,
- The City of Kerrville,
- The City of Fredericksburg, and
- The City of Tyler.

The City of Lewisville commented it is still working to address the financial feasibility of their envisioned project.

Finally, the qualified cities of Alvin, Baytown, Celina, Commerce, Hutto, Kemah, League City, Lubbock, Pearland, Port Aransas, Presidio, Prosper, Richmond, Rio Grande City, Rowlett, The Colony and Webster did not provide information about the status of their project.

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

LEGISLATIVE HISTORY OF THE QHP PROGRAM

The following sections of this report detail the legislative history of the QHP program, and the hotel projects stimulated by the passage of bills in chronological order.

H.B. 2282 (1993) - HOUSTON

The Texas legislature first created the QHP program in 1993 with the passage of H.B. 2282 (by Coleman/Henderson). Passed during the 73rd Session, H.B. 2282 authorized the City of Houston, at that time the only City with a population of more than 1.5 million, to receive a rebate of the state portion of the hotel occupancy and sales taxes collected at a hotel located within one mile of the city's convention center, and to pledge both the rebated state taxes along with the city's portion of the hotel occupancy tax to bonds issued to construct (or remodel) a convention center hotel for a period of seven years. The rebate period was subsequently changed to 10 years in the following legislative session with the passage of S.B. 1629 (by Henderson/Heflin).

H.B. 2282 was designed to help the City of Houston finance a hotel large enough to support conventions at the then-new George R. Brown Convention Center, which had opened in 1987, in order to improve the City's ability to attract large national and international conventions.

Subsequent to the passage of H.B. 2282, the City (and Houston First) successfully embarked on the development of the Hilton-Americas Hotel.

H.B. 2833 (1999) – LOCAL HOT

In the 76th Session, H.B. 2833 (by Brimer/Moncrief) amended Article 1269j-4.1, Vernon's Texas Civil Statutes by adding a new subsection (that was later re-codified into Chapter 351.102, Tax Code) that read: *“(c) An eligible central municipality may pledge the revenue derived from the tax imposed under this chapter from a hotel project that is owned by or located on land owned by the municipality or by a nonprofit corporation acting on behalf of an eligible central municipality and that is located within 1,000 feet of a convention center facility owned by the municipality for the payment of bonds or other obligations issued or incurred to acquire, lease, construct, and equip **the hotel and any facilities ancillary to the hotel, including shops and parking facilities.**”*

That language accomplished two critical steps in the evolution of the QHP program. First, it authorized “eligible central municipalities” (a defined term in the Tax Code) to pledge the local hotel occupancy tax to a hotel project but not the state portion. Secondly, it further advanced the concept from H.B. 2282 that facilities “ancillary” to the hotel including shops qualified in the calculation of the state and local rebates.

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

H.B. 2424 (2003) – FORT WORTH, DALLAS, SAN ANTONIO & AUSTIN

In 1994, the City of Dallas renovated the Dallas Convention Center (now the Kay Bailey Hutchison Convention Center) but struggled to maximize its viability without a headquarters hotel adjacent to it. A study commissioned by the City of Dallas found that the majority of event planners surveyed did not choose Dallas as a convention site due to the absence of a nearby headquarters hotel. A similar issue existed in the Cities of Fort Worth and San Antonio, which lacked an adequately sized headquarters hotel adjacent to their convention center facilities.

The QHP program had remained unchanged and available for the exclusive use of the City of Houston until 2003, when Representative Wolens introduced H.B. 262 during the 78th Legislature. While H.B. 262 never officially passed, its language was amended into H.B. 2424 (by Armbrister/McCall), and lowered the statutory population threshold for the QHP program to include cities with a population of at least 550,000 thereby authorizing the cities of Dallas, San Antonio, Fort Worth, and Austin to participate in the QHP program.

With the passage of H.B. 2424, the cities of San Antonio, Dallas and Fort Worth embarked on plans to develop their respective hotels, all three of which are open and have either concluded their ten-year rebate period or are nearly concluded.

S.B. 1257 & S.B. 1207 (2009) – IRVING, ARLINGTON, AMARILLO & GRAND PRAIRIE

Prior to 2009, only five cities qualified for the QHP program. However, in 2009 during the 81st Regular Session, the Legislature passed two bills that technically qualified seven (7) new cities for the tax rebates.

With the passage of S.B. 1247 (by Harris/Pierson), the legislature authorized cities with a population of at least 140,000 and are located in a county with a population of at least 1 million (per the 2000 census due to statutory construction laws) to the QHP program. While the bill was primarily aimed to authorize the cities of Irving and Arlington to participate in the QHP program, it inadvertently also qualified the cities of Plano, Garland, and Pasadena.

Importantly, S.B. 1247 also added “convention center entertainment-related facilities” and “restaurants” to the “zone” concept established by H.B. 2833 in 1999. Even more, it expanded the zone to include facilities located within 1,000 feet of the hotel *or* the convention center which, in essence further enhanced the “zone” concept.

Lastly, S.B. 1207 (by Seliger/Swinford), also passed during the 81st Session, authorized the cities of Amarillo and Grand Prairie for the QHP tax rebates, bringing the total number of cities with enabling authority for the QHP program to 12 by the end of 2009.

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

Subsequent to the passage of Senate Bills 1207 and 1247 in 2009, the Cities of Amarillo, Arlington, and Irving each respectively approved their qualified hotel projects, all three of which are now open and receiving rebates

S.B. 977 (2011) - CORPUS CHRISTI

S.B. 977 (by Hinojosa/Torres), passed during the 82nd Session, authorized the City of Corpus Christi to participate in the QHP program. Additionally, based on a recommendation by the Office of the Attorney General, S.B. 977 created a Qualified Hotel Project Trust Account as a suspense account outside the treasury, and required the Comptroller to deposit eligible taxable proceeds into the new account and that monies in the account could be used without an appropriation by the legislature.

Since then, the City of Corpus Christi has evaluated the feasibility of building a new hotel adjacent to its convention center, the American Bank Center. That process has identified several items to address, such as land ownership and parking capacity. Visit Corpus Christi recently completed a comprehensive destination evaluation that will be unveiled in late September 2020 that will provide additional insight about the elements to access the financing tools established in Chapter 351 of the Tax Code, which is crucial to the financial viability of this project.

H.B. 1964 (2015) – 7 CITIES:

With the passage of H.B. 1964 (by Clardy/Eltife) during the 84th Session, the legislature added seven (7) more cities to the QHP program: El Paso, Frisco, Nacogdoches, Odessa, Round Rock and Tyler and Carrollton (inadvertently).

Five of those cities (El Paso, Frisco, Nacogdoches, Odessa, and Round Rock) embarked on constructing their respective qualified hotel projects and are either currently receiving rebates or are soon set to receive rebates – making the 2015 legislation one of the most immediately impactful bills passed in the history of the program.

H.B. 2445 (2017) – 15 CITIES:

Prior to H.B. 2445, 20 cities qualified for the QHP. However, with the passage of H.B. 2445 (by Stucky/Estes) during the 85th Session, 17 additional cities were technically added to the program (note: 3 cities were inadvertently qualified due to drafting errors).

Importantly, H.B. 2445 also created a new “sunset” expiration date for the program which read: *“A municipality to which this section applies may not receive or pledge revenue or funds under*

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

Subsection (b) or (c) for a hotel project unless the municipality enters into an agreement with a person for the development of the hotel project before September 1, 2019.”

Since the passage of H.B. 2445, several cities qualified by that legislation including Abilene, Cedar Hill, Katy, Midland, Roanoke and Sugar Land – have started planning and have entered into development agreements or even broken ground on a project.

COMPTROLLER ADMINISTRATIVE RULES (2018-19)

On November 23, 2018, the Comptroller of Public Accounts (CPA) published a proposed administrative rule in the Texas Register to establish administrative and procedural guidelines for an owner of a qualified hotel project, or a municipality, to qualify for and claim the state tax rebates. Amongst other things, the rule expressly prohibited certain types of retail and other establishments from the QHP program and established clear rules for measuring the distance from the hotel to any ancillary facilities. The rule was eventually adopted, largely unmodified, on March 8, 2019.

H.B. 4347 (2019)

In response to the CPA’s rule and to growing general concerns about the QHP program, Rep. Anchia authored H.B. 4347 during the 86th Session. The bill was designed to accomplish three objectives:

1. authorize 19 new cities to qualify for the tax rebates,
2. remove the sunset expiration date added by H.B. 2445, and
3. make the QHP program more fiscally conservative, in large part, by codifying the Comptroller’s administrative rule by:
 - a. providing stronger definitions that limit the type of projects that qualify;
 - b. eliminating the sales taxes generated at surrounding retail and restaurant establishments from qualifying at most projects (i.e. – eliminating the “ancillary zone” created by previous bills); and
 - c. limiting the number of qualified projects most cities can approve to one.

The bill also created new, special provisions for the cities of Arlington and Kemah. The City of Kemah is now authorized to receive a rebate from surrounding retail within 2,500 feet due to the unique size of that city while the City of Arlington is now authorized to receive a rebate of the state mixed beverage taxes along with the state hotel occupancy and sales taxes for a period of thirty years.

H.B. 4347 does authorize certain cities to receive a rebate of the tax revenue from nearby “qualified establishments” (restaurants, bars, retail establishments, and in some instances

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

waterparks owned or operated by the qualified hotel) if the establishment is located within a 1,000 feet zone of the convention center hotel or hotel. The following cities are eligible to receive this “ancillary” tax revenue: Baytown, Cedar Hill, Celina, El Paso, Grand Prairie, Irving, Richmond, Round Rock, San Benito, Seabrook, and Weatherford.

H.B. 4347 also more narrowly defined the term “retail establishment” as an establishment engaged in activities described by the North American Classification System section 442-443,445-446, 448, 451-453.

H.B. 4347 was a bi-partisan bill jointly authored by Representatives Anchia, Bonnen, Greg, Zerwas, Moody and Turner, Chris, sponsored in the Senate by Senator Nelson and co-sponsored in both chambers by 27 additional members. The newly authorized projects envisioned within H.B. 4347 represent over \$2 billion in new capital investment in Texas creating over 4,000 new jobs.

The bill was passed by the House Committee on Ways & Means on an 11Y-0N vote and eventually passed third reading as amended in the House of Representative on May 7, 2019 by a vote of 125Y-23N-1PNV. The Senate Finance Committee approved a substitute version May 21, 2019 by a vote of 10Y-3N and the full Senate approved H.B. 4347 by a vote of 24Y-6N-1PNV. The House concurred with Senate Amendments by a vote of 146Y-0N.

H.B. 4347 re-codifies the existing QHP program into a new, cleanly organized subchapter C that creates improved legal definitions and more fiscally responsible parameters.

In addition, it qualified the following cities by consolidating several stand-alone bills into one omnibus bill:

1. Alvin (Thompson/Taylor),
2. Baytown (Perez/Alvarado),
3. Cedar Park (Bucy/Schwertner),
4. Celina (Sanford/Fallon),
5. Commerce (Flynn/Hall),
6. Conroe (Bell/Creighton),
7. Fredericksburg (Biedermann/Buckingham),
8. Hutto (Talarico/Schwertner),
9. Kerrville (Murr/Buckingham),
10. Kyle (Zweiner/Campbell).
11. Pearland (by Thompson/Taylor),
12. Presidio (Nevarez/Rodriguez),
13. Richmond (Stephenson/Kolkhorst),
14. Rio Grande City (Guillen/Zaffirini)
15. San Benito (Lucio III/Lucio),
16. Seabrook (Paul/Taylor),

**House Committee on Ways and Means
Interim Committee Report - Qualified Hotel Projects**

- 17. The Colony (Patterson/Nelson),
- 18. Weatherford (King/Fallon), and
- 19. Webster (Paul/Taylor)

With the passage of H.B. 4347, there are now a total of 48 cities currently qualified under Chapter 351 for the QHP program (see Appendix A for a full listing of qualified cities).

House Committee on Ways and Means Interim Committee Report - Qualified Hotel Projects

APPENDIX A

Pursuant to H.B. 4347, the following cities qualify for certain state and local tax rebates, pursuant to Chapter 351, Tax Code:

- | | |
|--------------------|---------------------|
| 1. Abilene | 25. Kyle |
| 2. Alvin | 26. League City |
| 3. Amarillo | 27. Lewisville |
| 4. Arlington | 28. Lubbock |
| 5. Austin | 29. Midland |
| 6. Baytown | 30. Nacogdoches |
| 7. Cedar Hill | 31. Odessa |
| 8. Cedar Park | 32. Pearland |
| 9. Celina | 33. Port Aransas |
| 10. Commerce, | 34. Presidio |
| 11. Conroe | 35. Prosper |
| 12. Corpus Christi | 36. Richmond |
| 13. Dallas | 37. Rio Grande City |
| 14. El Paso | 38. Roanoke |
| 15. Fort Worth | 39. Round Rock |
| 16. Fredericksburg | 40. Rowlett |
| 17. Frisco | 41. San Antonio |
| 18. Grand Prairie | 42. San Benito |
| 19. Houston | 43. Seabrook |
| 20. Hutto | 44. Sugar Land |
| 21. Irving | 45. The Colony |
| 22. Katy | 46. Tyler |
| 23. Kemah | 47. Weatherford |
| 24. Kerrville | 48. Webster |