

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

May 24, 2023

TO: Honorable Dan Patrick, Lieutenant Governor, Senate

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: SB1057 by Whitmire (Relating to the authority of certain municipalities and local government corporations to use certain tax revenue for certain qualified projects.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1057, As Passed 2nd House : a negative impact of (\$2,983,000) through the biennium ending August 31, 2025.

However, the revenue loss to the state would continue to grow after fiscal year 2028, increasing to (\$157,382,000) in fiscal year 2052, before ending during fiscal year 2053.

General Revenue-Related Funds, Five- Year Impact:

<i>Fiscal Year</i>	Probable Net Positive/(Negative) Impact to <i>General Revenue Related Funds</i>
2024	(\$783,000)
2025	(\$2,200,000)
2026	(\$3,914,000)
2027	(\$9,183,000)
2028	(\$14,871,000)

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	Probable Revenue Gain/(Loss) from <i>General Revenue Fund</i> 1
2024	(\$783,000)
2025	(\$2,200,000)
2026	(\$3,914,000)
2027	(\$9,183,000)
2028	(\$14,871,000)

Fiscal Analysis

The bill would amend the Tax Code to authorize a municipality with a population of at least 2.0 million to use certain tax revenue to fund a qualified project.

The bill would also allow a local government corporation that is authorized to collect municipal hotel occupancy tax; is located in a county with a population of 3.3 million or more to act as a municipality under this section. A qualified project for a local government corporation to which this subsection applies includes a venue and any related infrastructure.

Methodology

The bill's provisions would apply to the City of Houston and Houston First, a local government corporation.

The City of Houston and Houston First would have authority to receive incremental hotel-associated revenue from all hotels within the zone's boundaries, for a period of up to 30 years, less any amount distributed to a qualified hotel project already within the zone in the year the zone is designated. Hotel-associated revenue includes state sales tax revenue, state hotel tax revenue, state mixed beverage sales tax revenue and state mixed beverage gross receipts tax revenue collected from a hotel and businesses located within a hotel. The incremental revenue would be all such revenue in excess of the amounts from hotels within the zone during the year the project zone is designated by the municipality.

The Comptroller would begin depositing the estimated monthly incremental hotel-associated revenue into Fund 0805 – Incremental Hotel-Associated Revenue Suspense Trust for Houston once the hotels, and associated businesses in the hotels, within the zone have been determined by the city and validated by the Comptroller.

As incremental revenue available to finance development of project-associated infrastructure would be maximized by establishing the earliest year possible as base year for the determination of incremental revenue, it is assumed project designation would occur during 2023, the year of the effective date of the bill, with deposits to the project trust account beginning in 2024. The estimates are based on hotel tax revenue from hotels currently in operation and identified as within the likely boundaries of the zone, multiplied by a factor to account for associated sales tax and mixed beverage tax revenue based on data for extant hotel projects, extrapolated to future years at an average annual growth rate of six percent as representative of typical hotel tax growth rates prior to the pandemic.

As these estimates are extrapolated from hotels currently in operation, they do not reflect higher payments to the project zone that would occur if the project-associated infrastructure improvements result in capture of market share by the project hotel and other hotels in the project zone from hotels in Houston outside the zone or from other parts of the state. They also do not reflect higher payments that would occur if the project improvements attract additional tourist visits from outside the state that otherwise would not have occurred anywhere in the state; revenue from such additional tourist visits paid to the project zone would not represent revenue foregone by the state.

Local Government Impact

The bill's provisions would apply to the City of Houston and Houston First, a local government corporation.

The City of Houston and Houston First would have authority to receive incremental hotel-associated revenue from all hotels within the zone's boundaries, for a period of up to 30 years, less any amount distributed to a qualified hotel project already within the zone in the year the zone is designated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, MOc, BRI, KK, SD, CMA