

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: SB2220 by Menéndez (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 SB2220, As Passed 2nd House : a negative impact of (\$5,380,000) through the biennium ending August 31, 2025.

The negative fiscal implications of the bill would continue to grow until the 30-year anniversary of the zone's designation, reaching (\$222,341,000) in fiscal year 2053, before ending after the fourth month of fiscal year 2054.

General Revenue-Related Funds, Five- Year Impact:

<i>Fiscal Year</i>	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2024	(\$1,412,000)
2025	(\$3,968,000)
2026	(\$7,059,000)
2027	(\$10,438,000)
2028	(\$14,020,000)

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	Probable Revenue Gain/(Loss) from General Revenue Fund 1
2024	(\$1,412,000)
2025	(\$3,968,000)
2026	(\$7,059,000)
2027	(\$10,438,000)
2028	(\$14,020,000)

Fiscal Analysis

The bill would amend Section 351.1015 of the Tax Code (Certain Qualified Projects) to authorize a municipality that contains more than 70 percent of the population of a county with a population of 1.5 million or more to designate a project financing zone to fund a qualified project. The bill would also allow a local government corporation to act as a municipality under the section. A qualified project for a public financing zone would include a convention center facility or venue described by Section 334.001(4)(A) of the Local Government Code, and any related infrastructure.

Methodology

The bill's provisions would apply to the City of San Antonio and a local government corporation acting on behalf of San Antonio ("San Antonio").

San Antonio 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 San Antonio 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 San Antonio outside the zone or from other parts of the state. They also do not reflect higher payments as 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.

There would be effects on the Economic Stabilization Fund (ESF) balance limit and consequent effects for GR reserves and transfers to ESF. Because hotel and sales tax revenue normally deposited to the general revenue fund would instead be deposited to a trust fund for the zone, the reduction in general revenue in the 2024-25 biennium would reduce the 2026-27 ESF balance limit by 10 percent of the deposits for the zone, reducing 2025 severance tax reserves for transfer to the ESF by the amount of the balance limit reduction, and increasing available GR in 2025 by the amount of reduction of the reserves, however that amount is not expected to be significant.

Local Government Impact

The bill's provisions would apply to the City of San Antonio and a local government corporation acting on behalf of the city.

San Antonio 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.

Source Agencies: 304 Comptroller of Public Accounts

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