

BILL ANALYSIS

Senate Research Center
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H.B. 5596
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Economic Development
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Engrossed

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Under Chapter 351 of the Tax Code, certain coastal municipalities in Texas are authorized to collect municipal hotel occupancy tax (HOT) revenue, which is intended to promote tourism and support local attractions. Many of these cities have established park boards of trustees, as permitted under Chapter 306 of the Local Government Code, to manage and distribute HOT revenue for statutorily defined purposes such as advertising, promotion of the arts, and enhancement of tourist-related facilities. However, concerns have emerged that some municipalities are bypassing their park boards and retaining HOT revenue for unrelated general government expenditures. This undermines legislative intent, diminishes transparency, and may result in public funds being spent outside the narrow purposes approved by law. Since hotel occupancy taxes are paid by visitors rather than local residents, these funds are uniquely limited in scope and should not be treated as fungible revenue sources for routine municipal operations.

Purpose

H.B. 5596 seeks to enforce greater accountability in the use of HOT revenue by eligible coastal municipalities. The bill establishes a fiscal consequence for diverting HOT funds away from authorized tourism purposes—specifically by adjusting the voter-approval tax rate to penalize the misallocation of these funds. By incorporating a "misspent hotel occupancy tax revenue rate" into the voter-approval rate calculation, the legislation directly ties municipal taxing authority to compliance with HOT spending rules. This targeted approach preserves the use of HOT funds for their intended purposes, strengthens oversight, and discourages fiscal maneuvering that circumvents the role of local park boards. H.B. 5596 ultimately reinforces legislative priorities and ensures that visitors' tax dollars are spent as required by law—on promoting tourism and enhancing the visitor economy.

H.B. 5596 amends current law relating to the calculation of the voter-approval tax rate for certain municipalities that receive municipal hotel occupancy tax revenue.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 26.012, Tax Code, adding Subdivisions (9-a), (16-a), and (16-b) to define "eligible coastal municipality," "misspent hotel occupancy tax revenue," and "misspent hotel occupancy tax revenue rate."

SECTION 2. Amends Section 26.04(c), Tax Code, to redefine "voter-approval tax rate."

SECTION 3. Amends Sections 26.041(a), (b), and (c), Tax Code, as follows:

- (a) Provides that, in the first year in which an additional sales and use tax is required to be collected, the no-new-revenue tax rate and voter-approval tax rate for the taxing unit are calculated according to certain formulas, including a formula for voter-approval tax

rate for an eligible coastal municipality. Sets forth the formula for the voter-approval tax rate for an eligible coastal municipality. Makes a conforming change.

(b) Provides that, except as provided by Subsections (a) and (c), in a year in which a taxing unit imposes an additional sales and use tax, the voter-approval tax rate for the taxing unit is calculated according to certain formulas, regardless of whether the taxing unit levied a property tax in the preceding year, including a formula for voter-approval tax rate for an eligible coastal municipality. Sets forth the formula for the voter-approval tax rate for an eligible coastal municipality. Makes a conforming change.

(c) Provides that, in a year in which a taxing unit that has been imposing an additional sales and use tax ceases to impose an additional sales and use tax, the no-new-revenue tax rate and voter-approval tax rate for the taxing unit are calculated according to the certain formulas, including a formula for voter-approval tax rate for an eligible coastal municipality. Sets forth the formula for the voter-approval tax rate for an eligible coastal municipality. Makes a conforming change.

SECTION 4. Makes application of this Act prospective.

SECTION 5. Effective date: January 1, 2026.