

BILL ANALYSIS

C.S.H.B. 5596
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Ways & Means
Committee Report (Substituted)

BACKGROUND AND PURPOSE

The bill author has informed the committee that there is a need to ensure that certain coastal municipalities that receive municipal hotel occupancy tax revenue allocate that revenue appropriately and maintain fiscal responsibility. C.S.H.B. 5596 seeks to achieve this goal and promote transparency and proper allocation of tax revenue by adjusting the calculation of the voter-approval tax rate for these municipalities by taking into account misspent hotel occupancy tax revenue.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.H.B. 5596 amends the Tax Code to establish the following as the formulas according to which the voter-approval tax rate (VATR) for a home-rule municipality that borders on the Gulf of Mexico, has a population of less than 80,000, and has created a park board of trustees under applicable Local Government Code provisions is calculated:

- generally, the VATR equals the sum of the following:
 - the product of 1.035 and the no-new-revenue (NNR) maintenance and operations (M&O) rate; and
 - the sum of the current debt rate and the unused increment rate, less the misspent hotel occupancy tax revenue rate;
- in the first year in which an additional sales and use tax is required to be collected by an applicable municipality, the VATR equals the sum of the following:
 - the product of 1.035 and the NNR M&O rate; and
 - the sum of the current debt rate and the unused increment rate, less the sales tax gain rate and the misspent hotel occupancy tax revenue rate;
- except as otherwise provided by law, in a year in which an applicable municipality imposes an additional sales and use tax, the VATR equals the sum of the following, regardless of whether the municipality levied a property tax in the preceding year:
 - the quotient of:
 - the product of 1.035 and last year's M&O expense; and
 - the current total value less the new property value; and
 - the sum of the current debt rate and the unused increment rate, less the sales tax revenue rate and the misspent hotel occupancy tax revenue rate; and

- in a year in which an applicable municipality that has been imposing an additional sales and use tax ceases to impose such an additional tax, the VATR equals the sum of the following:
 - the quotient of:
 - the product of 1.035 and last year's M&O expense; and
 - the current total value less the new property value; and
 - the sum of the current debt rate and the unused increment rate, less the misspent hotel occupancy tax revenue rate.

For these purposes, the bill defines the following terms:

- "misspent hotel occupancy tax revenue" as an amount equal to the amount of revenue received from municipal hotel occupancy taxes by an applicable municipality during the preceding tax year that:
 - was not distributed to the municipality's park board of trustees under a contract or interlocal agreement authorized by statutory provisions relating to municipal hotel occupancy taxes to be spent for an allowable purpose authorized by those provisions;
 - was spent by the municipality for a purpose not authorized by those provisions; or
 - was spent by the municipality's park board of trustees for a general municipal purpose not authorized by those provisions under an agreement with the municipality; and
- "misspent hotel occupancy tax revenue rate" as the rate expressed in dollars per \$100 of taxable value, where the misspent hotel occupancy tax revenue rate equals the quotient of the misspent hotel occupancy tax revenue and the current total value.

C.S.H.B. 5596 applies only to property taxes imposed for a property tax year that begins on or after the bill's effective date.

EFFECTIVE DATE

January 1, 2026.

COMPARISON OF INTRODUCED AND SUBSTITUTE

While C.S.H.B. 5596 may differ from the introduced in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.

Both the introduced and the substitute define the term "misspent hotel occupancy tax revenue" as an amount equal to the amount of revenue received from municipal hotel occupancy taxes by an applicable municipality during the preceding tax year that meets certain criteria. However, whereas the introduced classified applicable revenue that was not distributed to the municipality's park board of trustees to be spent for a purpose authorized by statutory provisions relating to municipal hotel occupancy taxes and was spent by the municipality for any purpose as misspent hotel occupancy tax revenue, the substitute classifies applicable revenue that meets any of the following criteria as misspent hotel occupancy tax revenue:

- was not distributed to the municipality's park board of trustees under a contract or interlocal agreement authorized by those provisions to be spent for an allowable purpose authorized by those provisions;
- was spent by the municipality for a purpose not authorized by those provisions; or
- was spent by the municipality's park board of trustees for a general municipal purpose not authorized by those provisions under an agreement with the municipality.