LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 27, 2025

TO: Honorable Dustin Burrows, Speaker of the House, House of Representatives

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB2974** by Craddick (Relating to municipal and county hotel occupancy taxes and the authority of certain municipalities to receive certain tax revenue derived from a hotel and convention center project and to pledge certain tax revenue for the payment of obligations related to the project; authorizing the imposition of taxes.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2974, As Passed 2nd House: a negative impact of ($446,000) through the biennium ending August 31, 2027.

However, there would a negative impact of ($18,264,000) in the biennium ending August 31, 2029.

Similar fiscal implications would continue after 2030 until the 10th anniversary of the date of entitlement for each project, when the estimated cumulative total of entitlement to state revenue for these projects would reach ($143,705,000).

General Revenue-Related Funds, Five- Year Impact:

Fiscal Year	**Probable Net Positive/(Negative) Impact to *General Revenue Related Funds***
2026	$0
2027	($446,000)
2028	($7,972,000)
2029	($10,292,000)
2030	($12,402,000)

All Funds, Five-Year Impact:

Fiscal Year	**Probable Revenue Gain/(Loss) from *General Revenue Fund* 1**
2026	$0
2027	($446,000)
2028	($7,972,000)
2029	($10,292,000)
2030	($12,402,000)

Fiscal Analysis

The bill would amend Chapters 351 and 352 (Municipal and County Hotel Occupancy Taxes, respectively) of the Tax Code, as well as Chapter 334 of the Local Government Code. The bill would amend municipal and county hotel occupancy tax statutes regarding the use, allocation, and imposition of such taxes; amendments to

Chapter 351 would include state tax rebate provisions applicable to hotel projects in certain localities. Chapter 334 of the Local Government Code (Sports and Community Venue Districts) would be amended to allow the imposition, with specified usage of revenue, of a hotel occupancy tax by certain cities.

The bill would amend Section 156.2511 of the Tax Code to require the eligible costal municipalities to transfer all warrants issued under Subsection (a) to the park board of trustees created by the municipality no later than the last day of the calendar month immediately following the date the municipality received the warrant. Additionally, the bill would allow the Comptroller to only issue warrants to a municipality that uses at least one percent of the tax collected under Chapter 351 to clean and maintain public beaches in the municipality and either applied for state funds under Subchapter C, Chapter 61, of the Natural Resources Code, made available to the comptroller the same information required to be contained in in an application under Section 61.069 of the Natural Resources Code, or, on the request of the Comptroller's office, submitted certain information.

The bill would amend Chapter 351 of the Tax Code (Municipal Hotel Occupancy Taxes) to limit the number of 1) qualified projects under Sections 351.1015 and 351.106 commenced after January 1, 2026, 2) hotel projects under Section 351.102 commenced after January 1, 2025, 3) multipurpose convention center projects under Section 351.1021 commenced after January 1, 2026, and 4) hotel projects under Section 351.1022 commenced after January 1, 2026, to one project per section of code per municipality. Once a municipality commences a project under these sections of the code, they would not be allowed to pledge or commit revenue for subsequent projects under the same sections of the code again.

The bill would add 351.102 (a-1) that would prohibit a municipality with a population of more than 1.5 million to pledge or commit revenue under this subsection for the payment of principal of or interest on certain bonds or other obligations issued to pay for certain costs if those costs were incurred from a project that was commenced after December 1, 2016.

The bill would repeal Section 351.155(d) of the Tax Code, excepting a municipality of population 175,000 or more from the limitation to one qualified project for which municipal hotel tax, and state tax revenues under Sections 351.156 and 351.357, may be pledged. The effect of the repeal would be to limit all municipalities to one qualified project, were more than one not commenced before the effective date of the bill. The repeal of this section would take effect January 1, 2026.

The bill would amend Section 151.429(h) of the Tax code to make the section not apply to a qualified hotel project that has commenced after December 1, 2016.

This bill would amend Sections 351.152(24) and (43) of the Tax Code (Municipal Hotel Occupancy Taxes; Applicability) to update population, and other identifying characteristic, brackets for municipalities authorized to receive certain tax revenue derived from a hotel and convention center project and to pledge certain revenue for the payment of obligations related to the project.

The bill would amend Section 351.152 of the Tax Code to add (3-a) a municipality described by Section 351.001(11); (65) a municipality through which the Comal River flows; (66) A municipality with a population of 7,000 or more that contains Lake Marble Falls; (67) a municipality that has a population of more than 130,000 but less than 1.3 million and is located in three counties, each of which has a population of more than 900,000; (68) a municipality with a population of 47,000 or more that is located in two counties, one of which has a population of 2.1 million or more and one of which has a population of 179,000 or more, and is bisected by State Highway 174; (69) a municipality with a population of more than 240,000 but less than 270,000 that boarders a man-made lake that has a surface area of more than 20,000 acres; (70) a municipality that is the county seat of a county that has a population of 600,000 or more and is adjacent to the county that contains the State Capitol; (71) a municipality described by Section 334.0082(a)(2), Local Government Code; (72) a municipality that has a population of 10,000 or more but less than 75,000, is located in two counties, one of which is a county in which the State Capitol is located, and hosts an annual German festival; (73) a municipality that is located in a county with a population of 600,000 or more that is adjacent to the county that contains the State Capitol and has a population of more than 16,000 but less than 27,000; (74) a municipality with a population of more than 16,000 but less than 18,000 that is located in a county with a population of more than 2.5 million that is adjacent to a county with a population of more than 2.1 million; (75) a municipality with a population of more than 285,000 that is wholly located in two counties, each with a population of more than 900,000, and; (76) a municipality with a population of 15,000 or more but less than 30,000, that is bisected by

United States Highway 75, and that is wholly located in a county with a population of 750,000 or more, in which all or part of a municipality with a population of one million or more is located and that is adjacent to a county with a population of two million or more, to the list of municipalities that are entitled to receive certain tax revenue derived from a hotel and convention center project and to pledge certain revenue for the payment of obligations related to the project.

The bill would add Section 351.1535 to allow for a municipality described by Section 351.001(11) to be exempt from certain requirements for qualified convention center facilities, hotels, and infrastructure.

The bill would amend Section 351.155(c) to allow for certain municipalities to commence more than one qualified project that they would have been authorized to commence under 351.155(d) before January 1, 2026.

The bill would amend Section 351.155 by adding Subsection (c-1) to allow for a municipality described by Section 351.152(12) that has a population of 130,000 or more to commit revenue under this section for two qualified projects.

The bill would amend Section 351.157(b) to add (3-a), a municipality described by Section 351.152(9), and (15-a), a municipality described by Section 351.152(51).

The bill would amend Section 351.157 to add Subsection (b-1) to make Section 351.157 apply to a municipality described by Section 351.155(c-1).

The bill would amend Section 351.161(a) to add a municipality described by Section 351.152(75). The Comptroller would be required, on the 20th anniversary of the date a hotel designated as a qualified hotel by a municipality described by Section 351.152(75) as part of a qualified project, to determine the total state tax revenue received by the municipality from the qualified project under Section 351.156 and 351.157 and the amount of revenue received by the state between the 10th and 20th anniversary of the same sources from which the municipality received revenue under Sections 351.156 and 351.157. If the amount received by the municipality under sections 351.156 and 351.157 exceeds the amount received by the state between the 10th and 20th anniversary of the initial opening date of the qualified hotel, the municipality would be required to remit the difference to the Comptroller from certain municipal revenues.

Methodology

The amendments to Section 156.2511 of the Tax Code would currently affect the city of Galveston.

The Comptroller's office does not currently track how the city of Galveston uses the revenue collected under Chapter 351 of the tax code; therefore, the eligibility city of Galveston to receive warrants under the provisions of this bill cannot be determined. The bill would have no fiscal impact on state, as money allocable to the park board of trustees under the bill is allocable to the city of Galveston under current law.

Certain provisions of the bill would apply to all eligible municipalities, including local government corporations created to aid and act on behalf of municipalities, but would not affect any ongoing projects as of January 1, 2025, under Section 351.102. The bill further provides that revenue pledges or commitments made prior to January 1, 2026, would be governed by the law in effect that the time of the pledge or commitment. Municipalities would be limited to one project per section 351.1015, 351.106, 351.102, 351.156, 351.157, 351.1021 or 351.1022, except for the city of Midland which would be allowed to commence two projects under Sections 351.156 or 351.157. Municipalities that have already commenced a project under these sections of code could not commence another project under the same sections of code.

Since the provisions of these sections would not affect any ongoing projects, and would only limit the future actions of municipalities, these sections would have no fiscal impact on the state.

Populations, and other identifying characteristics, for Sections 351.152 (24) and (43) of the Tax Code would be updated for these currently authorized cities. The updates to 351.152(43), which applies to Victoria, would continue to refer to that, currently authorized, city. The updates to 351.152(24), which applies Pearland, would continue to refer to that, currently authorized, city and would now grant eligibility to the city of Abilene. The city of Abilene already has eligibility through 351.152(12).

Sections 351.152 (3-a) and (65)-(76) would authorize the following cities to receive certain state revenue: (3-a) South Padre; (65) New Braunfels; (66) Marble Falls; (67) Carrolton; (68) Burleson; (69) Garland; (70) Georgetown; (71) McAllen; (72) Pflugerville; (73) Taylor; (74) Addison; (75) Plano; and (76) Anna.

The cities would be eligible to receive funds described in Section 351.156 which provides, in relevant part, that a municipality to which Section 351.152 applies is entitled to receive from the qualified hotel and each restaurant, bar, and retail establishment located in or connected to the hotel or the related qualified convention center facility, the state sales and use tax and the state hotel occupancy tax. Section 351.158 (Period of Entitlement) would entitle the cities to receive the revenue until the 10th anniversary of the date the qualified hotel to which the entitlement relates is open for initial occupancy.

The estimate is based on various projected opening dates, as early as September 1, 2026 (fiscal 2027), a comparison and review of revenues paid to the owners of extant qualified hotel projects, and estimated attributes of such prospective hotels. The estimates assume the authorizations are sought for use and represent projected entitlements to state revenue should the projects occur. However, many authorizations previously enacted remain unutilized, as project development may prove infeasible even with the assurance of state subsidy.

The addition of Section 351.1535 would allow South Padre to be exempt from certain requirements for qualified convention center facilities, hotels, and infrastructure.

The amendment to Sections 351.155 and the addition of 351.157 (b-1) would affect the city of Midland.

Midland is currently eligible to receive funds described in Section 351.156 (Entitlement to Certain Tax Revenue) and would be eligible to receive funds described 351.157 (Additional Entitlement for Certain Municipalities). Section 351.157(d) provides, in relevant part, that a municipality to which the section applies is entitled to receive the revenue derived from the state sales and use taxes, and local mixed beverage taxes generated, paid, and collected from a qualified establishment. Section 351.158 (Period of Entitlement) would entitle Midland to receive the revenue until the tenth anniversary of the date the qualified hotel to which the entitlement relates is open for initial occupancy. Section 351.155(c-1) would allow the city of Midland to develop no more than two qualified projects.

The city of Midland has plans for two qualified hotels, but due to Section 351.157(e), which requires a municipality to commence a project before September 1, 2027, to receive additional entitlements from restaurants, bars, retail establishments, swimming pools and swimming facilities as provided under Section 351.157, the city could only avail itself of the tax rebates under section 351.157 for one of their projects should eligibility be acquired through this legislation. The estimate is based on a projected opening date of August 31, 2027, for one project, September 1, 2028, for the other, a comparison and review of revenues paid to the owners of extant qualified hotel projects, and estimated attributes of such prospective hotel.

Sections 351.157 (3-a) and (15-a) would affect the cities of Tyler, Bastrop and Smithville.

Tyler, Bastrop and Smithville are currently eligible to receive funds described in Section 351.156 (Entitlement to Certain Tax Revenue) and would be eligible to receive funds described 351.157 (Additional Entitlement for Certain Municipalities).

Tyler and Bastrop both have plans for a qualified hotel with the additional entitlement from restaurants, bars, retail establishments, swimming pools and swimming facilities as provided under Section 351.157 but the cities have indicated that their qualified hotels will not be ready to open for initial occupancy until fiscal 2030 at the earliest. Because of Section 351.157(e), which states that a municipality must commence a qualified project before September 1, 2027, to receive revenue under Section 351.157(d), the cities of Tyler and Bastrop could not avail themselves of the tax rebates under Section 351.157. Additionally, the city of Smithville does not have any plans for a qualified hotel under Section 351.157 and will more than likely not commence a project before the September 1, 2027, cutoff; therefore, this bill will have no fiscal impact to the state from the cities of Tyler, Bastrop, and Smithville.

The difference in the state revenue that the city of Plano would receive by the 10th anniversary of the initial opening date of the qualified hotel and the revenue that state would collect between the 10th and

20th anniversary of the initial opening date of the qualified hotel is unknown; however, assuming any positive average rate of inflation after the 10th anniversary of the project, no revenue would be expected due to the state under Section 351.161.

Local Government Impact

The bill would amend Chapters 351 and 352 (Municipal and County Hotel Occupancy Taxes, respectively) of the Tax Code, as well as Chapter 334 of the Local Government Code. The bill would amend municipal and county hotel occupancy tax statutes regarding the use, allocation, and imposition of such taxes; amendments to Chapter 351 would include state tax rebate provisions applicable to hotel projects in certain localities. Chapter 334 of the Local Government Code (Sports and Community Venue Districts) would be amended to allow the imposition, with specified usage of revenue, of a hotel occupancy tax by certain cities.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, KK, BRI, RStu, SD, NV