LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 21, 2025

TO: Honorable Phil King, Chair, Senate Committee on Economic Development

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 Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2974, As Engrossed: a negative impact of ($1,270,000) through the biennium ending August 31, 2027.

However, there would be a negative impact of ($20,012,000) in the biennium ending August 31, 2029.

Not including the city of Allen, 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 ($153,595,000).

The city of Allen would receive funds described by Section 351.156 until the 20th anniversary of the initial opening date of their qualified hotel, with total revenue forgone by the state estimated to total ($182,027,000) by fiscal year 2049. This is $108,636,000 over what the city is estimated to receive under the current 10-year entitlement period as described by Section 351.158 of the Tax Code.

General Revenue-Related Funds, Five- Year Impact:

Fiscal Year	**Probable Net Positive/(Negative) Impact to *General Revenue Related Funds***
2026	$0
2027	($1,270,000)
2028	($8,829,000)
2029	($11,183,000)
2030	($13,329,000)

All Funds, Five-Year Impact:

Fiscal Year	**Probable Revenue Gain/(Loss) from *General Revenue Fund* 1**
2026	$0
2027	($1,270,000)
2028	($8,829,000)
2029	($11,183,000)
2030	($13,329,000)

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 Sections 351.152(24) and (43) of the Tax Code 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 amend Section 351.153(a) of the Tax Code to add a municipality described by Section 351.152(22) of the Tax Code to the list of municipalities exempt from the ownership requirements for certain qualified convention center facilities and qualified hotels in Sections 351.151(2) (B) and 351.151 (3) (A) of the Tax Code, respectively.

The bill would add Section 351.1535 of the Tax Code 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(d) of the Tax Code to add (2), a municipality described by Section 351.152(12) that has a population of 130,000 or more.

The bill would amend Section 351.157(a) (1) (B) (i) to add a municipality described by Section 351.152(22) of the Tax Code to the list of municipalities exempt from certain ownership requirements for certain qualified convention center facilities and qualified hotels.

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 (d) (2).

The bill would amend Section 351.158 of the Tax Code to entitle a municipality described by Section

351.152(46) to receive revenue provided by Sections 351.156 and 351.157 until the 20th anniversary of the date a qualified hotel to which an entitlement relates is open for initial occupancy.

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.

The bill would require the Comptroller, on the 40th anniversary of the date a hotel designated as a qualified hotel by a municipality described by Section 351.152(46) as part of a qualified project to which section 351.162 applies is open for initial occupancy, 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 state between the 20th and 40th 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 20th and 40th 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

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), would have the effect of that bracket no longer applying to the city Pearland, and would now grant eligibility to the city of Katy. The city of Katy already has eligibility through 351.152(22).

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 year 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 amendments to Sections 351.153(a) and 351.157(a) (1) (B) (i) would affect the city of Katy.

Katy is currently eligible to receive funds described in Sections 351.156 (Entitlement to Certain Tax Revenue) and 351.157 (Additional Entitlement for Certain Municipalities).

The city of Katy has 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, with the additional need for exemptions from certain ownership requirements granted by section 351.153(a) and could avail itself of the tax rebates should eligibility be acquired through this legislation. The estimate is based on a projected opening date of September 1, 2026, or state fiscal year 2027, a comparison and review of revenues paid to the owners of extant qualified hotel projects, and planned attributes of such prospective hotel.

The amendment to Sections 351.155(d) 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 would allow the city of Midland to develop more than one qualified project.

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.

Certain provisions of the bill would affect the city of Plano.

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.

Certain provisions of the bill would affect the city of Allen.

Allen is currently eligible to receive funds described in Sections 351.156 (Entitlement to Certain Tax Revenue) and 351.157 (Additional Entitlement for Certain Municipalities). Section 351.158 (Period of Entitlement) would entitle Allen to receive the revenue until the twentieth anniversary of the date the qualified hotel to which the entitlement relates is open for initial occupancy.

The city of Allen has plans for a qualified hotel, 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 351.156, including during the additional 10 years of entitlement provided by the bill. The estimate is based on a projected opening date of September 1, 2029, or state fiscal year 2030, a comparison and review of revenues paid to the owners of extant qualified hotel projects, and estimated attributes of such prospective hotel.

The difference in the state revenue that the city of Allen would receive by the 20th anniversary of the initial opening date of the qualified hotel and the revenue that state would collect between the 20th and 40th anniversary of the initial opening date of the qualified hotel is unknown; however, assuming any positive average rate of inflation after the 20th anniversary, no revenue would be expected due to the state under added Subsection (b-1) of Section 351.162.

Note: Since the city of Allen is already eligible to receive funds described by Sections 351.156, and 351.157 if project commencement were to occur sooner than currently planned, the provisions related to Allen would have no fiscal impact to the state during fiscal years 2026-2030.

Not including the city of Allen, 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 $153,595,000.

The city of Allen would receive funds described by Section 351.156 until the 20th anniversary of the initial opening date of their qualified hotel, with total revenue forgone by the state estimated to total $182,027,000 by fiscal year 2049. This is $108,636,000 over what the city is estimated to receive under the current 10-year entitlement period as described by Section 351.158 of the Tax Code.

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, RStu, SD, BRI, NV