SUBJECT: Allowing Galveston to collect taxes in certain extraterritorial jurisdictions

COMMITTEE: Ways and Means — favorable, without amendment

VOTE: 9 ayes — Craddick, Ramsay, Grusendorf, Heflin, Holzheauser, Horn,
             Oliveira, Stiles, Telford

             0 nays

             2 absent— Thompson, Williamson

WITNESSES: For — Don Hansen, Texas Hotel and Motel Association; Peter Lavalle,
             Galveston County Municipal Utility District No. 1; Don Mafrige, City of
             Galveston

             Against — None

BACKGROUND   In 1995, the Legislature revised the Local Government Code to allow water
:   control and improvement districts or municipal utility districts to enter into
             strategic partnerships with cities as an alternative to full annexation. These
             partnerships can serve a variety of purposes, including providing services for
             a fee or specifying the terms of a limited annexation. Under the Code, cities
             that have formed strategic partnerships may impose a retail sales tax if they
             have annexed a district for limited purposes. According to a recent Attorney
             General's opinion (LO 97-005, February 19, 1997), the law allowing
             strategic partnership agreements does not specifically permit cities to impose
             hotel taxes within their extraterritorial jurisdictions.

DIGEST: HB 1424 would allow the City of Galveston, as defined in the bill, to collect
             both the sales and hotel occupancy taxes that it levies within the city in
             districts with which it has a strategic partnership. In order to levy the taxes,
             the city would have to have annexed the district for limited purposes or
             entered into a written agreement with the district regarding imposition of the
             tax after holding two public hearings on the matter.

             HB 1424 would take immediate effect if finally approved by a two-thirds
             record vote of the membership of each house.

SUPPORTERS
SAY:

HB 1424 would provide the legal authority for a strategic agreement that has already been worked out between Galveston and the nearby communities of Pirate's Beach and Pirate's Cove, which make up Municipal Utility District No. 1. To avoid being annexed, the two communities have agreed to pay Galveston $310,00 per year to provide fire and EMS services, with the understanding that approximately $70,000 of this amount would be generated by sales and hotel occupancy taxes. This agreement was approved by the residents of Pirate's Beach and Pirate's Cove following four public hearings on the matter. However, the agreement has been stymied by a recently issued attorney general's opinion that current law does not authorize communities with a population of more than 35,000 to impose hotel occupancy taxes in their extraterritorial jurisdictions.

The Legislature's intent in allowing strategic partnerships was to encourage just the sort of arrangement that has been worked out between Galveston and the municipal utility district. HB 1424 would simply give legal authority for an acceptable arrangement that was not anticipated nor provided for in the original law.

HB 1424 would not affect any other communities near Galveston, because Pirate's Beach and Pirate's Cove are the only areas that have not been annexed and do not currently pay Galveston sales and hotel taxes. There are no hotels or motels in Pirate's Beach or Pirate's Cove; the hotel tax revenue would be generated by condominiums and other single rental units.

If the Legislature does not approve HB 1424, the communities will be forced to accept annexation, a situation no one in the area wants.

OPPONENTS
SAY:

HB 1424 is bracketed to affect only Galveston. If it is good public policy to authorize a city to impose its hotel tax outside of the city limits as part of a strategic partnership agreement, the statute should be changed to allow this flexibility for all such partnerships. Amending the statute piecemeal to meet the specific terms of various local agreements could lead to a hodgepodge of special exceptions.

NOTES: The companion bill, SB 705 by Patterson, has been referred to the Senate
Intergovernmental Relations Committee