

**SUBJECT:** Allowing general-purpose use of hotel tax revenues

**COMMITTEE:** Ways and Means — favorable, without amendment

**VOTE:** 8 ayes — Oliveira, McCall, Bonnen, Craddick, Y. Davis, Hilbert, Keffer, T. King  
1 nay — Ramsay  
2 absent — Heflin, Sadler

**SENATE VOTE:** On final passage, April 23 — voice vote (Nixon recorded nay)

**WITNESSES:** For — Gary Mercer, City of Hollywood Park  
Against — None

**BACKGROUND:** In general, municipal hotel occupancy tax revenues may be used only to promote tourism and the convention and hotel industry. Tax Code, sec. 351.101(b) prohibits cities from using revenues derived from this tax for general revenue purposes or for general government operations.

**DIGEST:** SB 1166 would allow municipalities that have fewer than 5,000 residents and that are surrounded partially by a municipality with more than 900,000 residents to use hotel occupancy tax revenues for any general revenue purpose or general government operation.  
  
The bill would authorize the governing bodies of such municipalities to allocate hotel occupancy tax revenue by ordinance.  
  
The bill would take effect August 30, 1999.

**SUPPORTERS SAY:** SB 1166 would give smaller communities located near large cities the flexibility to use hotel occupancy tax revenues to deal with public safety and other issues arising from their proximity to tourist destinations. These cities often have no mechanism to raise enough revenue to meet these burdens. For example, Hollywood Park, a town in northern Bexar County, is not a tourist destination and thus has no direct expenditures for tourism-related programs,

but its location along a major highway subjects the town and its roads to large numbers of tourists heading into and out of San Antonio.

Absent this legislation, such municipalities may not use any hotel taxes they may collect. Hotels located in these municipalities might decline to impose the tax, which is 9 percent in San Antonio, giving them a competitive edge over hotels located just down the highway that impose the tax.

SB 1166 is written narrowly to affect the smallest number of municipalities necessary to achieve its purpose. Only a handful of communities adjacent to Dallas, Houston, and San Antonio would be eligible.

OPPONENTS  
SAY:

State law and legislative intent always have been clear with respect to limiting the uses of local hotel occupancy taxes to activities that promote tourism and benefit the convention and hotel industry. SB 1166 would violate this long-standing principle by allowing a few municipalities to spend hotel tax revenue on anything they wanted to spend it on. Enacting SB 1166 would set a poor precedent, as it would encourage other municipalities to lobby for similar “flexibility.”

If local governments have no specific tourism expenditures, hotels within their jurisdiction should not collect the hotel occupancy tax. This would not affect competition among hotels because most tourists are not necessarily be aware of which hotels charge which tax rates.

OTHER  
OPPONENTS  
SAY:

Consistent with the intent of hotel occupancy taxes, this bill should limit the use of these taxes by eligible municipalities to traffic and public safety purposes, rather than allowing them to spend the revenue for any purpose.

NOTES:

SB 1603 by Sibley, which would require localities to be accountable for using hotel tax revenues solely for tourism-related expenditures, was passed to third reading by the House on May 22.