

SUBJECT: Allocation of revenue from the municipal hotel occupancy tax for the arts

COMMITTEE: Local Government Ways and Means — committee substitute recommended

VOTE: 5 ayes — Hill, Creighton, Puente, Quintanilla, Villarreal

0 nays

2 absent — Elkins, C. Howard

WITNESSES: For — Richard Huff, Irving Arts Center; Cathy Cunningham, City of Irving; Tomas Gonzalez, City of Irving City Manager; Sam Smith, City of Irving; (*Registered, but did not testify*: Scott Joslove, Irving/Las Colinas Hotel Association)

Against — None

BACKGROUND: Tax Code, sec. 351.101(a)(4) allows a municipality to spend municipal hotel occupancy taxes collected for the encouragement, promotion, improvement, application, and exhibition of the arts to support the greater goal of promoting municipal tourism and the convention and hotel industry.

Tax Code, sec. 351.103(c) caps the amount of hotel occupancy tax revenue a municipality can devote to the arts to 15 percent for cities with a population of less than 1.6 million and 19.3 percent for cities with a population above 1.6 million (Houston).

DIGEST: CSHB 1109 would add Tax Code, sec. 351.1077, to allow the cities of Irving and Garland, defined as municipalities with a population of more 190,000 in a county where another city has a population of more than 1 million, to spend up to an additional \$1.6 million beyond the 15 percent cap on the hotel occupancy tax revenues for arts funding. The bill would require that arts centers that benefit from the additional funding maintain at least their 2006 advertising and promotions budgets to attract tourists and convention delegates if they were funded at least at 2006 levels. Arts centers that benefit from the additional funding also would

have to include a weblink promoting area hotels and lodging on all promotional materials.

The bill would expire on September 1, 2022.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2007.

**SUPPORTERS
SAY:**

CSHB 1109 would revise the limit on arts funding from city hotel occupancy taxes to deal with a situation unique to Irving. The bill would not increase the local hotel occupancy tax rate or the amount of funding the city of Irving now provides to the arts. It simply would protect the funding authority the city of Irving has had for more than a decade. Before the enactment of the cap in the Tax Code, Irving used hotel occupancy tax revenues to back bonds to build facilities serving its community arts center. While existing bonds are not subject to the tax revenue limitations, once these local bonds are paid off in 2009, the new restrictions on arts funding will create an operating shortfall for the Arts Center in Irving.

Anticipated proceeds from the hotel occupancy tax are expected to increase over the next 15 years, when this legislation would expire, to the point that the additional funding authorized under the bill would amount to 15 percent of the total hotel occupancy tax proceeds in Irving. CSHB 1109 would allow the city the flexibility to make this transition.

CSHB 1109 would provide for additional support to the hotel and tourism industry in Irving by ensuring that the Arts Center's budget for regional hotel and tourism marketing would not be diminished as this new funding source was introduced. This goal also would be supported by requiring the Arts Center to promote hotel and lodging options on their website.

A proposed floor substitute would amend CSHB 1109 to bracket the bill to apply to the city of Irving only, so that the city of Garland would not be affected.

**OPPONENTS
SAY:**

Arts funding for most Texas cities is capped at 15 percent of local hotel occupancy tax revenue, with the one exception being Houston at 19 percent. This bill would allow a larger proportion of funding from the

local hotel occupancy tax for an arts-related entity in Irving than is authorized anywhere else under Texas law.

OTHER
OPPONENTS
SAY:

This bill was intended to apply only to the city of Irving. The city of Garland need not be included.

NOTES:

The original version of HB 1109 would have allowed for 24 percent of hotel occupancy tax collections to be spent. The substitute would allow the city to spend up to 15 percent of its local hotel occupancy tax revenue for arts funding plus an additional \$1.6 million over the 15 percent. It also added the requirements that advertising and promotion funding remain at least at the same level as in 2006 and that a weblink be provided to area hotels on all promotional items.

A proposed floor substitute would amend CSHB 1109 to bracket the bill to apply to the city of Irving only, removing the city of Garland.

The companion bill, SB 462 by Harris, passed the Senate by 30-0 on April 4 and was reported favorably, without amendment, by the House Local Government Ways and Means Committee on April 10, making it eligible to be considered in lieu of HB 1109.

HB 1109 originally was set on the General State Calendar for second reading consideration on March 15 and was returned to committee on a point of order.