

What Cities Need to Know to Administer Municipal Hotel Occupancy Taxes

Texas Hotel & Lodging Association

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Introduction

Since 1967, hotel occupancy taxes have been an important tool for Texas municipalities to promote growth in tourism and hotel activity. Today, nearly every city in Texas with a hotel operating in the city limits levies a municipal hotel occupancy tax.¹ In turn, hotel guests generate economic activity for local businesses and generate nearly \$3 billion in annual tax revenues for local governments, including but not limited to over \$680 million annually in local hotel occupancy tax revenue, increased sales taxes, alcoholic beverage taxes, and property taxes.² If a tourist is motivated to come to an area or to extend his or her stay at a hotel due to activities or facilities funded with hotel occupancy tax revenues, the local and state economies benefit. In turn, the hotel occupancy tax revenues generated from additional room night activity funds future programs and tourism-related facilities, creating an economic engine which provides prosperity for the area.

Unlike property tax and sales tax revenues, which cities can use for most public purposes, local hotel occupancy tax revenues fall under a more structured statutory mandate. Municipal hotel occupancy taxes are a dedicated tax and are primarily governed by Chapter 351 of the Texas Tax Code. This guide assists local governments, hotel occupancy tax grant applicants, and lodging operators in all aspects of the municipal hotel occupancy tax process, including the rules on allowable expenditures of these funds by Texas cities.

Authorized Municipalities

All incorporated Texas municipalities, including general law and home rule cities, may enact a hotel occupancy tax within the city limits.³ A city with a population of under 35,000 may also adopt the hotel occupancy tax within that city's extraterritorial jurisdiction (ETJ).⁴ Most cities are eligible to adopt a hotel occupancy tax at a rate of up to seven percent of the price paid for the use of a hotel room.⁵ Additionally, a city or county may not propose a hotel occupancy tax rate that would result in a combined hotel occupancy tax rate imposed from all sources that would exceed 17 percent of the price paid for the room.⁶ If a city adopts the hotel occupancy tax within its ETJ, the combined state, county, and municipal hotel occupancy tax rate may not exceed 15 percent.⁷

In addition to local hotel occupancy taxes, all lodging properties operating in Texas are subject to a six percent state hotel occupancy tax.⁸ Governed under Chapter 156 of the Texas Tax Code, the state hotel occupancy tax is collected by the Texas Comptroller. Funds from the state six percent hotel occupancy tax flow directly to the Texas Comptroller's office and are largely used for the general governmental operations of the State. However, a 1/12th portion of the state hotel occupancy tax revenue is dedicated to funding tourism promotion through Texas's marketing campaign.⁹

¹ Texas Hotel & Lodging Association (THLA) maintains a listing of most city and county hotel tax rates, accessible upon request to THLA members.
² *Source:* Office of the Governor of Texas, Economic Development and Tourism; Texas Comptroller of Public Accounts Annual Cash Report.

³ Tex. Tax Code Ann. § 351.002(a) (2023).

⁴ § 351.0025(a).

⁵ § 351.003(a).

⁶ Tex. Loc. Gov't Code § 334.254(d). Note that the 17 percent cap does not apply to a city that approved a higher hotel tax through a venue ballot proposition prior to September 1, 2013, such as El Paso.

⁷ § 351.0025(b).

⁸ Tex. Tax Code § 156.051.

⁹ § 156.251(d).

Collecting the Tax

Under the Texas Tax Code, the following lodging properties are considered “hotels” and are required to collect hotel occupancy taxes from their guests: “Any building or buildings in which members of the public obtain sleeping accommodations for consideration” for less than 30 days, including a hotel, motel, tourist home, tourist house, tourist court, lodging house, inn, rooming house, or bed and breakfast facilities.¹⁰ Additionally, a “short-term rental,” defined as the rental of all or part of a residential property to a person who is not a permanent resident, is subject to hotel occupancy taxes.¹¹ The Texas Administrative Code also includes “manufactured homes, skid mounted bunk houses, residency inns, condominiums, cabins, and cottages within the definition of a “hotel” if the facility is rented for periods of under 30 days.¹² Hospitals, sanitariums, nursing homes, dormitories or other non-hotel housing facilities owned by institutions of higher education, and oilfield portable units do not collect the tax.¹³ Subject to various exemptions, state and local hotel occupancy taxes are imposed on any “person” who pays for the use of a room in a hotel, including corporations, organizations, and other legal entities. The hotel room must cost \$2 or more per day for the local hotel occupancy tax to apply, and \$15 or more per day for the state hotel occupancy tax to apply.¹⁴

Meeting rooms versus sleeping rooms:

The rental of sleeping rooms in hotels are subject to both state and local hotel occupancy taxes. However, there is a difference in how state and local hotel occupancy taxes apply to the rental of meeting rooms in hotels. While the rental of sleeping rooms in hotels are subject to both state and local hotel occupancy taxes, meeting room rentals are not subject to local hotel occupancy taxes.¹⁵ The rental of a meeting room or meeting space in a hotel is subject to the state six percent hotel occupancy tax provided the room or space is physically located in a structure that also contains sleeping rooms.¹⁶ For meeting rooms and banquet halls located in a structure that is physically separated from a structure that contains sleeping rooms, neither state nor local hotel occupancy taxes apply to the rental of the meeting rooms or banquet halls, provided rental costs or charges are separately stated from any lodging costs or other charges on the guest’s invoice or receipt.¹⁷

It must be noted that sales tax may apply to the costs associated with the rental of meeting rooms or banquet halls located in a structure that is physically separated from a structure that contains sleeping rooms if the lodging facility provides food or beverage service that is subject to sales tax.¹⁸ Such sales tax would apply to the meeting room or banquet hall rental costs or charges regardless of whether the food or beverage charges are separately stated on the guest’s invoice or receipt.¹⁹

Food and beverage and other hotel charges:

Certain hotel guest charges assessed are subject to hotel occupancy taxes, while other guest charges are subject to state and local sales tax. Common hotel charges usually subject to sales taxes (but generally

¹⁰ Tex. Tax Code § 156.001(a); 34 Tex. Admin. Code Ann. § 3.161(a)(3) (2023).

¹¹ Tex. Tax Code § 156.001(c).

¹² Tex. Tax Code § 156.001(a); 34 Tex. Admin. Code Ann. § 3.161(a)(3) (2023).

¹³ Tex. Tax Code § 156.001.

¹⁴ Tex. Tax Code § 156.051(a); § 351.002(a).

¹⁵ *Id.*

¹⁶ Tex. Tax Code § 156.051(a); Tex. Comptroller Opinion Letter No. 200103106L, Mar. 9, 2001.

¹⁷ *Id.*

¹⁸ 34 Tex. Admin. Code Ann. § 3.161(a)(3) (2023); Tex. Comptroller Opinion Letter No. 201010556L, Oct. 2010.

¹⁹ *Id.*

not subject to hotel occupancy taxes) are hotel banquet service fees, food and beverage fees, movie rentals, dry cleaning/laundry services, internet connection, parking, and portage or bellhop fees.

Hotel charges related to the occupancy of a sleeping room or readying a sleeping room for occupancy are usually subject to hotel occupancy taxes only. Common hotel charges subject to hotel occupancy taxes are rollaway bed charges, pet charges, smoking fees, room damage fees, room safe charges, and late or early checkout fees.²⁰ It is important to note that if a hotel offers services as part of a package rate included with lodging, and the price of a specific good or service is not separately stated on a guest's invoice, bill, or folio, the entire package is subject to hotel occupancy taxes.²¹

Additionally, a special rule applies to whether hotel occupancy taxes are imposed on a hotel room rental cancellation fee. A 1989 Texas Comptroller's hearing concluded that hotel occupancy taxes are not due on charges to guests who 1) cancel more than 30 days before the scheduled stay begins, or 2) when the total cancellation charge is less than the reserved room rate.²² This rule applies both to individual reservations and also to group contracts.²³

Application of local hotel occupancy tax rate increases on pre-existing contracts:

If a municipality increases its hotel occupancy tax rate, the increased tax rate generally does not apply to a hotel room under a contract that was executed before the date the increased rate takes effect. The increased tax rate does not apply in such cases if the prior contract specified the former local hotel occupancy tax rate as a term in the agreement.²⁴ This prior contract exemption also does not apply if the contract's terms state that the contract is subject to "applicable taxes" or to change or modification from a tax rate increase.²⁵ A fully prepaid room night is likely to be considered a prior contract.

Exemptions from the Local Tax

Texas law provides certain hotel occupancy tax exemptions based on the length of a guest's stay or the guest's affiliation with an exempt organization. Texas law is more generous with exemptions from the state six percent hotel occupancy tax than it is for local hotel occupancy tax exemptions. The state hotel occupancy tax law generally allows for an exemption from state hotel occupancy tax for the following entities: educational, charitable, and religious entities. However, these entities are *not exempt* from local hotel occupancy taxes.²⁶

Focusing specifically on the local hotel occupancy taxes, there are primarily four categories of exemptions permitted from municipal and county hotel occupancy taxes:

- 1) **Permanent Resident/Over 30-Day Stay:** Persons or businesses who have agreed in advance to use a hotel room for more than 30 consecutive days (i.e., the "permanent resident" hotel occupancy tax exemption).²⁷

²⁰ THLA maintains a list of most hotel charges and which tax, if any is assessed on a particular charge. This list is available upon request to THLA members.

²¹ Tex. Comptroller Opinion Letter No. 200102031L, Feb. 7, 2001.

²² Texas Comptroller's Hearing Decision No. 24,654 (1989).

²³ *Id.*

²⁴ Tex. Tax Code § 351.007.

²⁵ *Id.*

²⁶ Tex. Tax Code § 156.102.

²⁷ Tex. Tax Code § 156.104.

- 2) **Federal Employees:** Federal employees traveling on official business;
- 3) **Diplomats:** Foreign diplomats with a tax-exempt card issued by the U.S. Department of State;
- 4) **High Ranking State Officials:** A very limited number of state officials with a hotel occupancy tax exemption card (e.g., heads of state agencies, state legislators and legislative staff, members of state boards and commissions, and state judges).

Hotel guests claiming items two through four of the above exemptions are required to show appropriate identification and to fill out a “Hotel Occupancy Tax Exemption Certificate” promulgated by the Texas Comptroller.²⁸ The tax exemption certificate form is available on the Texas Comptroller’s website at <https://www.comptroller.texas.gov/taxes/hotel/forms/>. It is advisable for hotels to have such forms available to guests to fill in if the guest seeks to claim such exemptions.

“Permanent residents” (guests who stay for more than 30 days):

Special attention should be paid to the “permanent resident” hotel occupancy tax exemption. The permanent resident exemption applies to both state and local hotel occupancy taxes, and ensures that hotel guests staying more than 30 days are taxed the same as residents staying at extended-stay properties, apartments, corporate rental facilities, rental houses, etc.²⁹ The Texas Tax Code states that any “person” who has the right to use or possess a lodging room for at least 30 consecutive days is exempt from state and local hotel occupancy taxes, provided there is no interruption in payment or right to occupancy of the room during this period.³⁰ In Texas, a “person” also includes a corporation or business. Therefore, one should look to whether the same person, corporate entity, business, or other entity paid for the room for that entire period.

If, in advance or upon check-in, the guest provides written notice to a hotel of intent to occupy a guest room for 30 days or longer, no hotel occupancy tax is due for any part of a guest’s stay. A signed registration card or confirmed reservation indicating the guest’s intent to occupy a room for 30 days or longer is sufficient written notice.³¹ Furthermore, the guest is not actually required to physically occupy the room, but the guest must maintain the right to occupy the room for the length of the exemption period.³²

If no written notice is provided upon check-in that can be documented by a written agreement (guest reservation, confirmation, registration, or separate agreement), the first 30 days of the guest’s stay are **not** hotel occupancy tax-exempt.³³ However, the guest’s stay becomes automatically hotel occupancy tax exempt on the 31st day for lodging charges beyond the 31st day, regardless of whether there was prior notice of the guest’s intent to stay for 30 days or more, as long as there has been no interruption in payment for the room or right to occupy the room.³⁴

THLA generally recommends hoteliers collect hotel occupancy taxes from the guest for the first 30 days of the guest’s stay. On the 31st day of the guest’s stay, provided there is no interruption of payment for the room and there was prior written notice indicating the guest’s intent to stay 30 days or longer, the hotel should refund the collected hotel occupancy taxes for the first thirty days. This protects the hotel from incurring tax liability should the guest check out before staying at least 30 days. The hotel could

²⁸ *Id.*

²⁹ § 156.101.

³⁰ Tex. Tax Code § 156.101; 34 Tex. Admin. Code § 3.161(a)(4).

³¹ Tex. Comptroller Opinion Letter No. 200601452L, Jan. 27, 2006.

³² 34 Tex. Admin. Code § 3.161(b)(2)(C).

³³ § 3.161(b)(2)(A).

³⁴ *Id.*

choose to not collect the hotel occupancy tax during the stay if the guest paid in advance for the entire 30 days and there was no allowance for a refund if the guests checks out early.

State Employees: Most rank-and-file state employees do not have a special hotel occupancy tax exemption card issued by the Texas Comptroller that prevents them from having to pay the state and local hotel occupancy tax even when they are on official business. Such state employees must pay the state and local hotel occupancy tax when paying their bill and, their state agency may later apply for a refund from the state and local government tax offices.³⁵ The state agency the employee works for is responsible for requesting a refund from the state and local government.

City and County Employees/Officials: City and county officials and employees are not exempt from the state or the local hotel occupancy tax, even if the officials or employees are traveling on official business.³⁶ Additionally, cities have no legal authority to authorize additional exemptions from the hotel occupancy tax that are not recognized in the Tax Code.³⁷ The Attorney General ruled in JM-865 (1988) that cities cannot grant an exception to the hotel occupancy tax for religious, charitable, or educational organizations without new constitutional or statutory authority to do so.

Letters of tax exemption: The Texas Comptroller maintains an online database of entities that have been granted a “Letter of Tax Exemption” from the state hotel occupancy tax. Note that educational and charitable entities are not exempt from local hotel occupancy taxes. Most commonly, these organizations fall into the religious or charitable categories of exemption from the state hotel occupancy tax. The State Comptroller generally requires a letter of tax exemption to accompany a completed hotel occupancy tax exemption certificate form before an exemption may be granted on this basis. The comptroller’s approved letter of exemption database is accessible online at: <https://www.comptroller.texas.gov/taxes/exempt/search.php>. It is important to note that many entities may be exempt from the state sales tax, but are not exempt from the state or local hotel occupancy tax.

For religious entities with a national affiliation, oftentimes the national organization’s letter of tax exemption will cover individual congregations.³⁸ For example, a search of “Baptist Convention” on the online database reveals that the “NATIONAL BAPTIST CONVENTION OF AMERICA INCORPORATED” holds a letter of tax exemption that will also be valid for subordinate entities. An individual Baptist congregation affiliated with the National Baptist Convention can use the national organization’s letter of tax exemption to accompany the signed exemption certificate.

To simplify the hotel occupancy tax exemption issue, THLA publishes a chart that hotels and city governments can utilize to determine when a hotel occupancy tax exemption is permitted under state law and what documentation is required.

³⁵ §3.163(b).

³⁶ See generally Tex. Tax Code § 351.005; Tex. Comptroller Opinion Letter No. 200202815L, Feb. 22, 2002.

³⁷ Tex. Att’y Gen. JM-865 (1988).

³⁸ Tex. Comptroller Opinion Letter No. 200109470L, Sep. 13, 2001.

THLA’s Simplified Hotel Occupancy Tax Exemption Rules

| TYPE OF BUSINESS REQUESTING EXEMPTION | EXEMPT FROM STATE H.O.T. | EXEMPT FROM LOCAL H.O.T. | COMMENTS |
|---|-------------------------------------|--------------------------|--|
| Agricultural Development Corporations | Yes | Yes | Guest must present Texas Comptroller letter of tax exemption, and Guest must fill out tax exemption certificate form. |
| City & County Employees | Not exempt | Not exempt | Local government employees are not exempt from hotel occupancy taxes, even when traveling on official business. |
| Charitable Organizations | Depends (see comments to the right) | Not exempt | Guest must present Texas Comptroller letter of tax exemption, and Guest must fill out tax exemption certificate form. Charitable entities must be able to show that they devote all or substantially all of their activities to the alleviation of poverty, disease, pain, and suffering by providing food, clothing, drugs, treatment shelter, or psychological counseling directly to indigent or similarly deserving members of society, with entity funds derived from sources other than fees or charges for its services. Other 501 (c) (3) and 501 (c) (6) entities are not exempt. |
| Texas Educational Organizations (see comments on the right regarding differences between Texas and out-of-state educational organizations) | Yes | Not exempt | Guest must fill out tax exemption certificate form. State law limits the state hotel occupancy tax exemption for higher education entities to only Texas institutions of higher education. Out-of-state higher education entities are not exempt from the state or local hotel occupancy tax. However, out-of-state educational entities that are not institutions of higher education (high schools, middle schools, elementary schools, etc.) are exempt from state hotel occupancy taxes just like their Texas counterparts. |
| Electric & Telephone Cooperatives | Yes | Yes | Guest must present Texas Comptroller letter of tax exemption, and Guest must fill out tax exemption certificate form. |
| Federal Credit Unions | Yes | Yes | Guest must fill out tax exemption certificate form, and Present a valid ID. Texas Comptroller opinion letters indicate that employees traveling on official business as employees of a federal credit union are treated as federal government employees. |
| Federal Employees (includes FEMA and Red Cross reimbursed rooms) | Yes | Yes | Guest must fill out tax exemption certificate form, and Present a valid ID. |
| Foreign Diplomats | Yes | Yes | Guest must fill out tax exemption certificate form, and Guest must present tax exempt card issued by U.S. Department of State. |

| TYPE OF BUSINESS REQUESTING EXEMPTION | EXEMPT FROM STATE H.O.T. | EXEMPT FROM LOCAL H.O.T. | COMMENTS |
|--|---------------------------------|---------------------------------|--|
| Health Facilities Development Corporations | Yes | Yes | Guest must present Texas Comptroller letter of tax exemption, and Guest must fill out tax exemption certificate form. |
| Housing Authorities & Finance Corporations | Yes | Yes | Guest must present Texas Comptroller letter of tax exemption, and Guest must fill out tax exemption certificate form. |
| Pan American Games Olympic Games Local Organizing Committees | Yes | Yes | Guest must present Texas Comptroller letter of tax exemption, and Guest must fill out tax exemption certificate form. |
| Permanent Residents (30 days or more) | Yes | Yes | Guest must notify hotel of their intent to stay 30 or more days at the beginning. Guests who notify hotel in advance or at check-in of intent to stay longer than 30 days and have no interruption in their stay qualify for a state and local hotel occupancy tax exemption for their first 30 days of their hotel stay, and any consecutive days thereafter. If stay is interrupted, hotel occupancy taxes must be paid. Guests who do not notify the hotel of the anticipated over 30-day duration of their stay are only exempt for hotel occupancy taxes beginning on the 31 st consecutive day of their stay. |
| Public Facility Corporation | Yes | Yes | Guest must present Texas Comptroller letter of tax exemption, and Guest must fill out tax exemption certificate form. |
| Regional Education Service Centers | Yes | Not exempt | Guest must present Texas Comptroller letter of tax exemption, and Guest must fill out tax exemption certificate form. |
| Religious Organizations | Yes | Not exempt | Guest must present Texas Comptroller letter of tax exemption, and Guest must fill out tax exemption certificate form. |
| High Ranking State Officials with Hotel occupancy tax Exemption Photo ID Card | Yes | Yes | Guest must fill out tax exemption certificate form, and Guest must present state photo ID card that specifically notes that employee is exempt from hotel occupancy tax. These include only heads of state agencies; members of state boards and commissions; state legislators and their staff; and state judges. |
| General State Employees <u>without</u> Special Hotel occupancy tax Exemption Photo ID Card | Not exempt | Not exempt | Guest must pay the state and local hotel occupancy tax, and then their state agency may apply for hotel occupancy tax reimbursement from the local and state governments through a separate process. |

How the City Receives the Municipal Hotel Occupancy Tax

The hotel occupancy tax is collected from the hotel guest when the guest makes payment for the hotel room. The tax is then remitted by the hotel to the city on a regular basis, to be established by the city, usually monthly or quarterly. Although the Texas Comptroller's Office is not directly involved in the collection of the local hotel occupancy tax, cities sometimes use the same reporting timeframes for local hotel occupancy tax collection that are used by the Texas Comptroller for collection of the state hotel occupancy tax. This allows hotels to follow a consistent payment pattern. The Texas Comptroller's timeframes are as follows: Hotels owing less than \$500 in state hotel occupancy tax for each calendar month, or \$1,500 for a calendar quarter, report and remit tax on the 20th day of the month following the end of the fiscal year quarter. All other hotels file monthly state hotel occupancy tax returns by the 20th day of the following month. If the 20th day falls on a weekend or bank holiday, the hotel occupancy tax return is due on the next business day.³⁹

Regardless of the reporting period used, cities often require hotels to include a copy of the hotel's state hotel occupancy tax report for the Texas Comptroller as part of their report. The state report data may be used to check the local report provided by the hotel to the city. It is important to remember, however, that the amount of taxable revenue will vary to a certain degree between the state and local hotel occupancy tax based on the amount of state hotel occupancy tax exempt business a property handles that is not exempt from the local hotel occupancy tax, and the amount of meeting room rentals subject solely to the state hotel occupancy tax.

Reimbursement to a Hotel for Collection Expenses, and Use of Local Hotel Occupancy Tax Revenues by a City for Tax Collection Costs

By ordinance, a municipality may allow hotel operators to retain up to one percent of the amount of hotel occupancy taxes collected as reimbursement for the costs of collecting the tax.⁴⁰ The municipality may require hotels to forfeit the reimbursement because of a failure to pay the tax or failure to file a report as required by the municipality.⁴¹

Cities may spend each year not more than the lesser of one percent or \$75,000 of the city's hotel occupancy tax revenues for the actual costs during that year for the creation, maintenance, operation, and administration of an electronic tax administration system.⁴² If a city uses hotel occupancy tax revenue for such a system, the city must allow the hotels to retain one percent of the hotel occupancy tax revenue collected to offset the costs of collecting the tax. A city may contract with a third party for this electronic administration system.⁴³ The state statutes do not contain any other provisions allowing city governments to retain any of the collected tax to cover costs of imposing or collecting the tax.

A city may not use hotel occupancy tax revenue to pay for audits of area hotels.⁴⁴ However, cities that undertake responsibility for operating a facility or event funded by the local hotel occupancy tax may be reimbursed from the hotel occupancy tax revenues for actual expenses incurred in operating the facility or event, if the hotel occupancy tax funded expenditure directly promotes tourism and local hotel and convention activity.⁴⁵

³⁹ Tex. Comptroller's FAQ, <https://comptroller.texas.gov/taxes/hotel/>.

⁴⁰ Tex. Tax Code § 351.005(a).

⁴¹ § 351.005(b).

⁴² § 351.1012.

⁴³ *Id.*

⁴⁴ *Id.*

⁴⁵ § 351.101(e).

Penalties for Failure to Report or Collect the Tax

The local hotel occupancy tax statutes provide for specific penalties a city may assess against hotel operators who fail to file the hotel occupancy tax collections report, file late or without full payment, or produce false tax returns.⁴⁶

Interest, penalties, and attorney's fees:

A city may include a provision in its hotel occupancy tax ordinance that imposes a 15 percent penalty of the total amount of the tax owed, but only if the tax has been delinquent for at least one complete municipal fiscal quarter.⁴⁷ Additionally, a delinquent hotel operator may be liable to the municipality for the municipality's reasonable attorney's fees.⁴⁸ The hotel occupancy tax ordinance may also include a provision that makes it a criminal misdemeanor offense for failure to collect the tax, failure to file a return, filing a false return, or failure to timely make the hotel occupancy tax remittances.⁴⁹

A city may assess interest on delinquent unpaid hotel occupancy taxes, with interest accruing from the first day after the date the hotel occupancy tax is due to the city.⁵⁰ The maximum interest rate a city may assess is the greater of either, 1) the prime rate published in the Wall Street Journal plus one percent, or 2) the rate the city imposed on January 1, 2013.⁵¹

Audits, audit costs, and concurrent state tax delinquencies:

Generally, a city may not use hotel occupancy tax revenues to pay for audit costs associated with administrating the collection of hotel occupancy taxes.⁵² However, a city can require a hotel to pay the costs of a city audit of the hotel's revenues if the hotel did not file a tax report as required by the municipality, but only if 1) the hotel is delinquent for at least two complete municipal calendar quarters; and 2) the municipality has not received a disbursement from the Texas Comptroller for the hotel's concurrent state hotel occupancy tax delinquency.⁵³

The concurrent state hotel occupancy tax delinquency provision in the Tax Code allows cities to receive a commission from the Texas Comptroller if the Comptroller successfully utilizes city audit information to collect delinquent state hotel occupancy taxes from the hotel.⁵⁴ First, a city submits any documentation or other information to the Comptroller that shows a hotel's failure to collect or pay hotel occupancy tax. The Comptroller then reviews the submitted information and determines whether to proceed with state hotel occupancy tax collection and enforcement.⁵⁵ If the information submitted by the city results in the collection of delinquency state hotel occupancy taxes, the Comptroller will remit 20 percent of the revenues collected by the Comptroller to the city, to defray the city's hotel occupancy tax audit costs.⁵⁶

Alternatively, a city may request any available state hotel occupancy tax audit information from the Texas

⁴⁶ § 351.004.

⁴⁷ *Id.*

⁴⁸ *Id.*

⁴⁹ *Id.*

⁵⁰ § 351.0042.

⁵¹ *Id.*

⁵² See generally § 351.101(e). The Tax Code contains an exception to the prohibition on using hotel occupancy tax revenues to pay for audit costs specific to the City of Amarillo. Under Tex. Tax Code § 351.1067, the City of Amarillo may use hotel occupancy tax revenues to pay for the costs of auditing a hotel, provided the City audits no more than one-third of the total number of hotels in the city in any fiscal year.

⁵³ § 351.004.

⁵⁴ *Id.*

⁵⁵ *Id.*

⁵⁶ *Id.*

Comptroller. The city must keep such state hotel occupancy tax audit information confidential and use the information only for enforcement or administration of the city's hotel occupancy tax. To obtain such information, a city may make a written request to the Comptroller's Office, Open Records Section, at P.O. Box 13528, Austin, Texas 78711. The request must be on city letterhead and signed by a high-level city official, preferably the mayor. Requests can also be made using an electronic portal found on the Comptroller's website: <https://comptroller.texas.gov/about/policies/open-records/>. A city may also fax such a written request to the Comptroller's Office, Open Records Section, at (512) 475-1610.

Enforcement Authority of a City

Cities are also given the authority to take the following actions against a hotel operator who fails to report or collect the local hotel occupancy tax:

- require the forfeiture of any revenue the city allowed the hotel operator to retain for its cost of collecting the tax;⁵⁷
- bring a civil suit against the hotel operator for noncompliance;
- ask the district court to enjoin operation of the hotel until the report is filed and/or the tax is paid;⁵⁸ and
- any other remedies provided under Texas law.

The most noteworthy of these remedies is the ability of the city to request that the district court close the hotel if the hotel occupancy taxes are not turned over. Informing the hotel operator of the possibility of such a closure generally results in compliance by the hotel.

A city may also require in its hotel occupancy tax ordinance that persons buying a hotel retain out of the purchase price an amount sufficient to cover any delinquent hotel occupancy taxes that are due to the city.⁵⁹ If the buyer does not remit this amount or show proof that the hotel is current in remitting its hotel occupancy taxes, the buyer becomes liable for any past delinquent hotel occupancy taxes due on the purchased hotel.⁶⁰ The purchaser of a hotel may request that the city provide a receipt showing that no hotel occupancy tax is due ("Letter of No Tax Due") on the property to be purchased.⁶¹ The city is required to issue the statement not later than the 60th day after the request. If the city fails to issue the statement by the deadline, the purchaser is released from the obligation to withhold the amount due from the hotel purchase price.⁶²

The statute of limitations for a lawsuit related to the collection and delinquency of hotel occupancy taxes is four years from the date the hotel occupancy tax is due.⁶³ However, the statute of limitations period does not apply if a hotel fails to file a report for the tax, or if the hotel files a false or fraudulent report with the intent to evade the tax.⁶⁴

⁵⁷ *Id.*

⁵⁸ *Id.*

⁵⁹ § 351.0041.

⁶⁰ *Id.*

⁶¹ *Id.*

⁶² *Id.*

⁶³ *Id.*

⁶⁴ *Id.*

Use of Local Hotel Occupancy Tax Revenues

There is a two-part test for every expenditure of local hotel occupancy tax.⁶⁵

Criteria #1: First, every local hotel occupancy tax revenue expenditure must DIRECTLY enhance and promote tourism AND the convention and hotel industry.⁶⁶

Under the Tax Code, every event, program, or facility funded with local hotel occupancy tax revenues must be likely to do two things: 1) directly promote tourism; and 2) directly promote the convention and hotel industry.⁶⁷ “Tourism” is defined under Texas state law as guiding or managing individuals who are traveling to a different, city, county, state, or country for business, pleasure, recreation, education, or culture.⁶⁸ A “direct” promotion of the convention and hotel industry has been consistently interpreted by the Texas Attorney General as a program, event, or facility likely to cause increased hotel or convention activity.⁶⁹ This activity may result from hotel or convention guests who are already in town and choose to attend the hotel occupancy tax revenue funded facility or arts or historical event, or it may result from individuals who come from another city or county to stay in an area lodging property at least in part to attend the hotel occupancy tax revenue funded event or facility.

If the hotel occupancy tax revenue funded event or facility is not reasonably likely to directly enhance tourism and the hotel and convention industry, local hotel occupancy tax revenues cannot legally fund it.⁷⁰ However, it is important to note that events and facilities that do not qualify for hotel occupancy tax revenue funding are often still legally eligible for city funding from other funding sources available to the city, such as general property tax revenues, general sales tax revenues, franchise fee revenues, etc.

There is no statutory formula for determining the level of impact an event must have to satisfy the requirement to directly promote tourism and hotel and convention activity.⁷¹ However, communities with successful tourism promotion programs often condition the amount of hotel occupancy tax revenue that is awarded to the proportionate impact of the event or facility on tourism and hotel activity incident to the funding request. Entities applying for hotel occupancy tax revenue funding should indicate how they will market the event to attract tourists and hotel guests. If an entity does not adequately market its events to tourists and hotel guests, it is difficult to produce an event or facility that will effectively promote tourism and hotel activity.

A city or delegated entity should also consider whether a funded event will be held in a venue that will likely attract tourists and hotel guests. For example, if an event is held in a local school or community center, it may be less likely to attract tourists than if it is held at a local performing arts venue, museum, or civic center. Each community will need to assess whether the facility hosting the function is likely to attract tourists and hotel guests. Similarly, if an event is a community picnic, local parade, educational class, or other similar type of event, it is often not likely to attract tourists and hotel guests and would not likely be eligible for hotel occupancy tax revenue funding.

⁶⁵ §§ 351.101(a), (b).

⁶⁶ §§ 351.101(b).

⁶⁷ *Id.*

⁶⁸ § 351.001(6).

⁶⁹ See Op. Tex. Att’y Gen. Nos. GA-0124 (2003), JM-690 (1987).

⁷⁰ *Id.*

⁷¹ See generally Tex. Tax Code §§ 351.101(a), (b).

Finally, it is a good practice to utilize a hotel occupancy tax revenue application form. THLA has a sample hotel occupancy tax revenue application form and a “post event” form that are already in use by many city governments throughout Texas. For a copy of these two forms, call THLA at (512) 474-2996, or email THLA at news@texaslodging.com. These forms pose questions of funding applicants such as “Do you have a hotel room block for your events?” and “What do you expect to be the number of room nights sold for this event?” Additionally, the application asks if the entity has negotiated a special hotel price for attendees of their funded event. If the entity does not find the need to reserve a hotel space or a room block or negotiate a special hotel rate, it is not likely that they anticipate their event/s will have a meaningful impact on hotel activity.

City staff and hotel occupancy tax revenue funded entities can also visit with area hoteliers who, in many cases, can provide feedback on whether any of their hotel guests expressed an interest in attending such events or facilities in the past. Hotel front desk and management staff usually know what local events and facilities were of interest to their guests by notes in their reservation systems, requests for directions, and information and transportation to such venues by hotel patrons.

After a hotel occupancy tax revenue grant recipient’s event or program is offered for several years, the recipient should have a reasonable idea as to whether their event or program’s attendance includes a particular number of tourists and hotel guests. For example, some entities track whether guests are staying at local hotels via their event guest log or surveys. Other entities measure potential out-of-town attendance from their ticket sales records or other survey information.

It is important to note that Texas law also provides that local hotel occupancy tax revenue may not be used for general revenue purposes or general governmental operations of a municipality.⁷² It also may not be used to pay for governmental expenses that are not directly related to increasing tourism and hotel and convention activity.⁷³ For example, consider a request to use the hotel occupancy tax revenue to pay for construction of additional lighting, restrooms, roads, sidewalks, or landscaping in a downtown area. These are expenditures for which the city would traditionally use its general revenues. Therefore, such an expenditure would violate the prohibition against using the hotel occupancy tax revenue for “general governmental operations of a municipality.”⁷⁴ It is difficult to argue that such improvements to a non-tourism facility would “directly” promote tourism and hotel activity. At best, one could argue the improvements would “indirectly” enhance tourism and hotel activity—which is not sufficient under the clear language of the Tax Code to qualify for funding from the local hotel occupancy tax.

⁷² Tex. Tax Code § 351.101(b); *see also* Op. Tex. Att’y Gen. Nos. JM-184 (1984), JM-965(1988).

⁷³ *Id.*

⁷⁴ *Id.*

Criteria #2: Every expenditure of the hotel occupancy tax must clearly fit into one of nine statutorily provided categories for expenditure of local hotel occupancy tax revenues.⁷⁵

The nine categories for expenditure of the hotel occupancy tax are as follows:

1) Funding the establishment, improvement, or maintenance of a convention center or visitor information center.

This category allows expenditures of the hotel occupancy tax for the creation, improvement, or upkeep of a convention center or a visitor information center, or both.⁷⁶

Convention centers.

The term “convention center” is defined to include civic centers, auditoriums, exhibition halls, and coliseums that are owned by the city or another governmental entity or that are managed in whole or in part by the city.⁷⁷ It also includes parking areas within 1,500 feet of the convention center facility.⁷⁸ It does not include facilities that are not of the same general characteristics as the structures listed above.

Texas law specifies that for a facility to be funded as a convention center, it must be a facility primarily used to host conventions and meetings attended by tourists or individuals who spend the night at a hotel or attend a meeting at a hotel.⁷⁹ “Primarily used” in this context means that more than 50 percent of the bookings for the facility are to host conventions or meetings that directly promote tourism and the hotel and convention industry.⁸⁰

Simply naming a facility a convention center or visitor information center does not automatically qualify the facility as a “convention center.” The authority to use the hotel occupancy tax revenue for facilities is limited and any such facility must meet the above noted “primary usage” test. For example, general civic buildings such as the city hall, local senior citizen centers or activity centers would not qualify as convention centers that could be funded by hotel occupancy tax revenue.

Visitor information centers.

A visitor information center is defined as a “building or a portion of a building that is primarily used to distribute or disseminate information to tourists.”⁸¹ A visitor information center may be operated by the city itself or by another entity such as a chamber of commerce or other entity.⁸² If the visitor information center and staff serve multiple purposes (e.g., chamber staff or a chamber facility that is both the chamber office and a visitor center), the cost of the visitor center and its operational costs including staffing can only be covered by local hotel occupancy tax revenue to the extent the facility and the staffing are used for activities related to directly funding hotel activity.⁸³ Municipal hotel occupancy tax revenues may not be spent under the visitor information center category to construct, operate, staff, or maintain a part of

⁷⁵ Tex. Tax Code § 351.101(a).

⁷⁶ § 351.101(a)(1).

⁷⁷ § 351.001(2).

⁷⁸ *Id.*

⁷⁹ *Id.*

⁸⁰ *Id.*; see generally Tex. Tax Code §§ 351.101(a), (b).

⁸¹ § 351.001(8).

⁸² *Id.*

⁸³ 351.101(f-1); 351.101(e).

a building or facility that is not primarily used as a visitor information center.⁸⁴

2) Paying the administrative costs for facilitating convention registration.

This provision allows local hotel occupancy tax revenue expenditures for administrative costs that are actually incurred for assisting in the registration of convention delegates or attendees.⁸⁵ This is generally an expenditure by bigger cities that hold large conventions, and includes covering the personnel costs and costs of materials for the registration of convention delegates or attendees.

3) Paying for advertising, solicitations, and promotions that attract tourists and convention delegates to the city or its vicinity.

This provision allows hotel occupancy tax revenue expenditures for solicitations or promotional programs/advertising directly related to attracting tourists and convention delegates to the city or its vicinity.⁸⁶ Such expenditures are traditionally in the form of internet, social media, newspaper, mail, television, or radio ads; or solicitations to attract attendees to an event or meeting at a facility. The advertising or promotion must directly promote the hotel and convention industry.⁸⁷ For example, the Texas Attorney General ruled that the local hotel occupancy tax may not be used for advertising or other economic development initiatives or improvements to attract new businesses or permanent residents to a city.⁸⁸

4) Expenditures that promote the arts.

This section authorizes the expenditure of local hotel occupancy tax revenue for a variety of art-related programs that also promote tourism and local hotel and convention activity.⁸⁹ Specifically, it allows funding the encouragement, promotion, improvement, and application of the arts including instrumental and vocal music, dance, drama, folk art, creative writing, architecture, design and allied fields, painting, sculpture, photography, graphic and craft arts, motion pictures, radio, television, tape and sound recording, and other arts related to the presentation, performance, execution and exhibition of these major art forms.⁹⁰ However, it is not enough that a facility or event promotes the arts; Texas law requires that the arts related expenditure also directly promote tourism and the hotel and convention industry.⁹¹

Section 351.101(a) of the Tax Code specifically states, “the municipal hotel occupancy tax may be used only to promote tourism and the convention and hotel industry.” The Texas Attorney General reaffirmed this standard in Opinion GA-0124: “Under section 351.101 of the Tax Code, a municipality may expend its municipal hotel occupancy tax revenue only to promote tourism and the convention and hotel industry, and only for the specific uses listed in the statute.”

THLA and Texans for the Arts (TFA) created a memorandum of understanding to assist local governments

⁸⁴ § 351.101(f-1).

⁸⁵ § 351.101(a)(2).

⁸⁶ § 351.101(a)(3).

⁸⁷ § 351.101(b).

⁸⁸ Op. Tex. Att’y Gen. No. JM-690 (1987).

⁸⁹ Tex. Tax Code § 351.101(a)(4).

⁹⁰ *Id.*

⁹¹ § 351.101(b).

in implementing hotel occupancy tax laws as they relate to the arts. To comply with the hotel occupancy tax statute, THLA and TFA agree that to be eligible for arts funding from HOT revenues, arts-related recipients must satisfy the following three requirements:

1. The recipient must present, perform, promote, encourage or otherwise make possible, artistic events, cultural performances, programs, exhibitions or lectures involving any of the major art forms listed in Texas Tax Code Section 351.101 (a) (4), or “other arts related to the presentation, performance, execution and exhibition of these major art forms.”
2. The hotel occupancy tax funded programs, facilities, or events must be advertised and open to the general public. And,
3. The hotel occupancy tax for funded programs, facilities, or events must be expended in a manner that directly enhances and promotes tourism and the convention and hotel industry.

With regard to the requirement within Number 3 above related to directly enhancing and promoting tourism and the convention and hotel industry, THLA and TFA agree that the Tax Code does not require a recipient to demonstrate a proportionate level of direct impact on tourism and the convention and hotel industry to be eligible for local hotel occupancy tax revenue funding. However, the demonstration of some level of direct impact on tourism and the convention and hotel industry is required.

The following factors may be beneficial to consider, but this list is neither exhaustive nor mandatory:

- a. Offering Arts Events as Part of a Tourism/Hotel Event: The hotel occupancy tax revenue funded arts entity can show a direct impact on the hotel and convention industry by providing entertainment or arts related services for conventions, conferences and meetings that are attended in whole or part by convention and/or hotel guests.
- b. Use of Hotel Facilities/Services by the Arts: The hotel occupancy tax revenue funded arts entity can show a direct impact on the hotel and convention industry by using local lodging facilities and/or lodging services for galas or other events that are held by the hotel occupancy tax revenue funded arts entity. A direct impact on hotels can also be shown through the use of hotel dining or hotel entertainment facilities by arts patrons either before and/or after hotel occupancy tax revenue funded arts events.
- c. Creating or Causing Room Night Activity at Area Hotels: The hotel occupancy tax revenue funded arts entity can show a direct impact on the hotel and convention industry through the reservation of hotel rooms for visiting artists and/or showing other hotel activity that is directly attributable to the hotel occupancy tax revenue funded arts event or facility.
- d. Surveying of Attendees at Arts Related Events: The hotel occupancy tax revenue funded arts entity can show a direct impact on the hotel and convention industry through audience or attendee questionnaires, polling, hotel block booking codes, or other methods that show hotel night or other hotel or convention activity that is directly attributable to the hotel occupancy tax revenue funded arts event or facility. Surveying of Attendees at Arts Related Events: The hotel occupancy tax revenue funded arts entity can show a direct impact on the hotel and convention industry through audience or attendee questionnaires, polling, hotel block booking codes, or other methods that show hotel night or other hotel or convention activity that is directly attributable to the hotel occupancy tax revenue funded arts event or facility.

There are many success stories of cities that have partnered with the arts entities to turn one day arts events into multi-day events that can substantially increase tourism and hotel activity. Such partnerships and long-term planning can help both foster the arts and grow hotel occupancy tax revenue proceeds that

can be made available to the arts and other eligible uses.

Expenditure Cap on Art-Related Events and Activities

The percentage of total local hotel occupancy tax revenue funds a city may allocate to the arts category is limited by state statute. Most cities in Texas may not expend more than 15 percent of the city's annual hotel occupancy tax revenue on the arts category. The "Special Rules" section of this guide, starting on page 28, sets forth the funding cap that applies to each city.

Once a city's annual expenditures of local hotel occupancy tax revenue reach the applicable cap on expenditures for the arts, the city may not expend any additional hotel occupancy tax revenue in that budget year for projects which would fairly fit under the arts category. For example, if an expenditure provides funding to advertise an arts program, that expenditure is categorized under the "promotion of the arts" subsection of the Tax Code, and the expenditure would be subject to the annual applicable cap on expenditures for the arts.

Attorney General opinion on arts-related facilities

In 2017, the Texas Attorney General issued opinion number KP-0131 regarding whether a city can expend hotel occupancy tax revenues for an arts-related facility under the arts category of the Tax Code. This opinion was requested by the City of Lakeway regarding funding the construction of a new performing arts center (referred to as "PAC"), to be owned by the City. The City of Lakeway requested an Attorney General opinion on whether the City may legally use hotel occupancy tax revenue to pay for 1) a feasibility study for the PAC, and 2) the construction, operation, and maintenance of the PAC.

In Opinion KP-0131, the Attorney General took a strict position on using local hotel occupancy tax revenue for an arts facility. The opinion states that the phrase, "promotion of the arts," in the state statute does not expressly authorize the use of municipal hotel occupancy tax revenues for the construction of arts facilities. The opinion concluded, "construction costs of theater facilities, considered alone, are not within the scope" of the arts category of hotel occupancy tax expenditures.⁹² Based on this reasoning, it seems that the Texas Attorney General holds that funding of a physical structure with local hotel occupancy tax revenue must be specifically authorized under some other statutory category of hotel occupancy tax revenue expenditures, aside from the general "promotion of the arts" category.

In 2021, the Texas Attorney General reaffirmed KP-0131 by issuing KP-0350, regarding whether a city can expend hotel occupancy tax revenues for the completion of public space and a clubhouse at an apartment complex.⁹³ Opinion KP-0350 held such an expenditure is not allowable under the Tax Code, and reaffirmed KP-0131, stating, "Opinion KP-0131 concluded that construction costs, considered alone, are not within the scope of subsection 351.101(a)(4), and that any construction costs associated with any particular facility are proper costs for the hotel occupancy tax revenue only if they are incurred under subsection 351.101(a)(1). Tex. Att'y Gen. Op. No. KP-0131 (2017) at 2. An expenditure made under subsection 351.101(a)(4) must conform to these limitations to satisfy the second aspect." Additionally, KP-0350 concluded that because the expenditure would benefit apartment residents, rather than hotel guests, the expenditure does not qualify under the Tax Code.

⁹² Op. Tex. Att'y Gen. No. KP-0131 (2017).

⁹³ Op. Tex. Att'y Gen. No. KP-0150 (2021).

5) Funding historical restoration or preservation programs.

A city may spend a portion of its hotel occupancy tax revenues to enhance historical restoration and preservation projects or activities, or advertising and conducting solicitations and promotional programs to encourage tourists and convention delegates to visit preserved historic sites or museums that are likely to attract tourists and hotel guests.⁹⁴ Texas law does not limit such funding to structures that are owned by a public or nonprofit entity, or to whether the project is listed on a historic registry, but the city may choose to impose such limitations by city ordinance or policy.

It is not enough that a project or activity event merely be historical in nature; Texas law requires that the historical related expenditure also directly promote tourism and the hotel and convention industry.⁹⁵ Section 351.101(a) of the Tax Code specifically states that “the municipal hotel occupancy tax may be used only to promote tourism and the convention and hotel industry.” The Attorney General in Opinion GA-0124 (2003) reaffirmed this standard when it held: “Under section 351.101 of the Tax Code, a municipality may expend its municipal hotel occupancy tax revenue “only to promote tourism and the convention and hotel industry” and only for the specific uses listed in the statute.”

Additionally, the percentage of total local hotel occupancy tax revenues that a city may allocate to the historical program’s category is generally limited by statute. Most cities in Texas may not expend more than 15 percent of the city’s annual hotel occupancy tax revenue on the historical restoration and preservation category.⁹⁶ See the “Special Rules” section of this guide, starting on page 28.

6) Funding certain expenses, including promotional expenses, directly related to a sporting event within counties with a population of under one million.

This section authorizes a municipality located in a county with a population of under one million to use local hotel occupancy tax revenue to fund certain expenses, including promotional expenses, directly related to a sporting event.⁹⁷ To qualify under this authorization, the sporting event must be one that would “substantially increase economic activity at hotels and motels within the city or its vicinity.”⁹⁸ The statutory authorization also requires that a majority of the participants in the sporting event be tourists (visitors from another city or county) to the area.⁹⁹

This category is intended to allow communities to fund the event costs for sporting tournaments that result in substantial hotel activity. For example, if a city had to pay an application fee to seek a particular sporting event or tournament, it could use hotel occupancy tax revenue for such an expenditure if the sporting event would substantially increase economic activity at hotels and the city was within a county of under one million population. The added requirement that a majority of the participants must be “tourists” was included to prevent the use of local hotel occupancy tax revenue for sporting related facilities or events that are purely local (e.g., local recreation centers, local little league and parks events, intramural sports, etc.).

⁹⁴ § 351.101(a)(5).

⁹⁵ § 351.101(b).

⁹⁶ § 351.103(c).

⁹⁷ § 351.101(a)(6).

⁹⁸ *Id.*

⁹⁹ *Id.*

7) Funding the enhancement or upgrading of existing sports facilities or sports fields for certain municipalities.

Certain statutorily bracketed cities may use local hotel occupancy tax revenue to enhance and upgrade existing sports facilities owned by the municipality.¹⁰⁰ The municipality must own the sporting facility, and the municipality must meet one of the following population requirements:

- i. The municipality has a population of 80,000 or more, and is located in a county that has a population of 610,000 or less: **Abilene, Amarillo, Baytown, Beaumont, Brownsville, Bryan, College Station, Corpus Christi, Garland, Grand Prairie, Killeen, Laredo, League City, Longview, Lubbock, Mesquite, Midland, New Braunfels, Odessa, Pearland, Round Rock, San Angelo, Temple, Tyler, Waco, and Wichita Falls.**¹⁰¹
- ii. The municipality has a population of at least 80,000, but not more than 125,000, and is located in a county that has a population of less than 240,000 but more than 233,500: **Bryan and College Station.**¹⁰²
- iii. The municipality has a population of at least 10,000 and is located in a county that has a population of more than 70,000 and borders Lake Livingston; or has a population of 36,000 or more and is located in a county with a population of less than 95,000 that borders Oklahoma: **Huntsville and Texarkana.**¹⁰³
- iv. The municipality has a population of at least 13,000 but not more than 48,000, and is located in a county that has a population of at least 200,000: **Addison, Alamo, Alton, Alvin, Angleton, Anna, Azle, Balch Springs, Bellaire, Belton, Benbrook, Buda, Burleson, Celina, Cibolo, Colleyville, Converse, Coppell, Copperas Cove, Corinth, Crowley, Deer Park, Dickinson, Donna, Duncanville, Farmers Branch, Forest Hill, Friendswood, Fulshear, Glenn Heights, Groves, Haltom City, Harker Heights, Hewitt, Hidalgo, Highland Village, Horizon City, Humble, Hurst, Hutto, Katy, Keller, Lakeway, La Marque, La Porte, Lake Jackson, Lancaster, Little Elm, Live Oak, Manor, Melissa, Mercedes, Murphy, Nederland, Palmview, Port Neches, Portland, Princeton, Prosper, Rosenberg, Royse City, Sachse, Saginaw, San Benito, San Juan, Schertz, Seabrook, Seagoville, Socorro, South Houston, Southlake, Stafford, Taylor, The Colony, Trophy Club, Universal City, University Park, Watauga, Weslaco, West University Place, and White Settlement.**¹⁰⁴
- v. The municipality has a population of at least 70,000, but not more than 90,000, and no part of the city is located in a county with a population greater than 150,000: **Longview.**¹⁰⁵
- vi. The municipality is located in a county that is adjacent to the Texas-Mexico border, the county has a population of at least 500,000, and the county does not have a municipality with a population greater than 500,000: Cities in Hidalgo County including, but not limited to **McAllen, Edinburg, Mission, and Pharr.**¹⁰⁶
- vii. The municipality is located in a county that has a population of 100,000 or less and the municipality has a population of, a) more than 24,400 and less than 25,000, or b) more than 28,150 and less than 31,000: **Greenville and Paris.**¹⁰⁷
- viii. The municipality is located in a county that has a population of not more than 300,000 and in

¹⁰⁰ § 351.101(a)(7).

¹⁰¹ § 351.101(a)(7)(B)(i).

¹⁰² § 351.101(a)(7)(B)(ii).

¹⁰³ § 351.101(a)(7)(B)(iii).

¹⁰⁴ § 351.101(a)(7)(B)(iv).

¹⁰⁵ § 351.101(a)(7)(B)(v).

¹⁰⁶ § 351.101(a)(7)(B)(vi).

¹⁰⁷ § 351.101(a)(7)(B)(vii).

- which a component university of the University of Houston System is located: **Victoria**.¹⁰⁸
- ix. The municipality has a population of at least 40,000 and the San Marcos River flows through the municipality: **San Marcos**.¹⁰⁹
 - x. The municipality is intersected by both State Highways 71 and 95: **Bastrop**.¹¹⁰
 - xi. The municipality that has a population of more than 10,000 and contains a portion of Mound Lake: **Brownfield**.¹¹¹
 - xii. The municipality that has a population of not more than 15,200, that contains an outdoor gear and sporting goods retailer with retailer space larger than 175,000 square feet: **Buda***.¹¹²
 - xiii. The municipality that has a population of at least 6,000 and that is the county seat of a county that borders that State of Louisiana, is bisected by the United States highway, and has a population of 75,000 or less: **Marshall and Carthage**.¹¹³
 - xiv. The municipality has a population of more than 67,000 and is located in two counties with 90 percent of the municipality's territory located in a county with a population of at least 800,000, and the remaining territory located in a county with a population of at least four million: **Missouri City**.¹¹⁴
 - xv. The municipality with a population of not more than 1,500 and is located in a county that borders Arkansas and Louisiana: **Queen City***.¹¹⁵
 - xvi. The municipality with a population of at least 200,000 and shares a border with Lake Ray Hubbard: **Garland**.¹¹⁶
 - xvii. A municipality that is the county seat of a county with a population of at least 8,500 and that county contains part of the Chaparral Wildlife Management Area: **Carrizo Springs***.¹¹⁷
 - xviii. A municipality that has a population of more than 67,000 and is located in two counties with 90 percent of the municipality's territory located in a county with a population of at least 800,000, and the remaining territory located in a county with a population of at least four million: **Missouri City**.¹¹⁸
 - xix. A municipality that contains an intersection of Interstate 35E and 35W and at least two public universities: **Denton**.¹¹⁹
 - xx. A municipality that is bisected by the Guadalupe River and is the county seat of a county with a population of 170,000 or more: **Seguin**.¹²⁰
 - xxi. A municipality that has a population of less than 40,000, contains a portion of Lake Corpus Christi, and is adjacent to a county that has a population of less than 400,000 and contains a municipality with a population of at least 300,000: **Alice**.¹²¹
 - xxii. A municipality that has a population of 70,000 or more but less than 90,000 and is located in two counties, one of which has a population of four million or more and the other of which has a

¹⁰⁸ § 351.101(a)(7)(B)(viii).

¹⁰⁹ § 351.101(a)(7)(B)(ix).

¹¹⁰ § 351.101(k).

¹¹¹ § 351.10711.

¹¹² § 351.101(o). *Buda's legislation allows for the construction of a new sports facility.

¹¹³ § 351.1079(a)(6)(xiv).

¹¹⁴ § 351.101(a)(6)(x).

¹¹⁵ § 351.101(n). *Legislation in the 2021 session eliminated the requirement for Queen City's facility to be used at least 10 times in the preceding year for championship sports activity.

¹¹⁶ §§ 351.101(a)(6)(C); 351.101(a)(7)(B)(xii).

¹¹⁷ § 351.1069. *Legislation in the 2021 session negated the requirement for Carrizo Spring's facility to be used at least 10 times in the preceding year for championship sports activity.

¹¹⁸ § 351.101(a)(7)(B)(x).

¹¹⁹ § 351.101(a)(7)(B)(xi).

¹²⁰ § 351.101(t).

¹²¹ § 351.10691.

population of less than 50,000: **Baytown**.¹²²

[Note that statutory population brackets are based on the most recent decennial U.S. Census. The most recently decennial Census for which data is available was conducted in 2020. The Texas Legislature updated many of the population brackets via HB 4559 in the 2023 Legislative Session.¹²³]

Texas state law further requires that before local hotel occupancy tax can be used for this purpose, the sports facilities and fields must have been used a combined total of more than 10 times for district, state, regional, or national sports tournaments in the preceding calendar year.¹²⁴

If local hotel occupancy tax revenues are spent on enhancing or upgrading a sports facility, the municipality must also determine the amount of “area hotel revenue” generated by hotel activity from sports events held at the local hotel occupancy tax revenue funded facility for the five-year period after the upgrades to the sport facility are completed.¹²⁵ The area hotel revenues that were generated from sports events at the hotel occupancy tax revenue funded facility over that five-year period must at least equal the amount of hotel occupancy tax revenue that was spent to upgrade the sports facility. Under this statute, “hotel revenues” refers to the amount of revenue to the hotel from room night sales and any other hotel revenue. It does not refer to the amount of local hotel occupancy tax revenue generated.¹²⁶ If the amount of hotel occupancy tax revenue that was spent on the facility upgrades exceeds the hotel revenue attributable to events held at that facility during the five-year period, the municipality must reimburse the hotel occupancy tax revenue fund any such difference from the municipality’s general fund.¹²⁷

For example, if a city spent \$400,000 on improvements to its soccer fields, it would have to show at least \$400,000 in area hotel revenue directly attributable to events held at that soccer field over the five-year period after the soccer field improvements were completed. If the city could only show \$300,000 in hotel industry revenue due to events held at that soccer field, the city would have to reimburse the city hotel occupancy tax revenue fund with the \$100,000 difference from the city’s general fund.

8) Funding transportation of tourists from hotels to attractions

Often with conventions and large meetings, there is a need to transport the convention attendees to different tourism venues. Originally enacted in 2007 and amended in 2023, the Texas Legislature authorized the use of city hotel occupancy tax revenue for any sized city to cover the costs for transporting tourists from hotels to and near the city to any of the following destinations:

- the commercial center of the city;
- a convention center in the city;
- other hotels in or near the city; and
- tourist attractions in or near the city.¹²⁸

¹²² § 351.101(s).

¹²³ Tex. Gov’t Code Ann. § 311.005(3) (2023).

¹²⁴ Tex. Tax Code §§ 351.101(a)(7), 351.1076.

¹²⁵ *Id.*

¹²⁶ *Id.*

¹²⁷ *Id.*

¹²⁸ § 351.110.

The transportation system must be primarily used by tourists.¹²⁹ For example, this authority could be used to cover the costs of a city to finance certain private shuttles to operate between the convention center and area hotels and attractions for a large city-wide convention. It is important to note that state law specifically prohibits the use of the local hotel occupancy tax revenue to cover the costs for a transportation system that serves the general public.¹³⁰

9) Signage directing tourists to sights and attractions that are visited frequently by hotel guests in the municipality.

In 2009, the Texas Legislature added a statutory category that allows cities to use municipal hotel occupancy tax revenue to pay for signage directing tourists to sights and attractions frequently visited by hotel guests in the municipality.¹³¹

Summary of the Nine Uses for the Local Hotel Occupancy Tax

In summary, local hotel occupancy tax revenues only may be spent to establish or enhance a convention center or visitor information center, cover the administrative expenses for registering convention delegates, pay for tourism-related advertising and promotions, fund arts programs or facilities that will directly promote tourism and hotel and convention activity, fund historic restoration or preservation projects that will directly enhance tourism and hotel and convention activity, in certain cities noted above fund certain costs for holding sporting events and making upgrades to sporting facilities that substantially increase local hotel activity, certain transportation costs for taking tourists from hotels to various tourist attractions, and pay for signage directing tourists to sights and attractions frequently visited by hotel guests. If the city cannot fit an expenditure within one of these nine categories, hotel occupancy tax revenues cannot be used for that purpose, unless a special state statute was passed to allow such additional uses. This article also includes a summary of special provisions and limitations placed on cities that fall into certain population brackets or special geographic areas of the state.

Regarding the use of local hotel occupancy taxes, there is no time limit for a city to expend all its hotel occupancy tax funds. At a minimum, however, state law does require that for cities with a seven percent local hotel occupancy tax rate, at least one-seventh of the hotel occupancy tax revenues must be spent advertising and promoting the city to directly impact tourism and the hotel and convention industry.¹³² It should also be noted that state law requires that interest earned on hotel occupancy tax must be spent in the same way as other hotel occupancy tax revenues.¹³³ State law does not address the use of revenues that are earned from events funded by the local hotel occupancy tax.

¹²⁹ *Id.*

¹³⁰ *Id.*

¹³¹ § 351.101(a)(9).

¹³² §§ 351.103, 351.1035, 351.104(d), 351.105(b), and 351.106(a).

¹³³ §§ 351.001(9), (10).

Administering Hotel Occupancy Tax Revenue Expenditures

City reporting of information to the Texas Comptroller.

Originally enacted in 2017 and amended in 2023, the Texas Legislature enacted a statute requiring all Texas cities that impose a local hotel occupancy tax to annually report to the State Comptroller the hotel occupancy tax rate that the city levies and certain information about the city's expenditures of local hotel occupancy tax.¹³⁴ Specifically, the statute requires the city to report:

- 1) Its municipal hotel occupancy tax rate;
- 2) The annual amount of hotel occupancy tax revenue collected from the municipality's Chapter 351 hotel occupancy tax and, if applicable, the municipality's venue hotel occupancy tax under Chapter 334 of the Local Government Code;
- 3) The amount and percentage of the hotel occupancy tax revenue spent by category during the municipality's preceding fiscal year; and
- 4) The total amount of any hotel occupancy tax revenue collected in the preceding fiscal year that has not been spent and the amount of total unspent hotel occupancy tax revenues.¹³⁵

A municipality that imposes a hotel occupancy tax (HOT) must report this information to the Texas Comptroller via an online reporting form prescribed by the Comptroller. This form can be found at <https://comptroller.texas.gov/transparency/local/hotel-receipts/>. Legislation enacted in 2023 requires changes to the form prescribed by the Comptroller for reporting hotel occupancy tax; the updated version of this form is expected to be released no later than January 1, 2024. The 2024 report to the Comptroller must be submitted using this revised form.

Reporting Deadlines: Municipalities have a 60-day window to report the required information. The annual reporting period begins on January 1 and ends on March 1 of each calendar year.¹³⁶ Legislation enacted in 2023 moved the end of the reporting period back from the prior February date; this will be in effect for the 2024 reporting period.

Costs associated with reporting: To cover potential costs associated with complying with the reporting requirements, a city with a population of less than 10,000 may use up to \$1,000 of its municipal hotel occupancy tax revenue for administrative costs for reporting, and a city with a population of 10,000 or more may use up to \$2,500 of its municipal hotel occupancy tax revenue for administrative costs for reporting.¹³⁷

Duty of funded entities to provide a list of activities.

All entities (including the city itself) that are directly or indirectly funded by local hotel occupancy tax revenue are annually required to provide a list of the scheduled activities, programs, or events that will directly enhance and promote tourism and the convention and hotel industry.¹³⁸ This list is to be provided annually to the city secretary or his/her designee prior to the expenditure of the hotel occupancy tax

¹³⁴ § 351.009.

¹³⁵ *Id.*

¹³⁶ § 351.009.

¹³⁷ § 351.009(d).

¹³⁸ § 351.108(b).

revenue funding by the funded entity.¹³⁹ An entity may add items to this list at any time, and each city decides the format for providing this information. This documentation requirement does not apply if the entity already provides written information to the city indicating which scheduled activities or events that it offers that directly enhance and promote tourism and the convention and hotel industry. For example, cities that require quarterly or annual reports on the use of hotel occupancy tax revenue by hotel occupancy tax revenue funded entities will satisfy this requirement if their report addresses the extent to which their events directly promote tourism and hotel activity.¹⁴⁰

It is important to remember that if an entity does not have any such events or programs reasonably expected to directly promote tourism and the hotel and convention industry, it is not eligible for local hotel occupancy tax revenue funding.¹⁴¹ If only a portion of an entity's programs fit these criteria, then only a proportionate amount of that entity's costs should be covered by the local hotel occupancy tax revenue.¹⁴²

Delegating management of funded activities.

The governing body of a city may delegate the management or supervision of programs funded by the hotel occupancy tax revenue by written contract.¹⁴³ The delegation may be made to a person, another governmental entity, or to a private organization.¹⁴⁴ The delegation is often made to a local arts council, a chamber of commerce, or to the destination marketing organization. The municipality shall approve the entity's annual budget prior to delegating the management or supervision of hotel occupancy tax revenue funded programs.¹⁴⁵ Furthermore, the municipality shall require the delegated entity to make periodic reports, at least quarterly, listing the hotel occupancy tax revenue expenditures made by the delegated entity.¹⁴⁶ Additionally, the Tax Code requires that the contracted entity maintain complete and accurate financial records for every expenditure of hotel occupancy tax revenue, and upon the request of the municipality or another person, make the records available for inspection and review.¹⁴⁷

An entity with delegated authority to manage hotel occupancy tax revenue funded programs undertakes a fiduciary duty with respect to the use of the tax revenue.¹⁴⁸ Such entities are also required to maintain the city hotel occupancy tax revenue in a separate bank account that may not be commingled with any other account or funds.¹⁴⁹ The Tax Code does not contain similar prohibitions against commingling the funds for individual organizations, such as an arts or historical group that receives hotel occupancy tax revenue funding for their individual program, but do not themselves oversee hotel occupancy tax revenue funding to other entities.

Use of hotel occupancy tax revenues to cover administrative expenses.

Under Texas law, some municipal hotel occupancy tax revenue may be used to cover the portion of

¹³⁹ *Id.*; § 351.108(d).

¹⁴⁰ § 351.108(g).

¹⁴¹ § 351.101(b).

¹⁴² § 351.101(e).

¹⁴³ § 351.101(c).

¹⁴⁴ *Id.*

¹⁴⁵ *Id.*

¹⁴⁶ *Id.*

¹⁴⁷ § 351.101(d).

¹⁴⁸ § 351.101(c).

¹⁴⁹ *Id.*

administrative costs that are directly attributable to work on activities that may be funded by the local hotel occupancy tax revenue.¹⁵⁰ For example, entities that manage activities funded by local hotel occupancy tax revenue may spend some of the tax for certain day-to-day operational expenses.¹⁵¹ These expenses may include supplies, salaries, office rental, travel expenses, and other administrative costs.¹⁵² However, these costs may be reimbursed only if the expenses are incurred in the promotion and servicing of expenditures authorized under the hotel occupancy tax statutes.¹⁵³ The portion of the administrative costs that are covered should not exceed the portion of the cost that is attributable to the activity funded by the hotel occupancy tax revenue.¹⁵⁴ For example, administrators who spend 33 percent of their time overseeing hotel occupancy tax revenue funded programs should seek funding for no more than 33 percent of their salary or 33 percent of other related overhead costs. Additionally, hotel occupancy tax revenues may be spent on travel that is directly related to the performance of the person's job in an efficient and professional manner.¹⁵⁵ This travel should facilitate the acquisition of skills and knowledge that will promote tourism and the convention and hotel industry.¹⁵⁶

¹⁵⁰ § 351.101(e).

¹⁵¹ *Id.*

¹⁵² *Id.*

¹⁵³ *Id.*

¹⁵⁴ *Id.*

¹⁵⁵ § 351.101(f).

¹⁵⁶ *Id.*

Special Rules for Certain Municipalities

The Texas Tax Code provides additional rules for certain Texas cities based on the city's population or geographic bracket. Where noted, these special rules supplement or further restrict the general two-part test for hotel occupancy tax revenue expenditures, discussed earlier in this guide. For statutory construction purposes, population brackets are based on the decennial federal census, most recently conducted in 2020.¹⁵⁷

Cities with populations of less than 200,000.

Minimum expenditure on advertising and promotion:

Cities with populations of less than 200,000 must spend a minimum amount of hotel occupancy tax revenue on advertising and promotion, and that minimum depends on the hotel occupancy tax rate adopted by the city: at least the amount of tax revenue derived at a rate of one percent must be spent on advertising and promotion of the city and its vicinity.¹⁵⁸ For example, if a city has a seven percent hotel occupancy tax rate, at least 1/7th of the hotel occupancy tax revenue must annually be spent on advertising and promoting the city and its vicinity to attract tourists and hotel and convention activity.

15 percent maximum expenditure for the arts and 15 percent maximum expenditure for historical restoration and preservation:

Under § 351.103(c), a city with a population of under 200,000 may not expend more than the greater of either 15 percent of the hotel occupancy tax revenue collected or the amount of tax received by the city at the rate of one percent of the cost of a room on promotion of the arts.¹⁵⁹ Additionally a city with a population of under 200,000 may not allocate more than 15 percent of its hotel occupancy tax revenue for historical restoration or preservation projects.¹⁶⁰

Cities with a population of 200,000 or greater (except Houston): Arlington, Austin, Corpus Christi, Dallas, El Paso, Fort Worth, Frisco, Garland, Irving, Laredo, Lubbock, Plano, and San Antonio.

In addition to the general two-part test for all expenditures of the hotel occupancy tax revenue, the above cities have certain specific expenditure limitations that apply to their handling of the local hotel occupancy tax.

15 Percent maximum expenditure for the arts and 15 percent maximum expenditure for historical restoration and preservation:

Under § 351.103(c), a city with a population of at least 200,000 may not expend more than the greater of either 15 percent of the hotel occupancy tax revenue collected or the amount of tax received by the city at the rate of one percent of the cost of a room on promotion of the arts.¹⁶¹ Also, a city with a population of more than 125,000 may not spend more than 15 percent of its hotel occupancy tax revenue on

¹⁵⁷ Tex. Gov't Code § 311.005(3).

¹⁵⁸ § 351.103.

¹⁵⁹ § 351.103(c).

¹⁶⁰ *Id.*

¹⁶¹ § 351.103(c).

historical restoration and preservation programs.¹⁶²

Garland only: The City of Garland is subject to a special statutory provision that requires it to spend at least 30 percent of its annual hotel occupancy tax revenues to advertising and promotion.¹⁶³

Special rules for the City of Houston.

Maximum hotel occupancy tax rate for Houston:

Houston is capped by statute at a total combined hotel occupancy tax rate of 17 percent.¹⁶⁴ This includes the state, city, county, and sports authority hotel occupancy taxes.¹⁶⁵

Minimum 23 percent expenditure for advertising and promotion:

The City of Houston must spend at least 23 percent of the tax revenue it collects on advertising and promotion, unless the allocation impairs the City's ability to operate and maintain its convention center facilities or to pledge revenue for the payment of convention center bonds.¹⁶⁶

Maximum 19.3 percent expenditure for arts:

The City of Houston may not expend more than the greater of 19.3 percent of the hotel occupancy tax revenue collected or the amount of tax received by the city at the rate of 1 percent of the cost of a room on promotion of the arts.¹⁶⁷

Special Rules for Dallas, Austin, Fort Worth, and San Antonio:

Dallas: 55 percent maximum on funding a convention center, and 45 percent minimum on advertising.

Dallas falls into an additional category, "Populous Municipalities with Council-Manager Government," which requires it to use the revenue derived from the portion of the municipal hotel occupancy tax rate that exceeds four percent for the following purposes: 1) no more than 55 percent for the municipality's convention center complex; and 2) at least 45 percent for advertising and promotion.¹⁶⁸ The tax revenue derived from the application of the tax at a rate of up to four percent may be spent for any of the purposes authorized by Section 351.101.

Additional two percent rate for a convention center facility (Austin, Fort Worth, and San Antonio):

Austin, Fort Worth, and San Antonio are authorized to impose up to a nine percent maximum municipal hotel occupancy tax rate.¹⁶⁹ The revenue derived from application of the tax at a rate more than seven percent, and its interest income, may only be used for the construction of an expansion of an existing convention center facility.¹⁷⁰ This nine percent maximum rate does not apply to Dallas, nor to eligible central municipalities with a population of less than 440,000: Arlington, Corpus Christi, Garland, Grand Prairie, and Irving.¹⁷¹

¹⁶² § 351.103(c).

¹⁶³ § 351.103(b-1).

¹⁶⁴ Tex. Tax Code §§ 352.003, 351.003(a); Tex. Local Gov't Code Ann. § 382.155 (2023).

¹⁶⁵ *Id.*

¹⁶⁶ Tex. Tax Code § 351.103(b).

¹⁶⁷ § 351.103(c).

¹⁶⁸ § 351.106.

¹⁶⁹ § 351.003(b).

¹⁷⁰ §§ 351.1065, 351.003(b).

¹⁷¹ § 351.003(b).

Project financing zones for Houston, San Antonio, Dallas, Austin, Fort Worth, and Corpus Christi:

The cities of Houston, San Antonio, Dallas, Austin, Fort Worth, and Corpus Christi have statutory authority to receive “incremental” state hotel occupancy tax revenues, state sales tax revenues, and mixed beverage tax revenues for 30 years from hotels within a three mile radius of a “qualified project.”¹⁷² Known as a “project financing zone” or a “PFZ,” this special development tool was originally created in 2013 for Fort Worth and Dallas, and the statute was then amended in 2023 to add Houston, San Antonio, Austin, and Corpus Christi.

In Houston, San Antonio, Austin, and Corpus Christi, a “qualified project” means a convention center, arena, coliseum, stadium, or other type of arena or facility.¹⁷³ In Fort Worth, a “qualified project” means a convention center as well as the Will Rogers Memorial Center complex.¹⁷⁴ In Dallas, a “qualified project” is exclusively a convention center.¹⁷⁵ The “incremental tax revenue” consists of the additional state hotel occupancy tax revenues, state sales tax revenues, and mixed beverage tax revenues at certain hotels that exceed a base amount collected from hotels within a three-mile radius of the project. The state funding can be used to fund the construction or improvement of the qualified project, and local hotel tax revenue can also be pledged to the qualified project.

To start the PFZ process, the city first designates the project financing zone by city ordinance. Within 30 days of the designation of the project financing zone, the city notifies the Texas Comptroller of the designation.

Base year amounts are determined for state hotel occupancy tax revenues, state sales tax revenues, and mixed beverage tax revenues collected from hotels located within the three-mile zone starting in the year in which financing zone is designated by the city.

Then the “incremental hotel-associated revenue” is calculated by determining the amount of annual state hotel occupancy tax revenues, state sales tax revenues, and mixed beverage tax revenues collected from hotels within the three-mile zone that are in excess of the “base year amount.” The city is entitled to receive this incremental revenue from the Texas Comptroller, beginning on January 1st after the project’s designation, and ending when the project financing zone expires.

Additional rules for certain large coastal municipalities: Corpus Christi.

Public beach expenditures:

The City of Corpus Christi is authorized to use all or any portion of the city hotel occupancy tax revenue collected from hotels that are within areas that were annexed by the City of Corpus Christi and were previously subject to the county hotel occupancy tax toward cleaning and maintaining public beaches.¹⁷⁶

¹⁷² Tax Code §§ 351.1015, 351.106(c).

¹⁷³ § 351.1015(k) and (l).

¹⁷⁴ § 351.1015(a)(5).

¹⁷⁵ § 351.106(c).

¹⁷⁶ § 351.1055.

Expenditures from the portion of municipal hotel occupancy tax rate exceeding seven percent:

The City of Corpus Christi must separately account for all hotel occupancy tax revenue it derives from a city hotel occupancy tax rate that exceeds seven percent (up to a maximum of nine percent).¹⁷⁷ The city may only use revenue from the portion of the city hotel occupancy tax rate that exceeds seven percent for acquiring land for a municipally owned convention center; constructing, improving, operating and maintaining the convention center; and paying bonds to finance these activities.¹⁷⁸

Special rules for “eligible coastal municipalities:” Galveston, Port Aransas, Surfside Beach, and Quintana.

A different set of revenue expenditure rules apply for eligible coastal municipalities, defined as a “home-rule municipality that borders on the Gulf of Mexico and has a population of less than 80,000,” or “a municipality that borders on the Gulf of Mexico and has a population of less than 1,500.”¹⁷⁹ The cities of Galveston, Port Aransas, Surfside Beach, and Quintana fit this bracket’s description. The Tax Code limits the allocation of local hotel occupancy tax revenue for eligible coastal municipalities in the following ways:

- **Minimum expenditure for improvements to civic centers, hotels, marinas, golf courses, trolleys, and other improvements that attract tourists:**
If the city levies a rate of seven percent, at least one percent of the cost of a room shall be used for the payment of bonds issued to establish, acquire, purchase, construct, or improve public improvements that serve the purpose of attracting visitors and tourists, such as parks, civic centers, auditoriums, coliseums, marinas, cruise ship terminals, hotels, motels, parking facilities, golf courses, trolleys or trolley transportation systems.¹⁸⁰ This one percent may also be used for maintenance, improvement, or operation of any of the above facilities.¹⁸¹ For eligible coastal cities with a seven percent rate, this requirement mandates dedicating 1/7th of the hotel occupancy tax revenue for items within the above noted purposes.¹⁸²
- **Minimum expenditure for matching funds for beach clean-up:**
If the city levies a rate of six percent or more, at least one percent of the cost of a room shall be used as matching funds for state funds and other funds available to clean and maintain public beaches.¹⁸³ For example, if the city levied a seven percent local hotel occupancy tax, at least 1/7th of the hotel occupancy tax must be spent on beach clean-up. However, a city may credit any funds it receives from the state hotel occupancy tax for beach clean-up toward meeting this obligation.
- **Minimum one percent expenditure for other beach related safety expenditures:**
If the city levies a rate of five percent or more, at least one percent of the cost of a room shall be used for beach patrol, lifeguard services, marine water safety, and park law enforcement.¹⁸⁴ For example, if the city levied a seven percent local hotel occupancy tax, at least 1/7th of the hotel

¹⁷⁷ §§ 351.1055, 351.003(c), 351.107(e).

¹⁷⁸ *Id.*

¹⁷⁹ § 351.001(3).

¹⁸⁰ § 351.105.

¹⁸¹ *Id.*

¹⁸² *Id.*

¹⁸³ *Id.*

¹⁸⁴ *Id.*

occupancy tax must be spent on the above noted beach related expenditures. However, a city may credit any funds it receives from the state hotel occupancy tax for beach related expenditures toward meeting this obligation.¹⁸⁵

- **Minimum three percent expenditure for advertising and promotion:**

If the city levies a rate of four percent or more, at least three percent of the cost of a room shall be used for advertising and promotion.¹⁸⁶ For example, if the city levied a seven percent local hotel occupancy tax, at least 3/7th of the hotel occupancy tax must be spent on advertising and promotion.

Special state funding for beach clean-up: Galveston.

In 1995, the Texas Legislature passed a special statute that dedicates the revenue generated from the state hotel occupancy tax at a rate of two percent (one third of the state hotel occupancy tax) from Galveston lodging operators to beach erosion and beach safety.¹⁸⁷ For example, if the six percent state hotel occupancy tax generates \$300 in state hotel occupancy tax proceeds, \$100 is given back to the City of Galveston to use for clean-up of beaches within the City of Galveston.

The implementing legislation that authorizes this funding only applies to an “eligible coastal municipality” that has created a park board of trustees to clean and maintain public beaches.¹⁸⁸ An eligible coastal municipality is defined under state law to be a city that,

1. Borders on the Gulf of Mexico; and
2. Has a population of less than 80,000.¹⁸⁹

A city is eligible to adopt a park board of trustees for beach clean-up only if it,

1. Is a home rule city;
2. Has over 40,000 in population;
3. Is under 80,000 in population; and
4. Borders the Gulf of Mexico.¹⁹⁰

According to the Texas Comptroller's Office, the only Texas city that fits both the definition of an "eligible coastal municipality" and the definition of a city that may adopt a park board of trustees for beach clean-up is Galveston.¹⁹¹ Accordingly, Galveston receives one-third of the state hotel occupancy taxes collected from Galveston area hoteliers for beach clean-up purposes through a payment from the Texas Comptroller.

Special state funding for beach clean-up: Corpus Christi, Port Aransas, Quintana, South Padre Island, and Surfside Beach.

Originally enacted in 1999, and amended in 2009, 2013, and 2015, the Texas Legislature passed a special statute, similar to the authority relating to Galveston, dedicating a portion of the state hotel occupancy

¹⁸⁵ *Id.*

¹⁸⁶ *Id.*

¹⁸⁷ § 156.2511.

¹⁸⁸ *Id.*

¹⁸⁹ § 351.001(3).

¹⁹⁰ Tex. Loc. Gov't Code Ch. 306.

¹⁹¹ Tex. Comptroller Opinion Letter No. 200007471L, July 6, 2000.

tax generated from certain eligible barrier island coastal municipalities to beach clean-up. Cleaning and maintaining beaches also includes beach safety.¹⁹²

The implementing legislation for this funding applies only to certain eligible “barrier island coastal municipalities:” Corpus Christi, Port Aransas, Quintana, South Padre Island, and Surfside Beach.¹⁹³ The State of Texas provides a payment to the city of two percent of the six percent state hotel occupancy revenue collected by the State from lodging operators in the municipality.¹⁹⁴ This payment of state hotel occupancy tax revenue can be used by each city only to clean and maintain public beaches in that municipality, for an erosion response project in that municipality, and to clean and maintain bay shores owned by the municipality or leased by the municipality from the State.¹⁹⁵

Special rules for South Padre Island

Municipal hotel occupancy tax funding for coastal erosion: South Padre Island.

In 2009, the Texas Legislature amended Chapter 351 of the Tax Code to allow the City of South Padre Island to increase its hotel occupancy tax rate to 8.5 percent.¹⁹⁶ The law dedicates seven percent of the 8.5 percent rate to advertising and promotion or convention center related purposes.¹⁹⁷ One percent can be used for any purpose authorized under Tax Code § 351.101. This legislation dedicates the remaining one-half percent of municipal hotel occupancy tax to coastal erosion projects.¹⁹⁸

Spaceport Viewing, Ecological Tourism, and Fishing Piers.

The City of South Padre Island has specific legislation allowing the City to use a limited amount of hotel occupancy tax revenue for the promotional and event expenses of an ecological tourism event if the majority of the event’s participants are tourists, and if the event substantially increases economic activity at area hotels.¹⁹⁹

The legislation also allows South Padre Island to expend local hotel occupancy tax revenue on expenses related to the improvement of sites for hotel guests to observe spacecraft launches.²⁰⁰ If South Padre Island uses hotel occupancy tax revenue for a spaceport viewing facility, the City may not reduce the amount of revenue that is used for advertising and promotion to an amount that is less than the average amount of revenue used by the City for advertising and promotion during the 36-month period that precedes the City’s first use of revenue for a spaceport viewing facility.²⁰¹

Both of these uses (spaceport viewing facilities and eco-tourism events) are capped to a combined total of no more than 15% of the hotel occupancy tax collected by the municipality.²⁰²

The City may also use revenue for expenses directly related to the construction, improvement, equipping,

¹⁹² Tax Code § 156.2512.

¹⁹³ *Id.*

¹⁹⁴ Tax Code § 156.2512

¹⁹⁵ *Id.*

¹⁹⁶ Tax Code §§ 351.001(11), 351.003(d).

¹⁹⁷ § 351.1055(d).

¹⁹⁸ § 351.1055(e).

¹⁹⁹ Tax Code §§ 351.1054, 351.1055(d).

²⁰⁰ *Id.*

²⁰¹ *Id.*

²⁰² *Id.*

repairing, operation, and maintenance of coastal sports facilities owned by the city, including boat docks, boat ramps, and fishing piers, if the coastal sports facilities have been used in the preceding calendar year a combined total of more than five times for district, state, regional, or national sports tournaments or events and the majority of the events at the coastal sports facilities are directly related to a sports tournament or event in which the majority of participants are tourists who substantially increase economic activity at hotels within or in the vicinity of the municipality.²⁰³

Special rules for medium sized home rule coastal cities with a population of less than 85,000 and that border bays: Ingleside, Portland, Aransas Pass, La Porte, Seabrook, Port Lavaca, Rockport, Baytown, Texas City, and Palacios.

Home-rule cities that have a population of less than 85,000 and border bays, and that are not an eligible coastal municipality, operate under a unique statute that governs the expenditure of hotel occupancy tax revenues.²⁰⁴ These medium sized home rule coastal cities have the ability to use local hotel occupancy tax revenue for certain special beach related purposes and for tourism related public improvements, but these cities also have additional limitations on how the city uses hotel occupancy tax revenues.²⁰⁵

Under § 351.104(c), a medium sized home rule coastal city may use up to 10 percent of the city’s hotel occupancy tax revenue for any of the following:

- 1) for a purpose described by Section 351.105(a)(1) or (2);
- 2) to clean and maintain land owned by a governmental entity that is adjacent to a bay that is bordered by the city; or
- 3) to mitigate coastal erosion on land owned by a governmental entity that is adjacent to a bay that is bordered by the city.²⁰⁶

The statutory provision regarding the use hotel occupancy tax revenue for a purpose described by Section 351.105(a)(1) or (2) is particularly relevant. This section refers to “tourism related improvements,” which includes the establishment, acquisition, purchase, construction, improvement, enlargement, equipment, or repair of public improvements, including parks, civic centers, civic center buildings, auditoriums, exhibition halls, coliseums, marinas, cruise ship terminal facilities, hotels, motels, parking facilities, golf courses, trolley or trolley transportation systems, and other facilities as may be considered advisable in connection with these facilities that serve the purpose of attracting visitors and tourists to the municipality.²⁰⁷

Again, use of hotel occupancy tax revenue for these purposes is limited to 10 percent of the city’s total hotel occupancy tax revenue derived under Chapter 351 of the Tax Code.²⁰⁸ Furthermore, the amount that is spent from the hotel occupancy tax revenue fund for any of the purposes described above must be matched by the city with the same amount of revenue from a source other than the hotel occupancy tax.²⁰⁹

²⁰³ § 351.1054(3).

²⁰⁴ § 351.104.

²⁰⁵ *Id.*

²⁰⁶ § 351.104(c).

²⁰⁷ § 351.105.

²⁰⁸ § 351.104(c).

²⁰⁹ § 351.104(e).

Additionally, if the medium sized home rule coastal city uses hotel occupancy tax revenue for any of the purposes described above (e.g. for a convention center or for a coastal erosion project), the city's advertising and promotion budget may not be set at an amount that is less than the average amount of revenue used by the city for advertising and promoting the city as a tourism destination during the 36-month period that preceded the city's use of city hotel occupancy tax for beach maintenance or tourism related public improvements.²¹⁰

Special rules for small coastal municipalities with a population of less than 5,000, adjacent to a home-rule city with a population of less than 80,000: Jamaica Beach.

Coastal cities with a population of less than 5,000 adjacent to a home-rule city with a population of less than 80,000 may use all or any portion of the municipal hotel occupancy tax revenue it collects to clean or maintain beaches within the city, to provide beach security (defined as beach patrol, lifeguard services, marine water safety and park law enforcement) within the municipality, and to pay for any purpose allowed by Tex. Tax Code § 351.105 or Tex. Gov't Code § 1504.001.²¹¹ The maximum municipal hotel occupancy rate for cities in this bracket is nine percent.²¹²

Special rules for the City of Alpine.

Minimum expenditure on advertising and promotion:

The City of Alpine must spend at least 50 percent of its hotel occupancy tax revenue on advertising and promotion to attract tourists and convention delegates or registrants to the city or its vicinity.²¹³

Maximum expenditure for arts:

Alpine's maximum percentage for the promotion of the arts is 15 percent of its hotel occupancy tax revenues.²¹⁴

Maximum expenditure for historical restoration and promotion projects:

Alpine's maximum percentage for historical restoration and promotion of historical projects is 15 percent of its hotel occupancy tax revenues.²¹⁵

Special rules for the City of Nassau Bay.

The City of Nassau Bay has special legislation on point that allows that city to use hotel occupancy tax revenue for a convention center, marina, visitor center meeting room, or hotel facility that substantially enhances hotel activity in the city.²¹⁶ The facility must be owned by a city and be located within a 1,000 feet of a hotel property.²¹⁷ The total amount spent may not exceed the amount of hotel revenue attributable to events at that facility for the fifteen year period following the construction of the

²¹⁰ § 351.104(d).

²¹¹ § 351.1055(c).

²¹² § 351.003(c).

²¹³ § 351.1035.

²¹⁴ *Id.*

²¹⁵ *Id.*

²¹⁶ Tax Code §§ 351.101(j), 351.1071.

²¹⁷ *Id.*

improvement.²¹⁸ The City must annually publish a report noting the hotel activity that is generated from activities funded by this expenditure of hotel occupancy tax revenue and is subject to a requirement to refund the hotel occupancy tax fund from the City's General Fund if the project does not have the required return on investment in hotel activity.²¹⁹

Special rules for Blanco, Dripping Springs, Hays City, Johnson City, Mountain City, Wimberley, and Woodcreek: Dark skies. And ecological tourism for Wimberley only.

In 2019, the cities of Blanco, Dripping Springs, Hays City, Johnson City, Mountain City, and Woodcreek were given unique authority to use hotel occupancy tax revenue for the promotion and preservation of "dark skies." In 2023, the City of Wimberley was given the same dark skies authority.²²⁰ These funds can be applied to the cost of construction and maintenance of related infrastructure and the purchase and installation of hardware that reduces "light pollution" and "sky glow."²²¹

This authority requires that if these cities expend hotel occupancy tax revenue for this purpose, the city must determine the amount of area hotel revenue that is attributable to dark sky related events and activities for five years after the city first uses hotel occupancy tax revenue for this purpose. The city may not spend municipal hotel occupancy tax revenue on dark skies-related purpose in an amount that exceeds the area hotel revenue attributable to dark skies related events and activities. Additionally, if a city utilizes this "dark skies" authority, the city may not spend more than 25 percent of the city's annual hotel occupancy tax revenue for this purpose.²²²

Additionally, in 2023, the City of Wimberley was given authority similar the City of South Padre Island related to ecological tourism. Wimberley may use a limited amount of hotel occupancy tax revenue for the promotional and event expenses of an ecological tourism event if the majority of the event's participants are tourists, and if the event substantially increases economic activity at area hotels. The City of Wimberley may not spend more than 25 percent of its annual hotel occupancy tax revenues for eco-tourism and dark skies combined. And the City may not reduce the amount of money it spends on advertising and promotion if it does use hotel occupancy tax revenue for dark skies or ecological tourism.

Special rules for Bryan and College Station: Sports facilities.

The cities of Bryan and College Station have special legislation that provides authority to use hotel occupancy tax revenue for new sporting facilities or fields if the facilities or fields are owned by the municipality, and if a majority of the events at the facility or field are directly related to a sporting event that substantially increases hotel activity.²²³ The city may not use hotel occupancy tax revenue for the acquisition of the land.²²⁴ The facilities must meet strict requirements for return on investment for the

²¹⁸ *Id.*

²¹⁹ *Id.*

²²⁰ § 351.10693.

²²¹ § 351.10692.

²²² § 351.10692(c)(1).

²²³ Tax Code §§ 351.101(i), 351.1078.

²²⁴ *Id.*

hotel industry: The city may not spend more on the facility or field than will be generated in hotel revenue from sporting events held at that facility over the next five years.²²⁵

The city must publish an annual report of the actual room night and economic impact of events held at the facility or field and must reimburse the hotel occupancy tax fund for any deficit between the amount spent on the facility from hotel occupancy tax revenue and the amount of hotel revenue generated from events at the facility over the subsequent five years.²²⁶ At least annually, a city must compare the area hotel revenue that is attributable to sporting events at the sporting related facilities. In a situation where the area hotel revenue attributable to the sporting facility is less than the projected amount, the city must create a practical plan to increase revenue.²²⁷

Special rules for Carrizo Springs, Dilley, Jourdanton, Pecos, Pearsall, Pleasanton, and San Benito: Sports Facilities.

The cities of Carrizo Springs, Dilley, Jourdanton, Pecos, Pearsall, Pleasanton, and San Benito have special legislation that provides authority to issue bonds payable with hotel occupancy tax revenue for certain limited sporting facilities.²²⁸ The sporting facility must have the requisite amount of hotel impact before they are funded, and the city must annually report the room night and economic impact of events held at the facility.²²⁹ The city may not expend more hotel occupancy tax on the facility improvements than will be generated in room night revenue from events held at the facility over a 15 year period, and this must be projected by an independent analyst before hotel occupancy taxes are used for this purpose.²³⁰

Special rules for Shenandoah: Sports facility.

Shenandoah may use local hotel occupancy tax revenue on a sports-related facility with seating for at least 4,500 people that is used or is planned for use for one or more professional or amateur sports events or other events, including rodeos, livestock shows, and performing arts events.

Special rules for Garland: Sports facility and minimum expenditure threshold for advertising and promotion.

Garland has the authority to make enhancements, and improvements to an existing city owned sports facility. Additionally, Garland must allocate at least 30% of its hotel occupancy tax revenue for advertising and promotion of the city as a tourism destination.²³¹

²²⁵ *Id.*

²²⁶ *Id.*

²²⁷ § 351.1078(c).

²²⁸ Tex. Tax Code § 351.1066.

²²⁹ *Id.*

²³⁰ *Id.*

²³¹ § 351.101(b-1).

Special rules for the City of Cedar Park and Webster: Coliseum or multiuse facility.

In 2019, the Legislature authorized the cities of Cedar Park and Webster to use local hotel occupancy tax revenue for the construction improvement, enlarging, equipping, renovating, repairing, operation, and maintenance of a coliseum or multiuse facility if the majority of the events at the coliseum or facility attract tourists who substantially increase economic activity at hotels in the municipality.²³²

Special rules for the City of Odessa and the City of Victoria: Sports facilities located on land owned by a state university.

In 2019, the City of Odessa obtained statutory authority to allow the City to use local hotel occupancy tax revenue to construct and maintain a sports facility located in the municipality or a multipurpose sports facility located on land owned by the University of Texas Permian Basin (UTPB) if the City leases the land from UTPB for at least 25 years.²³³ In 2021, legislation amended Odessa's population bracket to give the City of Victoria the same authority regarding the University of Houston-Victoria.

If Odessa or Victoria spends hotel occupancy tax revenues on a sports facility, the City must determine the amount of "area hotel revenue" generated by hotel activity from sports events held at the hotel occupancy tax funded facility for seven years after the City initially expends hotel occupancy tax revenue for this purpose.²³⁴ The area hotel revenues that were generated from sporting events at the hotel occupancy tax funded facility over that seven year period must at least equal the amount of hotel occupancy tax that was spent to construct the sporting facility.²³⁵ If the amount of hotel occupancy tax that was spent on the sporting facility exceeds hotel revenue attributable to events held at that facility over that seven year period, the municipality must reimburse the hotel occupancy tax revenue fund any such difference from the municipality's general fund.²³⁶

Additionally, the City may not reduce funding for advertising and promotion during the time period that the sporting facility receives hotel occupancy tax funding.²³⁷

Special rules for the City of Edinburg: Sports facilities.

In 2019, the Legislature modified the City of Edinburg's existing authority to use local hotel occupancy tax revenue to fund the enhancement or upgrades of existing sports facilities or sports fields.²³⁸ The city may use hotel occupancy tax revenue to pay debt service on the sports facility or field, and to pay for related infrastructure located within 2,500 feet of the sports facility. The sports facility, field or related infrastructure must generate hotel revenue in an amount that is at least equal to the hotel occupancy tax expended on the facility or related infrastructure within a 10-year period.²³⁹

²³² § 351.101(q).

²³³ § 351.10712.

²³⁴ *Id.*

²³⁵ *Id.*

²³⁶ *Id.*

²³⁷ *Id.*

²³⁸ § 351.101(a)(7)(B)(vi).

²³⁹ § 351.1068(b).

Special rules for the City of Bay City: Sports facilities.

In 2023, the Legislature provided authority for the City of Bay City to use municipal hotel occupancy tax revenue to construct and expand recreational or sports facilities and fields owned by the municipality or another governmental entity, as well as operate these facilities.²⁴⁰ If Bay City spends hotel occupancy tax revenue on these sports facilities, the City may not reduce the amount of revenue that is used for advertising and promotion to an amount that is less than the average amount of revenue used by the City for advertising and promotion during the 36-month period preceding that fiscal year.²⁴¹

If local hotel occupancy tax revenues are spent on the construction, enhancing or upgrading a sports facility, the municipality must also determine the amount of “area hotel revenue” generated by hotel activity from sports events held at the local hotel occupancy tax revenue funded facility for the five-year period after the upgrades to the sport facility are completed.²⁴² The area hotel revenues that were generated from sports events at the hotel occupancy tax revenue funded facility over that five-year period must at least equal the amount of hotel occupancy tax revenue that was spent to upgrade the sports facility. Under this statute, “hotel revenues” refers to the amount of room night sales and other hotel revenue generated. It does not refer to the amount of local hotel occupancy tax revenue generated.²⁴³ If the amount of hotel occupancy tax revenue that was spent on the facility upgrades exceeds the hotel revenue attributable to events held at that facility during the five-year period, the municipality must reimburse the hotel occupancy tax revenue fund any such difference from the municipality’s general fund.²⁴⁴

Special rules for Rockport.

Nearly all Texas cities are capped at using no more than 15 percent of the city’s local hotel occupancy tax revenue on the arts. In 2017, Rockport obtained statutory authority to spend up to 30 percent of the City’s hotel occupancy tax revenue on the arts.²⁴⁵ However, if Rockport spends more than 15 percent of its hotel occupancy tax revenue on the arts, the City must determine for that fiscal year the increase in the amount of hotel revenue that is attributable to that expenditure, and the total amount of hotel occupancy tax revenue spent by the city on the arts. If the amount of hotel revenue attributable to the arts is less than the amount of hotel occupancy tax revenue spent on the arts, the city shall reimburse the city’s hotel occupancy tax revenue fund from the city’s general fund an amount equal to 50 percent of the difference.²⁴⁶

Additionally, if Rockport spends more than 15 percent of its local hotel occupancy tax revenue on the arts, the City may not reduce the amount of revenue that is used for advertising and promotion to an amount that is less than the average amount of revenue used by the City for advertising and promotion during the 36-month period preceding that fiscal year.²⁴⁷

²⁴⁰ § 351.10713.

²⁴¹ § 351.10713(e).

²⁴² § 351.10713(c), (d).

²⁴³ *Id.*

²⁴⁴ *Id.*

²⁴⁵ § 351.1075.

²⁴⁶ § 351.1075(c)(2).

²⁴⁷ § 351.1075(c)(1).

Special rules for Marfa.

Marfa is situated hundreds of miles from the nearest airport with scheduled airline service, yet the city caters to a thriving high-end tourism base that often accesses the area by private flights into the Marfa airport. As the number of private jets ferrying tourists and hotel guests has increased, the small county-owned airport has suffered from a lack of repairs to handle private jet aircraft. A special state law allows Marfa to use local hotel occupancy tax revenue to repair its municipal airport facility, subject to a number of restrictions.²⁴⁸ First, the airport must be one without commercial air service, and the airport must be substantially used for private air service that transports passengers staying at hotels in or near the city.²⁴⁹ Second, Marfa cannot spend more than 15 percent of its annual hotel occupancy tax revenue on airport improvements, nor can Marfa spend hotel occupancy tax revenue in an amount that exceeds what is returned in hotel revenue generated by increased private air passengers staying at Marfa hotels.²⁵⁰ Third, this airport spending authority expires in 2032, and the City cannot expend hotel occupancy tax revenue on the airport for more than a ten-year period once initiated.²⁵¹

Qualified Hotel Project (QHP) Incentives:

The State of Texas provides economic development incentives for certain qualified hotel project (QHPs) near convention centers by offering an entitlement of state tax revenues to qualifying cities. The process for securing these entitlements (i.e., state sales tax revenue and state hotel occupancy tax revenue) can be quite involved, and eligible cities must closely follow a series of steps and rules promulgated by the Texas Comptroller to ensure the receipt of state funds.

State Tax Revenue Incentives:

Certain statutorily bracketed municipalities as defined below are entitled to receive an entitlement of state hotel occupancy tax revenue and state sales tax revenue from the eligible QHP for the first 10 years after the project opens for initial occupancy.²⁵² Additionally the municipality may pledge local hotel occupancy tax revenue from the qualified hotel project, mixed beverage tax revenue, and other local tax revenue such as ad valorem tax revenue and sales tax revenue for the qualified hotel project.²⁵³

In nearly all instances, the QHP must be owned by or located on land owned by the municipality, or by a nonprofit corporation acting on behalf of an eligible central municipality.²⁵⁴ The QHP must also be connected to or located within 1,000 feet of a qualified convention center facility owned by the municipality.²⁵⁵

The state tax revenue entitlements are for the “payment of bonds or other obligations issued or incurred to acquire, lease, construct, and equip the hotel and any facilities ancillary to the hotel, including convention center entertainment-related facilities, restaurants, retail establishments, street and water and sewer infrastructure necessary for the operation of the hotel or ancillary facilities, and parking

²⁴⁸ § 351.1036.

²⁴⁹ § 351.1036.

²⁵⁰ § 351.1036.

²⁵¹ § 351.1036.

²⁵² §§ 351.102(c), 351.156, 151.429(h); Gov't Code § 2303.5055.

²⁵³ § 351.157(d)(2).

²⁵⁴ §§ 351.151(3)(A), 351.153.

²⁵⁵ § 351.151(3)(B).

facilities within 1,000 feet of the hotel or convention center facility.”²⁵⁶

In 2019, the Texas Legislature redefined and narrowed the scope of many definitions that apply to the qualified hotel project program:

The term “retail establishment” is defined as an establishment engaged in activities described by the North American Classification System section 442-443,445-446, 448, 451-453.²⁵⁷

“Infrastructure” includes a road, street highway, bridge, overpass, underpass, and interchange; a fresh, reuse, or alternative water supply system, sanitary sewer system, and storm drainage system; an electric system, telecommunications system, and gas system; signage, landscaping, and hardscaping; and a public amenity or public area, such as a plaza, park, or trail.²⁵⁸

"Qualified convention center facility" has been limited to mean a facility that has been or will be constructed and that:

- 1) is primarily used to host conventions or meetings;
- 2) is wholly owned by a municipality to which this subchapter applies, and none of which is or may be owned through an undivided common interest;
- 3) is connected to a qualified hotel or has an exterior wall that is located not more than 1,000 feet from the nearest exterior wall of a qualified hotel;
- 4) is not located in a hotel, sports stadium, or other structure but may share common infrastructure or facilities with a hotel, such as a heating, ventilation, and air-conditioning system, electrical system, or kitchen;
- 5) has at least 10,000 square feet of continuous meeting space; and
- 6) is configurable to simultaneously accommodate multiple events of different sizes and types.²⁵⁹

"Qualified hotel" means a hotel that is designated by a municipality as the hotel that is part of a qualified project. A qualified hotel:

- 1) must be located on land owned by the designating municipality;
- 2) must be connected to a qualified convention center facility or have an exterior wall that is located not more than 1,000 feet from the nearest exterior wall of the qualified convention center facility; and
- 3) may consist of two or more towers in limited circumstances.²⁶⁰

"Qualified project" means a project to acquire, construct, repair, remodel, expand, or equip a qualified convention center facility; or acquire, lease, construct, repair, remodel, expand, or equip a qualified hotel; and that may include acquiring, leasing, constructing, repairing, remodeling, expanding, or equipping a restaurant, bar, retail establishment, or spa located in a qualified convention center facility or qualified hotel or connected to a qualified convention center facility or qualified hotel; or a parking area or structure, the nearest property line of which is located not

²⁵⁶ § 351.151(4).

²⁵⁷ www.census.gov/eos/www/naics/2017NAICS/2017_NAICS_Manual.pdf

²⁵⁸ § 351.151.

²⁵⁹ *Id.*

²⁶⁰ *Id.*

more than 1,000 feet from the nearest property line of a qualified convention center facility or qualified hotel; acquiring, constructing, repairing, remodeling, or expanding infrastructure that is directly related to and necessary for the qualified convention center facility or qualified hotel; and is located within the property lines of the qualified convention center facility or qualified hotel, or not more than 1,000 feet from the nearest property line of the facility or hotel; or acquiring a property right, including a fee simple interest, easement, or other interest in connection with a purpose described by this subdivision.²⁶¹

Finally, the Legislature limited cities with a population of less than 175,000 to one qualified hotel project in perpetuity.²⁶²

In most instances, only the state and local tax revenue collected from that particular hotel project, for a period of up to ten years, may be pledged.²⁶³ Additionally, for up to ten years, an eligible municipality, county, or other authorized political subdivision may agree to rebate, refund, or pay eligible tax proceeds to the owner of the hotel project. Eligible tax proceeds include state and local hotel occupancy tax revenues, local ad valorem tax revenues, state and local sales and use tax revenues, and local mixed beverage tax revenues.²⁶⁴

Cities authorized to participate in the QHP program: Abilene, Allen, Alvin, Amarillo, Arlington, Austin, Bastrop, Baytown, Beaumont, Brownsville, Carthage, Cedar Hill, Cedar Park, Celina, Commerce, Conroe, Corpus Christi, Dallas, Denton, Eagle Pass, El Paso, Fort Worth, Fredericksburg, Frisco, Grand Prairie, Grapevine, Houston, Hutto, Irving, Katy, Kaufman, Kemah, Kerrville, Kyle, League City, Leander, Lewisville, Little Elm, Lubbock, Mansfield, McKinney, Mesquite, Midland, Missouri City, Nacogdoches, Odessa, Pearland, Port Aransas, Presidio, Prosper, Richmond, Rio Grande City, Roanoke, Rosenberg, Round Rock, Rowlett, San Antonio, San Benito, Seabrook, Seguin, Sugar Land, Temple, Terrell, The Colony, Tyler, Victoria, Waco, Weatherford, and Webster.²⁶⁵

Arlington, Dallas, Fort Worth, Houston and Kemah also fall under the statutory definition of an “eligible central municipality.”²⁶⁶ The “eligible central municipality” language in the Tax Code is antiquated, but it is still valid law.²⁶⁷ Eligible central municipalities qualify for the same type of state tax revenue entitlements as other QHP cities.

Arlington has special authority for the pledge or commitment of certain tax revenue for a unique project associated with stadiums and may receive its state tax revenue entitlements for 30 years. Arlington also receives state mixed beverage sales tax revenue entitlements.²⁶⁸

Amarillo is a city with a population of 173,000 or more, and it is located within two counties, and also has

²⁶¹ *Id.*

²⁶² § 351.155(d).

²⁶³ §§ 351.102(c), 151.429(h); Gov’t Code § 2303.5055.

²⁶⁴ *Id.*

²⁶⁵ §§ 351.102(e), 351.152.

²⁶⁶ § 351.001(7).

²⁶⁷ See § 13, Act of June 14, 2019, 86th Leg., R.S., H.B. 4347, stating: “The changes in law made by this Act do not affect the validity of a bond, other obligation, or contractual obligation for which revenue was pledged or committed under Section 351.102, Tax Code, before the effective date of this Act. Bonds, other obligations, or contractual obligations for which revenue was pledged or committed before the effective date of this Act are governed by the law in effect when the revenue was pledged or committed, and that law is continued in effect for purposes of the validity of those bonds, obligations, and contractual obligations.”

²⁶⁸ § 351.1022.

similar authority as eligible central municipalities.²⁶⁹ However, Amarillo may not pledge tax revenue to the QHP any earlier than either: the 20th anniversary of the date the city first pledged revenue to the project, or the date the revenue project equals 40 percent of the hotel project's total construction cost.²⁷⁰

Fredericksburg, McKinney, and San Antonio have special authority that provides that the qualified hotel project does not have to be owned by or located on land owned by the municipality or by a nonprofit corporation acting on behalf of an eligible central municipality.²⁷¹

In the 2021 session, the City of Grand Prairie benefited from clarifying legislation, allowing that City's QHP to be constructed on land owned by the federal government.²⁷² Grand Prairie's proposed QHP will be constructed on lakeshore property owned by the U.S. Army Corps of Engineers.

"QHP Zone" Entitlements:

A number of cities obtained special authority allowing the city to receive an additional state sales tax revenue entitlement from qualified establishments if the establishment is located on city-owned land that is within the 1,000 foot zone of the qualified hotel project or the qualified convention center.²⁷³ The following cities are eligible to receive this QHP zone state tax revenue entitlement: Allen, Brownsville, Cedar Hill, Celina, Denton, El Paso, Grand Prairie, Irving, Katy, Little Elm, Lubbock, Mansfield, McKinney, Mesquite, Richmond, Round Rock, San Benito, Seabrook, Victoria, Weatherford, San Antonio, and The Colony..²⁷⁴

Minimum threshold for advertising and promotion funding:

Cities that undertake a QHP and receive a state tax revenue entitlement must allocate a minimum threshold of hotel occupancy tax funding for advertising and promotion of tourism and hotel activity under § 351.101(a)(3).²⁷⁵ Specifically, these cities may not allocate hotel occupancy tax revenue funding under § 351.101(a)(3) to a percentage that is less than the average percentage of that revenue allocated by the municipality for that purpose during the 36-month period preceding the date the municipality begins using hotel occupancy tax revenues for the hotel project.²⁷⁶ Additionally, Lubbock's authorization requires the City to increase the amount it spends on marketing sports events and activity by an additional 3% beyond what the City is expending on that purpose under its 2016 fiscal year budget once it exercises its QHP state revenue entitlement authority.²⁷⁷

State tax revenue recapture and annual reports:

The QHP program has long been considered an economic development tool whereby the State of Texas invests state tax revenue for the initial 10-year period of the QHP's operation. In return, the state and local community benefit from long-term tax revenues produced by the QHP in the years after the initial 10-year state tax revenue entitlement period ends.

²⁶⁹ § 351.102(b).

²⁷⁰ § 351.102(b-1).

²⁷¹ § 351.153(a).

²⁷² § 351.157(a)(1)(B).

²⁷³ § 351.157(a).

²⁷⁴ § 351.157(b).

²⁷⁵ § 351.102(d).

²⁷⁶ *Id.*

²⁷⁷ § 351.1064.

In the 2023 Legislative Session, the Legislature added a provision to the QHP statutes that creates a mechanism for the of “recapture of lost state tax revenue from certain municipalities.”²⁷⁸ For qualified hotel projects that are first commenced on or after January 1, 2024, the Texas Comptroller will conduct an analysis on the 20th anniversary of the QHP’s opening and determine whether the State of Texas has recouped the State’s investment of state tax revenues.²⁷⁹ In this analysis, the Comptroller will compare the state tax revenue entitlements given to the municipality in the first 10 year period of the QHP’s operation (years 1-10) with the state tax revenue retained by the state in the second 10 year period of the QHP’s operation (years 11-20).²⁸⁰ If the state gave more state tax revenue to the municipality in the first 10 year period than the state retained in the second ten year period, the municipality must pledge local hotel tax revenue from the qualified hotel project to the State of Texas until the State has been made whole.²⁸¹

Additionally, every other year, the Comptroller will prepare a report on the status of each qualified hotel project.²⁸² This report will cover the current status of each QHP, the number of facilities included within each project, the amount of state tax revenue entitlements that have been given to each municipality, the amount of state tax revenue generated by the project after the period of entitlement has ended, and whether the municipality is required to remit recapture payments to the State.²⁸³ This report will be posted online on the Comptroller’s website.²⁸⁴

Additional Information

If a city or funded entity has additional questions about the administration or use of the hotel occupancy tax, it is welcome to contact the Texas Hotel & Lodging Association for assistance by phone at (512) 474-2996. THLA has sample documents available to assist in administering hotel occupancy taxes, such as funding grant application forms, post event forms, and tax collection guidelines.

²⁷⁸ See SB 1420, HB 3727, and HB 5012, 2023 Regular Legislative Session.

²⁷⁹ Tax Code § 351.162.

²⁸⁰ *Id.*

²⁸¹ *Id.*

²⁸² § 351.163.

²⁸³ *Id.*

²⁸⁴ *Id.*

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