

Hotel Occupancy Tax: Tourism Commission Request April 2022

This document contains information requested by the Tourism Commission related to Hotel Occupancy Tax collections and the related funds. The first two sections were provided to the Commission previously, while the sections following that relate to the request for information stated at the March 2022 meeting of the Tourism Commission. The document gives a primer on allowable uses of Hotel Occupancy Taxes, the City of Austin’s flow of funds related to Hotel Occupancy Tax, and then a history of collections for the funds that receive Hotel Occupancy Tax.

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Review of Texas Tax Code Chapter 351 and allowable uses of Hotel Occupancy Taxes

Of the 17% HOT collected on room rentals, the City receives 11%. The remaining 6% goes to the State of Texas. The Chart on the next page illustrates the flow of funds from the Hotel Occupancy Tax Fund to the various recipient funds. The State of Texas authorizes hotel occupancy tax (HOT) assessments under Chapter 351 of the Texas Tax Code and under Chapter 334 of the [Texas Local Government Code](#).

Chapter 351 requires HOT assessed under this chapter must **first** meet the criteria of promoting tourism and convention and hotel industry, **and** fall into one of the authorized categories, not all of which are applicable to Austin. Those categories allowable in Austin include:

- the acquisition of sites for and the construction, improvement, enlarging, equipping, repairing, operation, and maintenance of convention center facilities or visitor information centers, or both;
- the furnishing of facilities, personnel, and materials for the registration of convention delegates or registrants;
- advertising and conducting solicitations and promotional programs to attract tourists and convention delegates or registrants to the municipality or its vicinity;
- 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;
- 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:
 - at or in the immediate vicinity of convention center facilities or visitor information centers; or
 - located elsewhere in the municipality or its vicinity that would be frequented by tourists and convention delegates;
- signage directing the public to sights and attractions that are visited frequently by hotel guests in the municipality;

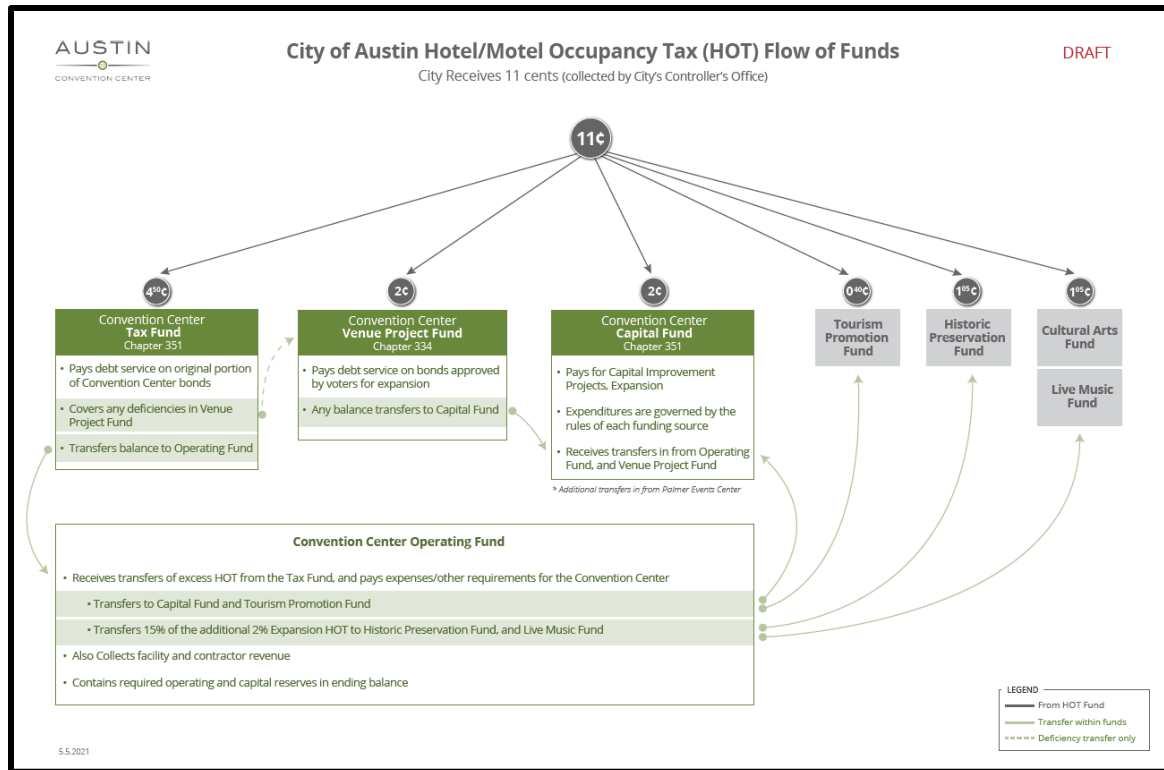
Chapter 351 prohibits HOT use for general government activities.

Chapter 334 requires HOT assessed under this chapter be spent only on venues that are approved by voters. Authorized venues applicable to Austin include convention center, arena, coliseum, stadium, and potentially a tourism development along an inland waterway.

In August 2019, the Austin City Council [authorized](#) an increase in the municipal hotel occupancy tax rate (HOT) from 9% to 11% in support of a redevelopment and expansion of the Austin Convention Center.

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Hotel Occupancy Tax Flow of Funds



Overall Hotel Occupancy Tax Collections

The chart below shows Hotel Occupancy Tax collections through the first two quarters of Fiscal Year (FY) 2021-22. The City's fiscal year begins on October 1st and ends September 30th. **Based on our collections year to date, we expect to finish the year at close to our FY 2018-19 collections, though that analysis is still being finalized.**

	FY19*	FY20	FY21	FY22 YTD
Q1	\$22.4 M	\$25.9 M	\$8.9 M	\$24.9 M
Q2	\$25.7 M	\$32.3 M	\$9.8 M	\$32.0 M
Total thru 2 quarters	\$48.0 M	\$58.2 M	\$18.7 M	\$56.9 M
Q3	\$29.9 M	\$24.5 M	\$12.9 M	N/A
Q4	\$30.3 M	\$6.0 M	\$22.8 M	N/A
Total	\$108.3 M	\$88.8 M	\$54.4 M	\$56.9 M

Note: Hotel Occupancy Tax collections lag a quarter. So Q1 collections (October -December) are for stays that occurred from July-September

* In August 2019, the Austin City Council authorized an increase in the municipal hotel occupancy tax rate (HOT) from 9% to 11% in support of a redevelopment and expansion of the Austin Convention Center

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Five Year History of Hotel Occupancy Tax Collections

Below is a five-year history of Hotel Occupancy Tax (HOT) Collections. All information is available in the City's Budget documents, located at [Austin Finance Online](#). The table below shows the available HOT collected each year, and the transfers out to the various funds. Please refer to the chart on the previous page for a flow of funds related to HOT and the Austin Convention Center.

5 Year Fund Summary

As of April 2022

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2021-22
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	APPROVED	YTD
BEGINNING BALANCE	0	0	0	0	0	0	
REVENUE							
Hotel Occupancy Tax	92,477,077	99,188,325	111,553,768	71,154,724	71,272,290	69,508,208	56,854,351
Hotel Penalties & Interest	67,211	169,038	198,375	192,531	221,232	265,200	122,539
TOTAL REVENUE	92,544,288	99,357,364	111,752,143	71,347,254	71,493,522	69,773,408	56,976,889
TRANSFERS OUT							
Tourism and Promotion Fund	15,001,538	8,469,504	4,808,851	3,429,615	1,980,937	2,537,215	2,073,853
Capital Fund	0	0	459	11,665,070	9,867,310	12,686,074	10,356,105
Convention Center Tax Fund	46,559,709	48,122,181	54,153,725	38,563,409	22,258,469	28,543,667	23,302,366
Cultural Arts Fund	10,867,036	11,231,717	12,639,480	9,003,228	5,197,265	6,660,189	5,441,016
Historical Preservation fund	0	7,035,463	12,639,480	9,003,228	5,197,265	6,660,189	5,441,016
Venue Project Fund	20,691,135	21,385,497	24,065,916	17,140,171	9,893,856	12,686,074	10,357,873
TOTAL TRANSFERS OUT	93,119,418	96,244,361	108,307,910	88,804,722	54,395,102	69,773,408	56,972,229
EXCESS (DEFICIENCY) OF							
TOTAL REVENUE OVER							
TOTAL REQUIREMENTS	(575,130)	3,113,003	3,444,234	(17,457,468)	17,098,420	0	4,660
ADJUSTMENT TO GAAP	575,130	(3,113,003)	(3,444,234)	17,457,468	(17,098,420)	0	
ENDING BALANCE	0	0	0	0	0	0	

Note: The adjustment to GAAP is made to reconcile the difference between financial statement reporting and budget reporting. Generally Accepted Accounting Principles (GAAP) requires this revenue be recognized in the prior year financial statement, but the budget allocation is done based on the cash collected for the prior year. The adjustment to GAAP is for revenue collected in the current fiscal year for the prior year hotel occupancy revenue.

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Economic Development Department Response

Please see the attached document that provides a response to the Commission's questions relating to Cultural Arts and Historic Preservation, as well as the fund summary history for the Hotel Occupancy Tax recipient funds.

Update for Tourism Commission – April 20, 2022

Questions: What the cutbacks have been because of the steep decline of the HOT collection (HPF and Cultural Arts)? What are the ramifications?

In the past few years, the Cultural Arts Fund has operated at a deficit, due to the steep decline in HOT collection; however, with a one-time Council-approved allocation from the Budget Stabilization Reserve Fund, cultural contracts from FY20 were able to be kept whole. In FY21, awards were pro-rated with HOT funds according to the Arts Commission-recommended [Equitable Economic Resiliency Framework](#) that led with an equity lens. As a stop-gap measure, ARPA funding was distributed to the pool of current cultural contractors who had received less than \$1M in relief assistance.

In addition, over the last two years, the hotel occupancy tax collection for the Historic Preservation Fund experienced a reduction of 28% (or \$4.2M) in FY20, and a 41% (or \$4.1M) reduction in FY21. As a result, programs were unable to fund at pre-pandemic levels.

As a department, the Economic Development Department is reimagining its Cultural Funding Program for arts, heritage, and music with an intentional focus on equity, while more effectively promoting tourism to Austin. While there are no ramifications, EDD is continuing its evaluation of new program guidelines to continue to serve the broad collective creative base that makes Austin a vibrant and attractive city for tourism.

Question: What does the future of these funds look like? Any changes to approach, any redirection of funding as we recover from COVID?

Based on initial festival season numbers, hotel occupancy tax revenue collection looks promising.

Heritage Tourism Division Update for Tourism Commission:

Overview of Historic Preservation Programs

- **Typical types of organizations funded in the past (CA) and projects funded by HPF**
- **“What we work with and what is used to do versus what it can do now”**

Austin City Council provided direction through [Resolution No. 20181004-033](#), to allocate the Historic Preservation Fund budget in the following manner:

- 70% for City of Austin historic facilities and sites in accordance with Texas Tax Code Section 351.101(a)(5)
- 15% reserved for potential future historic acquisitions or major preservation projects that would be frequented by tourists and convention delegates
- 15% to the Heritage Preservation Grant Program for Capital, Planning, Educational and Marketing Projects

The Texas Tax Code, Chapter 351.101(a)(5) authorizes hotel occupancy taxes to be used to promote tourism and the convention industry through the use of those funds for historic 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 museum.

Similar to previous funding years, the Heritage Tourism Division continues to utilize the allocation percentage above as approved by Council.

Please find the FY19-FY21 approved Historic Preservation Fund allocations for both City-owned historic Capital Improvement Projects and operational support and Historic Preservation Grant Program (for Capital, Planning, Educational, or Marketing projects) complete with a list of contractors, project types, and the Council-approved award amounts:

FY19: <http://austintexas.gov/edims/document.cfm?id=307769>

FY20: <http://austintexas.gov/edims/document.cfm?id=326729>

FY21: <https://www.austintexas.gov/edims/document.cfm?id=347038>

Cultural Arts Division Update for Tourism Commission:

Overview of the Cultural Arts Program

- **Typical types of organizations funded in the past (CA) and projects funded by HPF**
- **“What we work with and what is used to do versus what it can do now”**

The Cultural Arts Division has, for most of the past 15 years, focused on three programs with which to contract for cultural services: Core, Cultural Heritage Festivals, and Community Initiatives. Through these three programs, the Division had grown to support an all-time high number of 600+ contracts, including funding for individual artists, collectives, unincorporated groups, arts nonprofits, and other entities. The awards ranged from small awards of \$3,000 to upwards of \$200,000, depending on a range of factors, and served emerging artists as well as established institutions. The Division typically funded a high percentage of applicants who applied for funding. This system was ripe for re-imagining, as historical data revealed an inequitable distribution over time and simultaneously, the number of successful applicants was outpacing receipt of HOT funds to support growing award amounts.

Full information on historical funding, including organization names and award amounts can be found on the City’s Open Data Portal:

<https://app.powerbigov.us/view?r=eyJrIjoiaWWEzMzgyMTctODU3NS00YTQzLWJiN2ltMzgxM2YxZThiMTMyliwidCI6IjVjNWUxOWY2LWE2YWItNGI0NS1iMWQwLWJlNDYwOGE5YTY3ZiJ9>

Music & Entertainment Division Update for Tourism Commission

Overview of Live Music Fund Pilot Program – FY23 Live Music Fund Event Program

- No Live Music Fund funding programs have launched since the fund’s inception in September 2019.
- Based on direction for the Live Music Fund from Mayor and Council at the October 12, 2021, Work Session, the Music Commission voted on [Music Recommendation 20220207-3b](#) during their regular February 7, 2022 meeting.
- Utilizing this recommendation, Staff incorporated additional uses of funds—along with a longer contract term due to staff capacity—into updated Live Music Fund Event Program guidelines, which were presented to the Music Commission on April 4, 2022 ([3D. Discussion and Possible Action on](#)

[the Live Music Fund](#)). The Music Commission reiterated their preference for 12-month contracts for \$5,000–10,000 awards.

Please find the fund summaries via the links provided:

https://assets.austintexas.gov/budget/21-22/downloads/FY22_Approved_Budget.pdf

Cultural Arts Fund - page 406

Historic Preservation Fund – page 426

Live Music Fund: page 438