The HOTEL OCCUPANCY TAX IN TEXAS

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Executive Summary

The hotel occupancy tax (HOT) hardly generates the interest that income or property taxes typically generate. The tax is imposed on visitors, not constituents, and as such is perceived as a source of revenue benefitting the local community at no cost. Nonetheless, there are several reasons why Texans should take a closer look at this tax and be concerned about its possible effects on the Texas economy.

The Texas hotel occupancy tax is levied at the state and local levels. Most paid overnight accommodations are taxed at a rate between 6 percent and 17.5 percent. Texas' largest cities have some of the highest rates in the nation.

Most of the revenue generated by the state portion of the tax goes to the state's general revenue fund, with a portion of it, along with the local portion, supporting the tourism and the convention and hotel industry. The tax was created to generate financial support for attractions that will increase tourism in Texas and bring more visitors, hence fostering economic growth and employment locally, as well as increasing tax revenues. Marketing and promotional campaigns, the arts, historical preservation, sports venues, convention centers, and visitors bureaus are categories of projects that can benefit from the support of HOT revenues as long as they are expected to bring visitors from out of town and generate revenues from these visitors.

However, the law's current setup of funding projects through the tax offers little transparency, particularly regarding a project's performance record. Consequently, lawmakers have no way to verify whether the disincentive caused by the high cost of the HOT is offset by gains elsewhere in the tourism industry.

Special care should be taken to ensure that the HOT does not inadvertently dampen visitors' appeal for Texas' cultural and natural attractions. It would be a lost opportunity if an unnecessary tax caused visitors to shorten their stay or visit fewer local attractions. Along these lines, lawmakers should consider (1) whether Texas' tourism industry needs taxpayer subsidies in order to flourish, and (2) whether the hotel occupancy tax's relatively high rate erodes visitor spending rather than generating a positive impact on tourism.

In order to answer these questions, more transparency is needed regarding the actual performance of the projects funded. If the HOT turned out to be less a catalyst for local job creation and economic growth than outright corporate welfare, its rate should be cut, or, better yet, the tax should be repealed.

KEY POINTS

- Visitors to Texas' most populated cities spend between 15 percent and 17.5 percent in combined state and local hotel occupancy taxes.
- High hotel occupancy taxes can discourage tourism to Texas cities and siphon away money that could have been spent in the local economy.
- There is little to no information about whether projects and convention centers funded by the hotel occupancy tax actually increase tourism.
- Like any other private industry, the travel and tourism industry should not rely on taxpayer money for promotion and funding of its activities.

> I must say, as to what I have seen of Texas, it is the garden spot of the world. The best land and the best prospect for health I ever saw is here, and I do believe it is a fortune to any man to come here.
>
> —Davy Crockett (Texian Legacy Association)

Introduction

Texas' pristine landscapes, historical landmarks, culinary diversity, and vibrant music scene have made the state a destination of choice for American and foreign adventure seekers.

Hotel revenues in 2014 were 34 percent above 2008 levels and growing at rates faster than they were in pre-recession years (Source Strategies, Inc. 2015). Total room revenue increased by 4.3 percent in 2015, but only by 1.1 percent in 2016 (JLL, 3). Texas' hotels had a 63.2 percent occupancy rate in 2016, a 3.7 percent decrease from 2015 when it was 65.6 percent. For comparison, the national average occupancy rate was 65.5 percent in 2016 and 65.4 percent in 2015 (JLL, 3).

Real inflation-adjusted travel spending[1] increased by only 1.8 percent in 2016, compared to 2.7 percent in 2015, and 4.7 percent in 2014. Room demand remains relatively flat, as it increased by 0.5 percent in 2016, and 0.4 percent in 2015, after a 4.8 percent increase in 2014. Even state and local tax revenue generated by travel spending slowed, increasing by 3.2 percent in 2016, 4.9 percent in 2015, and 6.1 percent in 2014 (Dean Runyan Associates 2016, i; 2017, i).

Still, Texas remains a destination of choice for travelers. The volume of visitors, as calculated by the travel industry,[2] has been increasing over time. In its 2016 Texas Tourism Region and MSA Visitor Report, D.K. Shifflet estimated the number of person-stays to be around 266.15 million in 2016 (as opposed to 255.98 million in 2015 and 243.22 million in 2014) and the number of person-days to be around 549.48 million in 2016 (535.85 million in 2015 and 517.73 million in 2014), with Texans representing 62.4 percent of person-days to the state (8, 9). Visitor volume reached 1.79 million from overseas (visitors who indicated they stayed in Texas during their visit to the U.S.; excluding Canada and Mexico) in 2015, 8.1 million from Mexico in 2016, and 498,500 from Canada in 2016 (Travel Market Insights, 1; Travel Texas 2017, 18-21).

In 2016, the Texas travel industry generated $69.1 billion in direct travel spending (in real 2016 dollars), compared with $67.9 billion in 2015, supporting around 664,000 direct jobs in 2016 and nearly 648,000 direct jobs in 2015 (Dean Runyan Associates 2017, 9).

Taxation on travel and recreation has also provided a deep revenue stream for government. Dean Runyan Associates calculate[3] a $6.4 billion impact in terms of state and local tax revenues, up 3.2 percent compared to $6.2 billion in 2015. In 2016, this represented $2.5 billion in local tax revenues, and $3.9 billion in state tax revenues (Dean Runyan Associates 2017, 6, 9). Taxes on room accommodations constituted 14 percent of state government revenue generated by the travel industry in both 2015 and 2016; half of all travel-generated tax receipts were through the sales tax (Dean Runyan Associates 2016, 21; 2017, 21).

Texas' strength as a tourist destination might lure Texans into thinking that the state's continued success as a tourism magnet is assured. However, Texas' main cities have some of the highest hotel occupancy taxes in the nation and this additional cost to visitors could hurt the state's ability to compete with other popular destinations.

Surveys have found that the price of accommodations represents one of the most influential factors in travelers' booking decisions. Instead of acting as a boon to local economic development, the combination of state and local hotel occupancy taxes—a large part of the revenues are used to pro-

1 Travel spending includes spending from visitors from Texas, other U.S. states, and international visitors. It also includes spending related to resident passenger air travel, convention and trade shows, and travel arrangement services (Dean Runyan Associates 2017, 11).

2 The "person-stay" metric comprises the total number of persons (although not necessarily unique visitors) who stayed at a destination. If 10 visitors from New York went to Dallas and Austin during their trip to Texas, they would count as 20 visitors—10 persons for Dallas and 10 persons for Austin. The "person-days" counts the number of days spent at each destination city. If our 10 visitors spent three days in Dallas and four days in Austin, the number of person-days would be 70 (D.K. Shifflet 2017a).

3 Dean Runyan Associates' calculations for local tax revenues include lodging taxes, sales taxes and airport passenger facility charges paid by visitors, and the property tax payments and sales tax payments attributable to the travel industry income of businesses and employees; state tax revenues include lodging, sales, beverage and motor fuel tax payments of visitors, and the franchise tax payments attributable to the travel industry income of businesses and sales tax payments attributable to the travel industry income of employees (Dean Runyan Associates 2017, 9).

mote tourism—may actually end up deterring visitors from staying in Texas hotels and patronizing Texas businesses.

The Lone Star State has many natural resources and cultural attractions that lure hundreds of thousands of visitors every year. While some of these attractions may have benefitted from visitor tax dollars, it is crucial for both this industry and the state of Texas to go beyond just the visible economic impact generated by certain attractions. Texas should also thoroughly research the opportunity cost of subsidizing these attractions and examine the economic impact of cutting the hotel occupancy tax.

The Hotel Occupancy Tax in Texas

Most people discover the existence of the HOT—sometimes called the bed tax, hotel tax, room tax, or transient occupancy tax—when presented with a hotel bill. The tax, imposed on the rate of a room, can significantly increase the cost of a traveler's stay, depending on its length and the price per night of the room. Many countries have such a tax, and the United States is no exception. Although there is no hotel tax at the federal level, each state has some form of hotel tax, either at the state or local level. Texas, which generally follows a philosophy of low taxes and limited government intervention, nonetheless imposes hotel taxes with rates ranging from 6 percent to 17.5 percent.

There are two levels of hotel occupancy tax in Texas: state and local. The state hotel occupancy tax was created in 1959 at a rate of 3 percent. The Legislature authorized municipalities to levy hotel occupancy taxes in the 70s and counties in the 80s. In the late 90s, the Legislature also allowed cities and counties to use the HOT as an option to fund sports and community venues (MacCrossan and Jauer).

The state HOT rate is now 6 percent. The maximum municipal tax rate varies between 7 and 9 percent, the county tax rate varies between 0.75 and 7 percent, and the sports and community venue projects tax rate may generally not exceed 2 or 3 percent. The latter needs to be approved at an election. The combined HOT rate (state plus local) may not exceed 15 percent except in cases where a venue projects tax is added. Since 2013, the combined HOT imposed from all sources, when a venue tax is imposed, cannot exceed 17 percent of the price of a room (HB 1908 Bill Analysis).

Taxes—sales, lodging, or both—on overnight accommodations have become a common toll on travelers' expenses in most of the United States. HVS's Lodging Tax Report analyzes lodging tax rates and revenues across the United States. Its 2016 report indicates that only two states—California and Alaska—do not levy "a sales tax, a lodging tax, or both on overnight transient accommodations," although they do allow their municipal governments to levy lodging taxes (4-5). Texas allows three levels of government—state, municipalities, and counties—to levy a HOT.

The HOT enables governments to siphon a considerable amount of money away from out-of-state visitors but mostly from Texans—as Texans represent more than 62 percent of the volume of person-days (D. K. Shifflet & Associates, 7). The state government collected more than $531 million through the HOT in 2015 (See **Table 1**). An earlier Dean Runyan Associates study reported that in 2013 local governments (city and county) collected $676 million, compared to $473 million for the state (Dean Runyan Associates 2014, 12).

How the HOT is applied and how its proceeds are spent depend on whether the money is collected by the state or local government. Chapters 156 (state HOT), 351 (municipal HOT), and 352 (county HOT) of the Texas Tax Code establish the law. Regulations managing the tax are quite detailed, but the basic rules are as follows:

- A room must cost $15 or more a day for the state tax to apply. The threshold for the local tax is $2 or more.
- The tax does not apply if the guest occupies the hotel room for at least 30 consecutive days without an interruption of payment (the guest is then considered to be a permanent resident).
- Other exemptions apply to nonprofit religious, charitable, or educational organizations, specific nonprofit entities, and government.
- The tax applies to short-term rentals, such as those through HomeAway and Airbnb, as well as to hotel rooms.
- The state HOT is managed by the Texas Comptroller's Office; its revenues are deposited in the general revenue fund with some of the revenues dedicated to certain types of spending.
- The local HOT is managed directly by cities and counties. It may be levied for economic development and has a defined scope as far as spending revenue is concerned.
- Before spending HOT revenues, municipalities must "specify in a list each scheduled activity, program, or event;" the list must be provided to the city secretary.
- Municipalities and counties are allowed to set aside HOT revenues in a fund for future expenditures.

Most HOTs are imposed on the paid accommodation itself, as the name suggests. However, certain services provided in

Table 1. Distribution of state hotel occupancy tax revenues between the general revenue fund and the events trust funds—2011 to 2016 (thousands of dollars).

	2011	2012	2013	2014	2015	2016	Total 2011-2016
General Revenue Fund	$348,796.1	$401,411	$441,131.8	$485,382.1	$525,816.4	$521,149.1	**$2,723,686.7**
Major Events Reimbursement Program	$8,750.1	$5,645.3	$6,672.4	$4,785.4	$4,152.1	$6,952.2	**$36,957.5**
Events Trust Fund for Certain Muni/Counties	$6,536.9	$1,111.1	$4,139.4	$2,730.3	$1,334.3	$5,393.6	**$21,245.6**
Motor Sports and Racing Trust Fund	-	-	-	$261.7	$267.5	-	**$529.1**
State HOT revenues	**$364,083.1**	**$408,167.4**	**$451,943.6**	**$493,159.5**	**$531,570.3**	**$533,494.9**	**$2,782,418.9**

Source: Texas Transparency, State Revenues, Classic Tool.
Note: Numbers may not add up precisely to the totals due to rounding.

combination with a hotel room can also fall underneath the tax. These include the cost of an additional bed, pet charges, or the rental of an in-room safe. Other services, when stated separately, are not subject to the HOT, although they do remain subject to the sales tax (Texas Comptroller 2016). In either case, taxes inflate a visitor's traveling costs.

Changes During the 85th Texas Legislature
The 85th Texas Legislature passed several bills related to the hotel occupancy tax, one concerning the state HOT and the others concerning either the municipal or the county HOT. Most expanded the use of the local HOT to some municipalities or counties. However, SB 1221 will bring more transparency for taxpayers by requiring that municipalities file an annual report to the Comptroller stating the HOT rate imposed, the revenue the tax generates, and the amount and percentage of the revenue that goes to finance convention and visitor information centers, advertising to attract tourists and convention delegates, historical restoration and preservation projects, signage, and arts program (SB 1221).

How Revenues From State and Local HOTs Are Spent

The State Hotel Occupancy Tax

The state HOT generated more than $533 million in fiscal year 2016 (TexasTransparency), most of which goes to the state's general revenue fund. This means that except for the dedicated funds listed below, state HOT revenues can be spent for any purpose.

Chapter 156 of the Tax Code requires that one-half of a percent of the state HOT deposited in the general revenue fund be allocated to "media advertising and other marketing activities of the Tourism Division of the Texas Department of Commerce." Some of this revenue also goes to local governments.

Two percent of the state HOT revenue received from "hotels located in an eligible coastal municipality that has created a park board of trustees to administer public beaches under Chapter 306, Local Government Code" must go to the eligible municipality for the sole purpose of cleaning and maintaining public beaches in that municipality. Similarly, eligible barrier island coastal municipalities receive 2 percent of the state HOT collected in hotels in their municipalities—with the exception of revenues from qualified hotel projects—for the sole purposes of cleaning and maintaining public beaches in that municipality, cleaning and maintaining bay shores owned or leased to the state of Texas by that municipality, and for an erosion response project. Finally, municipalities and counties can also receive 20 percent of state revenues collected following documentation or information they provided regarding delinquent taxes (excluding penalties and interest).

Additionally, local governments receive state HOT funds through the state's events trust funds. The funds are financed by a handful of taxes (sales and use tax, hotel occupancy tax, auto rental car tax, and alcoholic beverage taxes). Ninety percent of the funding comes from the sales and use tax and the hotel occupancy tax.

In 2011, the government started tracking on TexasTransparency.org how revenue from the state HOT has been deposited to the Events Trust Fund for Certain Municipalities and Counties, the Major Events Reimbursement Program (formerly the Major Events Trust Fund), and the Motor Sports and Racing Trust Fund. **Table 1** shows the evolution of the distribution since the information has been made available to the public.

The portions of state HOT going to the events trust funds come from the incremental increase in revenues that the Economic Development and Tourism Division, Office of the Governor (formerly, the Comptroller), determines is the result of organizing specific events over a certain period of time, i.e., tax revenues that would not have existed and been collected but for the organization of the events. Regarding the Events Trust Fund, this includes revenue "over a 30-day period from an event or series of events conducted no more than once annually." For the Major Events Reimbursement Program, the revenue is that "over a 12-month period from certain major sporting championships or events" (Go Big in Texas; Texas Vernon's Civil Statutes).

Is the use of the HOT to fund these events crucial to their taking place in Texas? The answer is unclear. Out of concern that a lot of money was going back to communities for the organization of small events that would have come to the state with or without the incentive, the 83rd Legislature passed SB 1678, which increased the requirements for local government to receive funds (Wood).

A 2014 Comptroller report on the Events Trust Funds (ETF) found that "In several cases, the ETF has been used to support events previously hosted in the same or different city in Texas without state funding" (Texas Comptroller 2014).

The Local Hotel Occupancy Tax

The local HOT varies in rate and the projects it can finance. The rules on the application of the municipal and county HOTs are codified in Chapter 351 and Chapter 352 of the tax code, respectively. Eligible cities and counties do not have an obligation to levy the tax but can decide to do so for two purposes: to foster "economic development through tourism" or to finance a "Venue Project." According to a 2013 Economic Development Handbook published by the Office of the Attorney General, "more than 500 Texas cities and 60 counties levy a local hotel occupancy tax" for economic development (Attorney General of Texas, 134). Local HOT revenues may not be used for general revenue purposes.

Cities levy the HOT through ordinances; counties through orders. In most cases, cities are allowed to levy a tax not to exceed 7 to 9 percent of the price of a hotel room. Cities with a population of under 35,000 can also levy the tax within their extraterritorial jurisdiction (ETJ). Certain counties are also authorized to levy a hotel occupancy tax; the rate may vary within specified bounds (it may not exceed 7 percent of a hotel room rate outside of a city, 2 percent within the limits of a city with a population of 1.9 million or more, or 4 percent if the county has no municipality, among other requirements). Cities and counties can leave up to 1 percent of the tax to the hotel to cover the expenses linked to collecting the tax. If a hotel fails to report or pay the HOT, cities and counties can request that a district court close them down. According to the Office of the Attorney General's 2013 handbook on economic development, "The most noteworthy of these remedies is the ability of the city to request that the district court close down the hotel if the hotel occupancy taxes are not paid. Often, a city can gain compliance simply by informing the hotel operator of the possibility of such a closure" (61).

Expenditures of city HOT revenues are restricted to certain categories of projects. All required expenditures must "directly enhance and promote tourism and the convention and hotel industry" and should attract visitors from outside the city into the city or its vicinity. They must also fit into one of the allowed categories, among which are funding for construction or maintenance of a convention center or visitor center; paying for advertising and promotional programs that support the tourism and the convention and hotel industry; funding the promotion of the arts, historical restoration, or preservation programs; and providing signage to sights and attractions. A city may also pledge the revenue of the HOT for the payment of bonds issued under Section 1504.002(a) of the Government Code for convention center facilities.

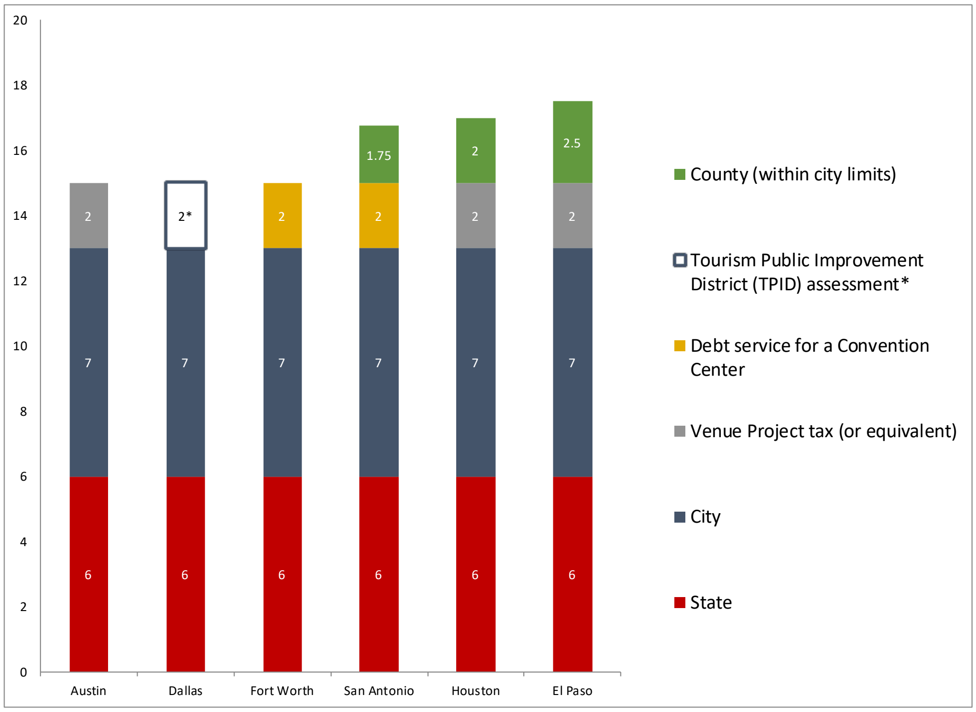
Rules also direct the allocation of revenues. Cities with over 200,000 inhabitants and annual HOT revenues below $2 million must spend at least 50 percent of HOT revenues on "advertising and conducting solicitations and promotional programs to attract tourists and convention delegates or registrants to the municipality or its vicinity." Cities with a population of less than 200,000 must spend at least 0.5 percent of HOT revenues on advertisement and promotion of the city if the HOT rate they adopt is less than 3 percent; they must spend at least 1 percent if their HOT rate is over 3 percent. Depending on their population, cities are also limited in the percentage of HOT revenues they can spend on the arts and for historical restoration and preservation.

Expenditures of county HOT revenues are also restricted. As with cities, projects must "directly enhance and promote tourism and the convention and hotel industry" and should attract visitors from outside the county into the county or its vicinity. Depending on the county and its population, different categories of allowed expenditures apply.

A recent analysis of the history of the tax in the Comptroller's Office newsletter Fiscal Notes pointed out that "Texas law for county hotel tax rates … has been amended 29 times" while the one for municipal HOT rates had been 11 times (MacCrossan and Jauer).

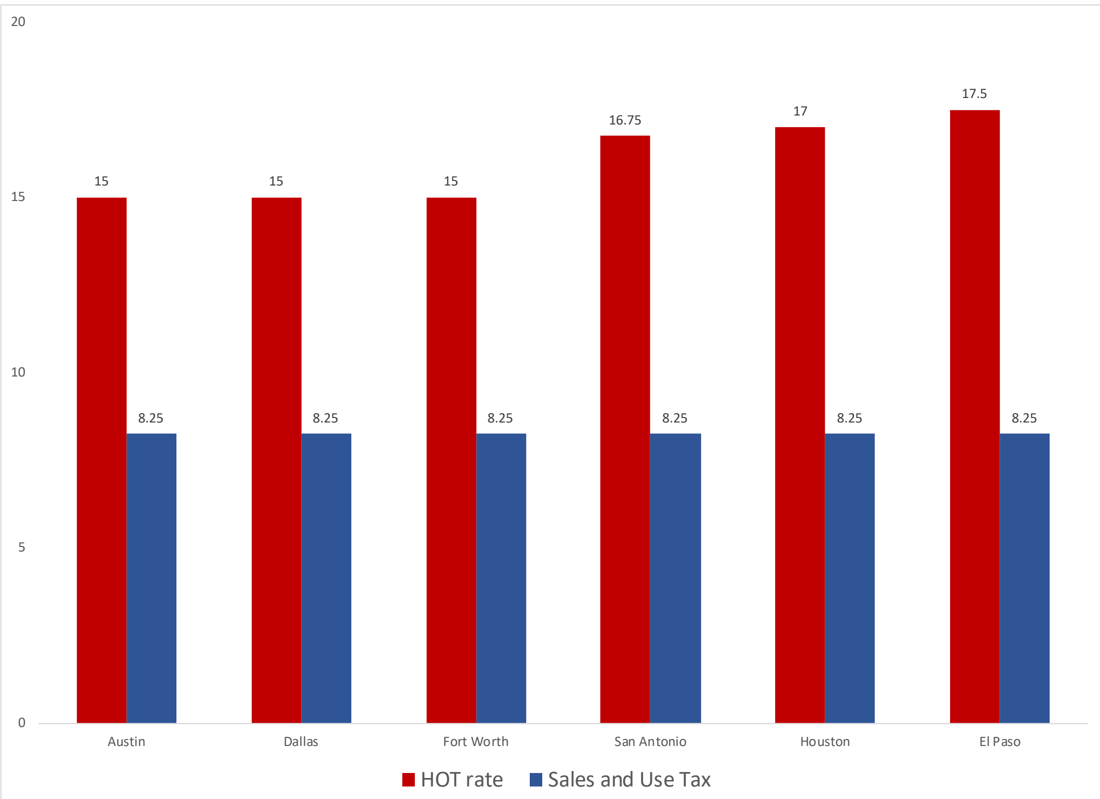
Cities and counties can also finance sports and community venue projects by levying a HOT or venue project tax of no more than 2 percent even if the maximum HOT rate has

Chart 1. Percent distribution of hotel occupancy taxes for six Texas cities



Source: Cities' and counties' websites.
*The city of Dallas imposes a 2 percent assessment on occupied rooms in the "District: … made up of hotel properties in the city limits of Dallas with 100 or more rooms" (DTPID). Although not technically a hotel occupancy tax, the assessment is imposed in the same way and adds up to the HOT.

Chart 2. Current total hotel occupancy tax rate and sales tax rate per city (hotel occupancy tax rate includes state, city, and county hotel taxes; sales tax includes state and local sales taxes)



Source: Cities' and counties' websites; Texas Comptroller of Public Accounts.

already been reached by the city. However, the 83rd Legislature passed a law capping the combined HOT imposed from all sources at 17 percent (HB 1908). Chapter 334 of the Texas Local Government Code requires that the sports and community venue project be first approved by the Comptroller's Office and in some cases by the local transit authority. The project and the source of revenues to finance it must then be presented at an election and accepted by the voters.

HOT Examples Throughout Texas

While the state HOT is the same (6 percent) throughout Texas, the total HOT (state plus local) varies: there may be an additional city and/or county HOT, or there may not be any local HOT. **Chart 1** shows the distribution of the tax for six Texas cities.

In addition to the HOT, the sales tax also applies on some services in visitors' hotels (Texas Comptroller 2016), and, of course, visitors have to pay it on applicable products and services outside their hotel. The state of Texas imposes a 6.25 percent sales and use tax rate on retail sales, leases and rentals of most goods. Local taxing units can impose up to an additional 2 percent sales and use tax rate, with the maximum state and local sales tax rate being 8.25 percent (Texas Comptroller 2017b). The sales tax rate in the cities of Austin, Dallas, Fort Worth, San Antonio, Houston, and El Paso is 8.25 percent. **Chart 2** shows rates for both the HOT and sales and use tax in six Texas cities.

Austin

Visitors to Austin pay a 15 percent HOT rate: 6 percent to the state and 9 percent to the city of Austin, which includes a 7 percent occupancy tax and a 2 percent venue project tax. Travis County does not have a HOT.

According to the city of Austin's budget, city HOT revenues are distributed between the Convention Center Tax Fund, the Venue Project Fund, the Tourism and Promotion Fund, and the Cultural Arts Fund (City of Austin 2016, 503). In FY 2016-17, HOT revenues represented 62.7 percent of the convention center's total budgeted revenue of $104.2 million (44). This represents an increase from FY 2013-14 when HOT revenues represented 60 percent of its total budgeted revenue (City of Austin 2013, A-20).

Dallas

The city of Dallas charges its visitors a tax on hotel rooms of either 13 or 15 percent: the 6 percent state HOT, a 7 percent city HOT, and an additional 2 percent Tourism Public Improvement District (TPID) assessment for certain hotels.

According to the city of Dallas' annual budget for FY 2016-17, 67.4 percent of the city HOT revenues go to the Dallas Convention Center "to support operations and capital improvements as required by bond ordinance." An additional 30 percent goes to the Dallas Convention and Visitors Bureau "to market and promote the City of Dallas as a convention and tourist destination" and 2.6 percent goes to the Office of Cultural Arts "to encourage, promote, and improve the arts." The distribution of the state and city HOT (13 percent total) is 46.15 percent for the state, 36.29 percent for the Dallas Convention Center, 16.15 percent for the Dallas Convention and Visitors Bureau, and 1.40 percent for the arts (City of Dallas, 562).

On top of the 13 percent state plus city HOT, hotels with 100 or more rooms within the city limits of Dallas have to pay an additional 2 percent assessment on their occupied rooms "for the purpose of generating funds to market and promote Dallas as a convention and tourism destination." This assessment is levied following the creation in 2012 and the renewal in 2016 of the Dallas Tourism Public Improvement District (DTPID).

Fort Worth

Visitors to the city of Fort Worth pay a 15 percent HOT rate: the 6 percent state HOT, a 7 percent city HOT, and an additional 2 percent for debt service for the Fort Worth Convention Center and Will Rogers Memorial Center.

The city of Fort Worth's HOT revenues are managed through the Culture and Tourism Fund, "a special revenue fund of the City of Fort Worth, established in 1989 to provide funding to enhance tourism and promote, develop, and maintain cultural activities in Fort Worth. In FY2016, four additional operating funds and two additional capital funds were added to allow for tracking of the 2% hotel occupancy tax (HOT) for debt service, the DFW Revenue Share, the Project Finance Zone, Venue Project and associated capital enhancements" (Fort Worth, H-23). Two percent of its 9 percent HOT was dedicated to "be used only for the construction of an expansion of an existing convention center facility or pledging payment of revenue or revenue refunding bonds issued in accordance with state law for the construction of the expansion" (Fort Worth Code of Taxation).

San Antonio

San Antonio visitors pay a 16.75 percent HOT rate, which includes, in addition to the 6 percent state HOT rate, a 7 percent HOT for the city, 2 percent more dedicated to pay debt service and fund capital improvements for the Henry B. Gonzalez Convention Center Complex, and 1.75 percent for Bexar County.

For FY 2017, 35 percent of the city's HOT revenues were allocated to convention center facilities, another 35 percent were allocated to the Convention and Visitors Bureau, 15 percent to the arts, and 15 percent to history and preservation. The revenues are transferred to the Community & Visitor Facilities Fund and the Convention & Visitors Bureau Fund (City of San Antonio, 88-89).

Houston

Houston visitors pay a 17 percent HOT rate: the 6 percent state HOT and an 11 percent local HOT rate that encompasses a 7 percent city tax, a 2 percent tax for Harris County, and a 2 percent tax levied for the Houston Sports Authority.

The revenues from the Houston HOT go to Houston First Corporation (formerly, the Convention & Entertainment Facilities Department). According to Houston's code of ordinances, the revenues may be used to fund projects that are within the scope of the first five categories cited in Chapter 351 of the Tax Code (Houston Code of Ordinances).

El Paso

Visitors to El Paso pay the highest HOT of all Texas cities—17.5 percent—which includes the 6 percent state HOT, a 9 percent city HOT, and a 2.5 percent county HOT; part of the city HOT goes to fund a sports venue project.

According to a city report, revenues from El Paso's HOT (9 percent) are divided as follows:

- 2 percent venue project (ballpark)
- 2.5 percent convention and performing arts centers (CPAC) debt service / capital funds
- 4.5 percent Convention & Visitors Bureau (CVB) / CPAC / Museum and Cultural Affairs Department (MCAD) operations
  - 1.5 percent dedicated to CVB operations
  - 3 percent to CVB, CPAC, and MCAD (City of El Paso, 13)

Convention Centers and Economic Impact Analyses: Instruments for Political Shenanigans, not Economic Growth

The use of HOT revenues by municipalities and counties is strictly defined in statutes: "only to promote tourism and the convention and hotel industry" (Sec. 351.101, Texas Tax Code). The idea behind the tax is that visitors both participate through the tax and benefit from its revenues being used to pay for attractions that generate tourism. Local governments defend the tax as an opportunity to generate more tourism and as a result, economic growth, job creation, and an increase in tax revenues.

Within the scope of "tourism and the convention center and hotel industry," the use of revenue is further restricted to a list of eligible expenditures that include, depending on the municipality or county, the construction, repair, or maintenance of a convention center facility, a visitors bureau, a sports facility, advertising and promotion programs, funding of the arts, historical restoration and preservation projects.

One concrete example of a type of project directly financed by the HOT is the convention center. Building or expanding convention centers to attract convention delegates and visitors has become a habit all over the United States for several decades now, creating what we could call a convention center space race. However, this race has been run at great cost.

The examples of convention centers running at a loss have been piling up. In 2013, the convention center in Dallas ended up in the black by $783,646 thanks to tax revenues, without which the center would have lost $27 million. According to the *Dallas Business Journal*, "In Dallas, the convention center is supported by the city's Enterprise Fund, which includes about 67 percent of the city's share of the hotel occupancy tax, or about $27.7 million during the last fiscal year" (Carlisle).

One claim raised in the article to defend the construction of convention centers is that they were never meant to be profitable: "'Convention centers were always designed to be loss leaders and economic engines to a community,' said Douglas Ducate, president and CEO of Dallas-based Center for Exhibition Industry Research. 'If convention centers were profitable, then private businesses would build them.'" Back in 2013, Dallas Convention Center Executive Director Ron King declared about the Dallas convention center that "there's no operating profit. The standalone operation wasn't created to make a profit" (Carlisle).

In his book *Convention Centers Follies*, Heywood Sanders, professor at the department of public administration, University of Texas at San Antonio, tells the story of how convention centers changed from being seen as "amenities for the broad urban community, capable of hosting large community events as well as conventions, and accommodating large local gatherings as well as the occasional national political convention or major event" to accepted "loss leaders" in the name of the purported impact they could generate, both in terms of economic growth and tax revenues. He explains: "Local convention and visitors bureaus (CVBs) and center promoters acknowledge that almost every convention center in the U.S. operates at a loss, not even counting the annual cost in debt service. Centers simply do not take in revenues equal to the cost of operations. In fiscal 2011, the operating loss of Philadelphia's Pennsylvania Convention Center was $18.1 million. Washington's Walter Washington Convention Center lost $20.7 million from operations, in addition to $34.9 million annual debt service and $14.2 million in marketing. Orlando's Orange County Convention Center saw an operating loss of $14 million" (Sanders 2014, 28-29).

So why are convention centers so essential that we would want to build always more convention center space? The answer is economic development. Local governments resort to the arguments that (1) if we build convention center space, visitors will come; and (2) if other cities are building bigger convention centers, so should we in order to stay competitive. The reasoning is that if these convention centers are successful in bringing in economic development, this will not only compensate for the losses created by convention centers, this will also generate growth, the creation of jobs, and additional tax revenues. But do they generate a net, positive economic impact?

As Sanders points out, local governments have come to rely on increasingly sophisticated "economic impact" studies that claim to forecast not only estimates of future convention center business, but the number of visitors, the impact on hotel rooms and number of nights spent, local spending impact, and economic multipliers.

In a paper on the economic impact of tourism, Daniel J. Stynes, professor emeritus at the department of community, agriculture, recreation and resource studies at Michigan State University, assessed how and why economic impact analyses were conducted. He wrote that there were a "variety of methods, ranging from pure guesswork to complex mathematical models … used to estimate tourism's economic impacts. Studies vary extensively in quality and accuracy, as well as which aspects of tourism are included." Additionally, he wrote, these analyses are often in economic jargon that can be opaque for many people. Not helping is the coverage by the media, which "tend[s] to oversimplify and frequently misinterpret[s] the results, leaving decision makers and the general public with a sometimes distorted and incomplete understanding of tourism's economic effects" (Stynes).

In a 2006 paper, Dr. John Crompton, university distinguished professor in the department of recreation, park and tourism sciences at Texas A&M University, researched whether economic impact studies were "instruments for political shenanigans." Explaining how "the motives of a study's sponsor invariably dictate the study's outcome," Crompton listed examples of several ways calculations and methods could become misleading—"a variety of forms in which deliberate malfeasance practices are manifested"—and lead to gross exaggerations of economic impact expectations. Among these are including local residents in the calculations, inappropriate aggregations, abuse of multipliers, ignoring costs borne by local communities, or ignoring opportunity costs, among others (Crompton).

Heywood Sanders has also analyzed feasibility studies for years and has observed patterns all over the U.S.: all of them seem to reach the same "build it and they will come" conclusion, and they tend to be overly optimistic about the number of visitors the buildings or their expansions could bring. Examples of failures to meet expectations are found in Nashville, Washington, D.C., and Chicago (Bauder; NCPA; Bernstein).

Not everyone agrees with the criticism the studies justifying the funding of convention centers generate. In a review of Sanders' book *Convention Center Follies*, the HVS consulting group disputed criticisms directed at the methodology used by economic impact and feasibility study consultants:

> *By citing figures comparing predicted attendance versus actual attendance, Sanders attempts to demonstrate that consultants systematically overestimate demand and economic impact in order to "sell" the idea of a convention center to a municipality. In reality, the success of a convention center can only be measured against the counterfactual situation in which the convention center development had not occurred, or had otherwise been altered in scope (Hazinski and Hazinski).*

Yet this criticism actually highlights the flaw that economic impact analyses of convention centers usually do not look at opportunity costs, i.e., the potential economic growth if the center was never built: What if the tax used to help build the center had not been levied in the first place, leaving more money in the hands of business and recreational travelers? Would they spend more time locally, staying longer in hotels, and spending more in the local economy? Or would they save the money not paid in taxes and invest it in other business opportunities, housing, and other activities unrelated to tourism?

The authors of the review admit a knowledge problem. Forecasts can be difficult and inaccurate because they are dependent on market trends that forecasters cannot always foresee:

> *The forecasts made by consultants are also explicitly contingent upon the presumption that national macroeconomic trends will remain constant over the long term. To evaluate a convention center by comparing projected attendance versus actual attendance in the year 2009, for example, in which the national economy reeled from the 2008 recession, is to measure the success of that convention center with faulty criteria. The projections of consultants are sometimes wrong, and sometimes dramatically so, but determining their accuracy requires engaging in a complex "what-if" analysis that Sanders wholly ignores (Hazinski and Hazinski).*

Despite the problems with these studies, Texas has followed the pattern of relying on them.

Sanders tells the story of how the Austin Convention Center was built to replace the old Palmer Auditorium in the 1990s following a city-commissioned study by Coopers & Lybrand; how it was expanded in the late 1990s following a study by Charles H. Johnson, then with Stein & Company; and how the downtown Hilton hotel was financed by taxpayer money to support convention center business following an HVS consulting study (Sanders 2014, 155-159). All three studies' forecasts in terms of national and regional conventions booked, convention attendees, or room-nights generated ended up being well above actual numbers. More recently, a report from a Visitor Impact Task Force commissioned by the Austin City Council supported a proposal for a new expansion of the Austin Convention Center. The task force suggested funding the expansion by increasing the hotel occupancy tax by 2 percent—which would bring Austin's HOT to 17 percent. The task force also initially "backed the creation of a tourism public improvement district in which hotels would collect an extra assessment from guests and pass along that money to the city to be used for tourism-related expenditures"—although it ultimately refrained from supporting the additional assessment (Pritchard). Austin Mayor Steve Adler suggested such an extra assessment could "add 1% through 2021 and then 2% for the next five years and perhaps beyond" (Adler). As stated in the Local Government Code, Sec. 334.254(d)(1), public improvement district assessments are not counted toward the cap on the HOT. If the HOT from all sources were to reach the cap of 17 percent—which would happen if an extra 2 percent HOT is added—and a tourism public improvement district assessment of 1 to 2 percent were added on top of it, the tax imposed on certain hotel rooms for visitors to Austin in order to "promote tourism and the convention and hotel industry" could be as high as 18 or 19 percent, the highest in Texas and in the country (Hazinski et al., 9).

In his 2007 testimony on convention centers and local economic development to the U.S. House of Representatives' Domestic Policy Subcommittee, Sanders detailed how Houston's George R. Brown Convention Center fell short of expectations, too:

> *The 1981 feasibility study for what became the George R. Brown Convention Center forecast that it would attract over 700,000 new convention attendees to the city, yielding at least one million annual hotel room nights. By 2000, a subsequent consultant study concluded that the center had generated 141,950 hotel room nights in 1997 and 156,348 in 1998, totals far below what had been projected prior to the center's opening. In the intervening years, city and convention bureau officials had sought a private developer for a major hotel of 1,000 to 1,200 rooms to serve the center. After those private efforts failed despite a host of city subsidy arrangements, the city undertook development of the hotel directly.*
>
> *A $626 million Houston bond issue in 2001 provided for both a major expansion of the George R. Brown Convention Center (adding 420,000 square feet of exhibit hall space) and the construction of a 1,200 room hotel to be managed by Hilton. The consultant market study that justified the expansion project forecast that the larger convention facility would generate 597,915 hotel room nights in 2005 and 625,908 in 2006, yielding the city $245 million in added visitor spending each year.*
>
> *A September 2006 audit by the Houston City Controller examined both the performance of the Greater Houston Convention and Visitors Bureau and the convention center. It found that the expanded convention center generated just 225,706 room nights in fiscal 2004–05. Subtracting room nights from public and sports events like the Houston Marathon that were not really housed at the center gives a 2004–05 total of 206,656. The similarly-adjusted room night total for fiscal 2005–06 came to 200,647. The public investment in both a major center expansion and a new*

> *hotel are generating at best some 50,000 annual hotel room nights for the city, far too little to support the city-owned Hilton Americas hotel (Sanders 2007).*

When the number of nights sold is (sometimes disproportionately) lower than the expected number of nights the convention center was supposed to generate, a call is often made to build more convention center space and more hotels, to attract bigger conventions and be able to compete with bigger centers. The rationale is that cities are losing bigger conventions to bigger convention centers, or cities with bigger hotels.

In some cases, municipalities went so far as to provide discounts on hotel rooms and other economic incentives to lure convention organizers to their city (Sanera and Atkins; Bauder; Tarr 2013).

Convention centers are said to have a tremendous economic impact on the area where they operate but some data seem to be overlooked. "Throughout the industry, statisticians assume that every convention attendee spends three and a half nights at local hotels. This inflates the figure for hotel nights and, of course, the total economic impact that the event is touted to provide. Actually, the average length of stay is around one night, taking all figures into account, says Sanders" (Bauder; Sanders 2014, 141-142). Also ignored is the possibility that the convention delegate market may well have reached maturity already (White, Jaquetta; Tarr 2013a).

> The essential truth is that if people have more money taken out of their pockets for taxes, they spend less. It is perfectly symmetrical with a positive multiplier effect, but in this case, it is a negative effect. Everybody who pays a dollar in taxes to support the facility must reduce his or her spending. This reduction sets off a chain reaction. The diminished spending goes round and round, just like the aforementioned positive multiplier effect.
>
> -- Edwin S. Mills (Pioneer Institute)

High Hotel Occupancy Taxes May Actually Reduce Tourism

The high rate of the HOT in many Texas cities is justified through economic impact statements that claim the spending on convention centers and other amenities attracts more tourists. But these studies never ask the crucial question: *at what level are taxes going to reduce the time visitors decide to stay and the overall amount they contribute to the local economy?*

HOT rates may have already passed that threshold. In 2013, the Texas Legislature passed a law imposing a 17 percent cap on the combined HOT imposed from all sources when a venue tax is imposed, out of a concern that Texas HOT rates were "among the highest in the country, which impacts the state's ability to compete for group and convention business" (HB 1908 Bill Analysis). The cap is prospective only and so cities may keep their existing tax rate even if it hovers above 17 percent. Hence, El Paso is allowed to retain its total HOT rate of 17.5 percent.

Lawmakers have good reason for concern. In 2013, Houston made the list of the "Top 10 U.S. cities where travelers incur the highest total tax burden in central city locations, factoring in general sales taxes and discriminatory travel taxes," in a yearly report by the Global Business Travel Association Foundation on the best and worst travel taxes across top U.S. destinations (GBTA). According to HVS's 2016 lodging tax report, several Texas cities had some of the highest rates among the top 150 urban centers in 2015 (9).

The HOT is not the only "discriminatory travel tax" a visitor must withstand when visiting Texas communities. Visitors who rent a car during their stay may also face additional charges on their rental car with a Motor Vehicle Local Sports and Community Venue tax. As with the HOT, the revenues of the tax are meant for economic development and to fund venue projects. In Houston or Bexar County it is equivalent to 5 percent of the cost of short-term rental of self-propelled motor vehicles including passenger cars, vans, sports utility, and light trucks (Texas Comptroller 2017a). Other taxes (notably on parking or admission tickets at venue facilities) can also be levied to fund venue projects. For travelers arriving by plane, air travel taxes and fees also apply (Kohlhepp).

At some point, the weight of these taxes might prove to be one barbell too many for travelers. A recent study focused on the Midland-Odessa lodging market to assess the effect of a HOT in the area with only Midland adopting a hotel tax in 2007. The author found that it tended to give the city of Midland and its lodging market a competitive disadvantage over hotels in the areas not affected by the HOT. Additionally, in such proximity, the effect of any spending from HOT revenues by the city of Midland to attract more tourists was likely to spill over to the surrounding region not affected by the tax (Lee, 53-54). Some studies differ on the effect of the HOT in general, finding the effect of the tax to be negligible (1).

A study focusing on occupancy taxes and published in 1992 in the *Cornell Hotel & Restaurant Administration Quarterly* tried to calculate the impact of the tax on the lodging industry. The authors explained that while some travelers are not concerned with the rate on hotel rooms, those who do care adjust their spending and length of stay accordingly. They found that

> *the overall elasticity relationship was measured at -.44. That number means that for every increase of 1 percentage point in tax, which amounts to a 1-percent increase in room rate, one would expect to have 0.44-percent fewer rooms rented per day.*
>
> *If that doesn't seem to be a large figure, let's examine the effect of that demand elasticity on a typical property. The U.S. average room tax was measured at 9.8 percent in spring 1990, including lodging-specific taxes, general sales taxes applied to rooms, and taxes assessed by all state and local jurisdictions. At that level of tax, the industry as a whole would experience a decline of 3.1 percentage points in occupancy rate, and the average property would record a loss of 5.3 rooms rented per day (Hiemstra and Ismail).*

Even convention organizers and convention delegates are sensitive to the amount of money they are going to pay in some cities. In the early 1990s, the Professional Convention Management Association boycotted New York City to protest the city's high tax rate on hotel rooms (McDowell), pushing New York City to repeal a tax surcharge on hotel rooms costing more than $100 (Deutsch). According to Manhattan Institute senior fellow Steven Malanga, "after New York cut its hotel tax by six percentage points, hotel occupancy rates jumped to 84 percent from under 76 percent in just three years" (Malanga).

A 2014 Ipsos study for TripAdvisor revealed that although only 50 percent of global hoteliers thought price influenced booking decisions, 95 percent of responding global travelers said that price was a key factor when booking an accommodation (Tnooz). The 2014 Expedia vacation spending index asked global travelers what were the most aggravating travel fees for them. Taxes came first, with 41 percent of respondents putting them in their top 5 (Expedia).

Travelers also look at taxes in their booking choices. The U.S. Travel Association found in 2011 that 49 percent of travelers alter plans due to high travel taxes:

> *Travelers are often considered an easy tax target, but few public officials understand how rising travel taxes influence consumer behavior and impact the economy," said Roger Dow, president and CEO of the U.S. Travel Association. "We believe it's important that political leaders see travelers not just as 'out-of-towners,' but as key supporters of local jobs, businesses and development (Hotel News Resource).*

In 2012, the U.S. Travel Association opposed travel (including hotel occupancy) tax increases in San Mateo County (CA), saying they would reduce travel demand (U.S. Travel Association 2012; 2012a).

In a 2011 *New York Times* story on the cost of high travel taxes on the tourism industry, Deborah Sexton, president and chief executive of the Professional Convention Management Association, declared that "the hotel tax is so visible, [visitors] see how these taxes are hitting the bottom line of their hotel bill, and that becomes, in many regards, what sticks in people's minds.… All those dollars add up. In the end, it's going to mean fewer people attending or people staying for a shorter period of time." The U.S. Travel Association "corroborates this observation, saying that many travelers have cited high tourist taxes as a reason to go to less expensive hotels or restaurants, or not to visit certain destinations at all" (White, Martha).

In 2015, the head of Chicago's convention and tourism agency criticized a Cook County HOT hike proposal arguing that too high a hotel tax would prevent the city of Chicago from competing with other cities (Hinz).

In sum, hotel occupancy taxes can reach a point of diminishing returns, where the amount expended on new attractions outstrips any realized gains in increased tourism or additional tax revenue. For smaller communities, that moment arrives sooner rather than later. Heywood Sanders' research shows that not every city has the potential to become a convention city. When feasibility studies are too optimistic about the economic development potential of a convention center, construction of new centers or expansions of already existing centers can leave cities with no more visitors but a huge bill (Sanders 2005; Sanders 2014).

Not all cities can compete on the same level, either. Many cities aim at attracting bigger conventions when they expand their convention centers, but fail to take into account that other cities with already bigger convention centers can do the same thing.

This Is No Free Lunch for Texans

To help gain support for the financing of the tourism and the convention and hotel industry, local government authorities give reasons that may appear compelling: (1) out-of-towners—not constituents—pay for it, thanks to travel taxes (including the HOT); (2) even if the projects are unprofitable, they attract visitors who spend their money in the local economy, bringing in more tax revenues. It seems that Texans have everything to gain with the HOT and the "investments" it can generate. Unfortunately, the situation is not as rosy as it appears. Texans actually pay a large portion of the "tourist" taxes in our state.

As visitors of their own state, Texans are the ones who spend the most money: $27.1 billion in 2016, against $25.5 billion for other U.S. visitors and $7 billion for international visitors (Dean Runyan Associates 2017, 11). Every time Texans visit a part of their state, they also have to pay the HOT if they choose to stay in a paid accommodation. However, with the occupancy tax adding between 6 and 17.5 percent to the price of a hotel room, the incentive may well be to stay with friends or family instead, which means not supporting the local hotel industry. In 2016, 62.8 percent of domestic visitors (person-days) stayed in paid accommodations while 37 percent stayed in non-paid accommodations (D. K. Shifflet & Associates 2017b, 7). The numbers were 63.2 percent and 36.6 percent, respectively, in 2015 (D. K. Shifflet & Associates 2016, 12).

In addition, Texans can end up bearing the cost of some of the projects financed by the HOT. What can happen when a convention center that is only partially paid for by the HOT is not profitable? The bill risks being picked up by the local government and hence Texans. The construction of a building such as a convention center also often implies building a whole infrastructure around it that has to be maintained.

Charles Marohn is president of Strong Towns, an organization whose mission is "to support a model for growth that allows America's towns to become financially strong and resilient." In a discussion on what a strong town is, he warned against the illusion of a quick and easy growth, the kind of growth supported by HOT advocates. Regarding "mega-projects," he underlined the importance of not putting the cart before the horse:

> *There's a seductiveness to go in and have the big flashy thing that you believe created the success in the neighboring city. Historically—I like to point out that Rome didn't get the Colosseum and then build Rome. The Colosseum was the byproduct of centuries of success. And you know, you can look and say Rome was successful because they had a Colosseum. And go out and build a Colosseum and then say, why isn't Rome appearing here? The process is much messier, much more complex. And, last, kind of quick and easier than that, whether it's politically, socially, or financially, we've been able to kind of short-circuit that route to get to what we perceive the end destination, you know, the Colosseum, a lot more quickly in the last 50, 60 years; and it's really damaged the finances of our cities* (EconTalk).

There are real costs to Texans and the Texas economy from HOT-financed projects, but the projects are likely to continue, according to Heywood Sanders, "as long as 'you have a mayor who says it is free'" (Bauder).

Economic Development or Corporate Welfare?

Beyond the opportunity cost of taxing visitors to make them pay for attractions that are supposed to make them come in bigger numbers is a more fundamental problem that might deserve further attention in additional research. How much of the HOT revenues end up being corporate welfare, where the government picks winners—and losers?

In a free market, projects large and small would be able to obtain financing from private institutions because of the attraction they generate in visitors. Some private financing institutions might even be willing to take a risk and invest money on the assumption that certain attractions may make visitors come. But this risk would involve private funds, not taxpayer money. Why is government deciding for visitors what attractions are going to influence their decisions to come? Even if they could correctly assess visitors' desiderata, research on the effect of the HOT—and travel taxes in general—suggests these taxes can quickly become a deterrent. More importantly, when government uses HOT revenues to promote the tourism industry, it lends the helping hand of government to one industry over others. When some hotel projects benefit from tax rebates, other industries lose revenue from visitors who were forced to pay taxes instead of using this money to shop, go to movies, and dine. Like any government intervention, the HOT distorts the market for the benefit of a few.

The position of the hotel industry on the HOT or travel taxes in general has been ambiguous. While some hotel or travel organizations have at times opposed such taxes, or have at least opposed increasing them too much, either as "discriminatory taxes" or as hurting their industry, they have also advocated using the revenues from such taxes to support their industry (U.S. Travel 2011). The tourism industry in Texas is doing well. If promotion of the industry is deemed necessary by the industry, members of the industry should be able to invest in the promotion of their industry—like any private company would—without the support of taxpayer money. Unfortunately, the de facto existence of the tax can encourage businesses that have to collect it to try and benefit from it.

Tourism promotion and investments solely paid for by the tourism industry would also be more targeted at creating value for their clients—visitors. Not all visitors to Austin, Dallas, or any other city come for the city's convention center obviously—and as the disappointing attendance numbers often demonstrate. "If convention centers were profitable, then private businesses would build them," Dallas Convention Center Executive Director Ron King declared. Then why are local governments diverting money away from tourists that could go to local businesses or attractions that tourists would choose to patronize?

Recommendations

Require before and after efficiency reports from organizations receiving local HOT revenues. Spending of these revenues must, according to state law, "directly enhance and promote tourism and the convention and hotel industry" and should attract visitors from outside the city. But, as of today, Texans have little visibility of how effective this tax and its related spending programs are in promoting the local tourism economy and how well the revenues are being spent. Are the programs financed by the HOT actually effective in helping bring tourists and growing the local economy?

Following the example of what has been done with SB 1678 for the Events and Major Events Trust Fund during the 83rd Legislature, organizations should not only have to give estimates of the benefits of the projects they ask financing for but also to report on the actual benefits of the project at the end of a year: have expectations been met or not? Are there negative consequences to the taxpayers if the project is not successful?

Reports could be posted on each organization's website and on the website of the local government unit collecting and redistributing the revenues. The reports could list what these revenues were used for and how they were able to attract visitors (with before and after statistics, such as the number of visitors, especially for convention centers and events venues). It would give more transparency about how useful revenues from the HOT are and could enable an analysis comparing the cost of the tax to local businesses compared to the potential benefits in tourism and economic development.

Link efficiency reports' results with the renewing of grants from the local HOT. At present, local communities implement HOTs in order to build attractions, boost tourism, and generate additional HOT revenue even though many of these cities lack the infrastructure and appeal to host large events or attract growing swaths of tourists. Consequently, these communities risk inhibiting the local economy, as visitors alter their spending patterns in response to the high HOT, without seeing a benefit of comparable size. Organizations that ask for and receive money in this context should have to meet a certain level of efficiency either in attracting visitors or developing the local convention center and tourism economy (depending on the project being financed) to ensure that any potential loss in per-visitor spending is offset by an increase in overall tourism.

Eliminate or significantly reduce grants that fail to generate increased tourism, and decrease the local HOT rates accordingly. As mentioned above, high HOT rates can discourage visitors from contributing to the local economy because the taxes tie up funds that otherwise could have been spent on entertainment, food, and shopping. By matching HOT rates to efficiency report results, lawmakers can ensure that the rates accurately reflect the condition and potential of the city's tourism industry rather than unrealistic expectations. Moreover, more accurate rates would help lawmakers avoid unnecessarily burdening visitors, and the resulting reductions would free up visitors' spending money that could benefit local businesses and the local economy as visitors come to sample all that Texas has to offer.

Follow the Texas model: cut or eliminate the hotel occupancy tax—and they will come. Texas continues to attract businesses and talent and to generate economic growth and create jobs thanks to a model of limited government that favors lower taxes and fewer regulations. The only way for a limited government to help business thrive is to impose as few burdens as possible. Eliminating the local HOTs would give the Lone Star State an additional and tremendous competitive advantage over other states: making it cheaper for tourists to visit Texas, and leaving them with more of their money to spend in the local Texan economies they would visit.

Conclusion

Although implemented to increase tourism and spur economic development, the hotel occupancy tax can hurt local communities as visitors refrain from partaking in Texas' cultural attractions in order to offset their higher accommodation costs—that is, if they do not seek to avoid the tax altogether by cutting their trip short, lodging in a nearby but cheaper town, staying with friends or family, or even staying home. Many communities do not have the infrastructure or appeal to support the ambitious projects funded by the tax, which means that the HOT often siphons away money that otherwise would have gone to local businesses without ever fulfilling its promise to increase tourism. Nevertheless, despite this danger, there exists little visibility as to costs and effectiveness of hotel occupancy taxes.

Additionally, constituents of localities should have access to information not just on the revenues that the tax can potentially create but also on the cost of diverting this money from tourists' pockets and the potential loss for the local economy. As long as the HOT is seen as "free money" that can have no bad consequences on the localities' budgets in the long term, constituents will continue to support the use of the tax without asking further questions. It also has the potential of creating unintended yet dire consequences: the higher the HOT, the bigger the projects municipalities and counties think they can finance, and the bigger the risk to everyone.

Texans have every reason to be proud of their local communities, but until state and local governments can accurately gauge the efficiency of hotel occupancy taxes and reduce their rates accordingly, there will continue to be a barrier blocking visitors from experiencing all the attractions that Texas offers.

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