SB 1111
West, et al.
(Hill)

SUBJECT: Allowing higher Dallas County hotel and rental car rates to finance stadium

COMMITTEE: Local Government Ways and Means — favorable, without amendment

VOTE: 6 ayes — Hill, Laubenberg, McReynolds, Mowery, Puente, Quintanilla

0 nays

1 absent — Hegar

SENATE VOTE: On final passage, April 3 — 25-3 (Nelson, Ogden, Staples)

WITNESSES: For — Noe Hinojosa Jr., Estrada Hinojosa; Stephen Jones, Dallas Cowboys Football Club

Against — Ken Benson and Frank Naboulsi, Greater Hotel Association of Dallas; Scott Joslove Texas Hotel & Motel Association

BACKGROUND: The 75th Legislature enacted HB 92 by Brimer, et al. (Local Government Code, chapters 334 and 335), authorizing the use of certain local taxes and bonds to pay for sports and community venues and related infrastructure. Local Government Code, sec. 334.001(4) defines "venue" as:

- an arena, coliseum, stadium, or other type of area or facility that is used for certain events and charges an admission fee;
- a convention center or related facility owned by a municipality or county;
- a tourist development area along an inland waterway;
- a municipal parks and recreation system, related improvements or additions, or an area or facility that is part of such a system; and
- any other economic development project authorized by other law.

The Development Corporation Act of 1979 (VACS, art. 5190.6) allows development corporations to issue bonds and levy taxes to service bond debt. SB 376 by C. Harris, enacted in 1991, expanded the scope of development corporations to include tourism, athletic, and entertainment facilities by authorizing the establishment of 4B corporations in addition to existing 4A industrial and manufacturing corporations.

Local Government Code, sec. 334.043 permits a county or municipality with an approved venue project to issue bonds. To finance those bonds, municipalities may pledge short-term motor vehicle rental taxes and hotel occupancy taxes.

DIGEST:

SB 1111 would allow a county with a population with more than 2 million that is adjacent to a county with a population of more than 1 million (i.e. Dallas County) to hold an election to increase the motor-vehicle rental tax up to 6 percent. A majority of county voters would have to approve the proposition: "The increase of the motor vehicle rental tax for the purpose of financing ____ (insert description of venue project) to a maximum rate of ___ percent (insert new maximum rate not to exceed six percent)."

The bill also would allow Dallas County to hold an election to increase the hotel occupancy tax to up 3 percent of the cost of a hotel room to help finance the venue project.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2003.

SUPPORTERS SAY:

SB 1111 would permit Dallas County voters to decide whether to support a proposed $1 billion development proposed by the Dallas Cowboys of the National Football League (NFL). Plans call for a mixed-use development, including a hotel and retail center in addition to a retractable-roof stadium. The public would have access to playing fields for youth soccer, baseball, softball and football programs. The resulting Dallas Cowboy Park would be a year-round attraction with events offered beyond the professional football season drawing millions of tourists from all over the world.

Creation of a state-of-the-art stadium would reap substantial benefits for Dallas by attracting major events that currently bypass the area due the lack of a suitable venue. The stadium would hold 75,000 spectators and could be reconfigured to hold 100,000 for indoor events such as concerts. Dallas could be a contender to host the Super Bowl or a college football Bowl Championship Series game. The economic impact of the Super Bowl was estimated at $300 million when it recently was held in Miami, and $275 million when Atlanta hosted the event. Dallas also could compete to retain the annual Texas-Oklahoma football game as well attracting the NCAA basketball tournament, rodeos, major concerts and mega-conventions. Hosting these types of events would bring billions of new dollars into the economy, create thousands of jobs — particularly in the hospitality industry, such as hotels and rental car agencies — and generate local tax revenues to pay for services used by Dallas County residents.

The Legislature granted Houston similar authority to raise hotel occupancy and rental car taxes to help finance Reliant Stadium and Minute Maid Park. The cash flow of $34 million from those sources pays the debt service on these projects worth more than $1 billion. Houston has started to see the economic benefit and will host the Super Bowl in 2004.

Increases in hotel occupancy taxes have had no negative impact when rates were raised to finance sports venue projects in Houston and San Antonio. Building Dallas Cowboys Park would help increase the number of available hotel rooms in the city, and the overall boost in visitors would translate into 150,000 additional room nights worth about $11.5 million to the local economy. Even though the hotel occupancy tax would be among the highest in the nation, Dallas would not be priced out of the visitors and convention market. Average daily rates in Dallas are some of the lowest among 22 large metropolitan statistical areas and would climb only to about 18th on the list following the new tax. Among 28 major cities, Dallas currently ranks 25th — or among the cheapest — in the average daily rate for car rentals and would move to the middle of the pack at 17th if the additional tax was imposed.

Increasing the car rental and hotel occupancy taxes would be an appropriate way to raise the additional revenue for a sports venue project because those taxes would be paid by the additional visitors attracted to the county by the facility.

The Dallas Cowboys represent a globally recognized brand, and a public-private partnership would result in additional non-economic benefits for Dallas County residents. The return of prominence of the Cowboys franchise fits into Dallas' desire to be recognized as a world class city. Selection of a downtown site also would promote much needed development in the area.

The Cowboys would be among the last NFL franchises to build a new stadium. The experience of other teams and cities can provide Dallas and the Cowboys insight into how to develop a successful private-public partnership and avoid past errors and pitfalls.

OPPONENTS SAY:

Many scholarly studies have shown that sports facilities are not the economic development engines they claim to be. Economic development reports tend to overstate the financial impact of stadiums and overlook the opportunity costs of these projects. The public would gain as much benefit if the same funds were spent on roads, schools, libraries, hospitals, or other public facilities.

Spin-off economic benefits also tend to be exaggerated, especially for other Dallas-Fort Worth area sports facilities. Promoters of the Ballpark in Arlington and the American Airlines Center promised extensive development beyond the sports facility, but the expected entertainment, restaurant, and retail facilities have yet to materialize. Competition between the Victory Project near the American Airlines Center and the Cowboys proposal could harm the economic viability of both projects, especially in these tough economic times. Dallas voters have approved $125 million in public financing and another $45 million in incentives for the Victory Project with little to show for the money, and they should not be asked to finance another $1 billion for the Cowboys.

Public financing encourages cost overruns and shifts all risks to the taxpayers. The Wisconsin Legislature approved $250 million to build a stadium for the Milwaukee Brewers, only to see the final cost increase to $313 million. By contrast, the San Francisco Giants' Pacific Bell Park was built and owned by the team with more than 90 percent of the funding coming from the private sector. San Antonio taxpayers helped finance the Alamodome only to see the major tenant, the Spurs basketball team, move to another venue. In such cases, the public sector bears the cost while private partners receive the benefits.

Higher hotel occupancy taxes would give Dallas the highest rate in the nation at 18 percent. Dallas hotels rely more on convention and business group sales than do hotels in cities such as San Antonio and Houston, which attract more tourists and independent business travelers. It also is misleading to group full service hotels, particularly in downtown Dallas, with limited use and extended hotels in the rest of the county or in Tarrant, Collins or Denton counties. Convention and group sales are very price sensitive, and Dallas must remain competitive with hotels in Orlando, New Orleans, and Las Vegas. New York once had a hotel occupancy rate of 20 percent, but competition from other cities drove it down to 13 percent.

Imposing higher hotel occupancy and car rental taxes could be misleading and unfair. Dallas County residents represent a sizeable portion of the market for rental cars, and collecting a tax on visitors who could not vote in Dallas County would violate the principle of no taxation without representation.

NOTES:

The Local Government Ways and Means Committee on April 16 reported the identical companion bill, HB 2386 by Hill et. al, favorably, as substituted, and recommended it be sent to the Local and Consent Calendars Committee, where the bill is pending.