

- SUBJECT:** Increasing the hotel occupancy tax rebate for City of South Padre Island
- COMMITTEE:** Ways and Means — committee substitute recommended
- VOTE:** 8 ayes — Hilderbran, Otto, Bohac, Button, Eiland, N. Gonzalez, Martinez Fischer, Strama
- 0 nays
- 1 absent — Ritter
- WITNESSES:** For — Cobby Caputo, JoAnn Evans, Reuben Trevino, City of South Padre Island; (*Registered, but did not testify:* Justin Bragiel, Scott Joslove, Texas Hotel & Lodging Association; Ellis Pickett, Surfrider Foundation; Marie Robb, Texas Shore & Beach Preservation Association)
- Against — None
- On — (*Registered, but did not testify:* Donald Dillard, Comptroller)
- BACKGROUND:** The state hotel occupancy tax rate in the City of South Padre Island is 6 percent. Tax Code, sec. 156.2512(a) requires the state to rebate the City of South Padre Island a portion of the state's hotel occupancy tax collected from hotels and motels located within the city, calculated at 1 percent.
- South Padre Island is required to spend that money on beach maintenance and erosion response projects.
- DIGEST:** The bill would amend Tax Code, sec. 156.2512 to direct the comptroller to issue a warrant drawn on general revenue in an amount equal to 2 percent of the revenues derived from the state hotel occupancy tax from hotels located in the city described in section 2 of the bill (South Padre Island). That warrant would be in place of the warrant that the city currently receives for 1 percent from those revenues.
- The bill would take effect September 1, 2013.
- SUPPORTERS SAY:** CSHB 3042 would create equality between the hotel occupancy taxes rebated to South Padre Island with the state rebate received by other Texas

island cities. South Padre Island is required to spend state hotel occupancy tax rebated revenue on beach maintenance and erosion response projects. This allows the city to use tax dollars paid by tourists to conduct beach nourishment projects to combat erosion and improve beach access, as well as pick up debris and provide beach patrol services. All of the efforts funded by the rebate ensure future tourism because visitors who feel safe and have a memorable experience often return and recommend the island to others.

South Padre Island is beginning to annex further north on the island and will soon have 28 percent more beach in its jurisdiction that will need maintenance, nourishment, and public safety. However, the city's current funding for erosion response and beach maintenance projects is already committed to the existing beaches in the city limits.

While the increased rebate would cost general revenue to the state, South Padre Island is a strong economic engine for Cameron County, the Rio Grande Valley, and the state as a whole. The city generates a significant number of jobs in the area as well as a good deal of state revenue, including \$13 million in 2012. With an additional 1 percent allocation of state hotel occupancy tax, using the 2012 revenue figures, the state's return on investment would be nine to one. With growth of the island to the north, the state can expect increases in revenue from its investment in South Padre Island.

**OPPONENTS
SAY:**

Increasing the City of South Padre Island's rebate of the hotel occupancy tax from 1 percent to 2 percent would be a significant cost to the state. According to the fiscal note, the increased rebate would cost \$1.5 million in general revenue funds in fiscal 2014-15, with a steady increase each year after.

With 367 miles of Gulf beaches and more than 3,300 miles of bays and estuaries, Texas has one of the longest coastlines in the country. While South Padre Island gives great value to the state in tourism and jobs, singling out one area of the Texas coast to receive additional general revenue would be inappropriate. There are critical needs, both bayside and beachfront, in other economically or ecologically significant areas along the Texas coastline. Many areas of the coast are in need of wetland restoration, oyster reef restoration, litter abatement, and erosion control projects, among other capital intensive efforts. CSHB 3042 would put South Padre Island's interests unfairly above the interests of other needy

areas of the Texas coast.

**OTHER
OPPONENTS
SAY:**

Increasing the City of South Padre Island's rebate of the hotel occupancy tax from 1 percent to 2 percent for purposes of beach nourishment, maintenance, and public safety along the beaches within the city's jurisdiction would be an inappropriate use of general revenue given the critical budget areas of the state that are not being adequately funded.

A more appropriate method of increasing revenue in the South Padre Island area would be to raise the city's hotel occupancy tax. An additional expenditure of general revenue would be especially inappropriate given that the state might be receiving billions of dollars in oil spill settlement funds from the Deepwater Horizon oil spill, which could be applied to local needs in South Padre Island.

NOTES:

According to the Legislative Budget Board, the bill's tax rebate would have a negative impact to general revenue related funds of \$1.5 million in fiscal 2014-15. The City of South Padre Island would experience a revenue gain in the same amount during that period.