International Society of Hotel Associations

2023 ISHA AWARDS OF EXCELLENCE APPLICATION

Entries must be for projects completed by September 1, 2022 through August 31, 2023

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Entry Category:
____ **Education/Workforce Development** – A program or project that introduces new employees, demonstrates an effective training mechanism, or otherwise enhances knowledge of our industry.

____ **Events and Fundraising –** A program or project that clearly raised significant funds for a industry related cause and/or an event that experienced a dramatic increase in attendance, industry visibility and/or net profitability.

X **Governmental Affairs** – A program or project that effectively communicates the message of governmental activities, or demonstrates success in championing an industry cause.

____ **Member Programs** – A program or project that shows performance results through increases in members or retention of members.

____ **Public Relations** – A program or project that positively highlights the activities of the association to external audiences.

____ **Communications** – A program or project that positively impacts the association's communication to members and stakeholders.

Please respond to the following questions on a separate piece of paper.

1. Title of Program
2. Goals & Objectives of Program
3. Target Audience
4. Results of Program
5. Evaluation Measures
6. How was the program presented to the Target audience?
7. Addition information

ENTRIES MUST BE RECEIVED NO LATER THAN OCTOBER 11, 2023

Texas Hotel & Lodging Association
2023 ISHA Awards of Excellence Application: Governmental Affairs

Project: Preserving state funding economic development incentives for hotel projects and convention center district development.

Introduction:
A robust convention and meetings economy is increasingly becoming a major economic driver for the hotel industry. In Texas cities both large and small, hotel owners and operators are citing the importance of convention center activity to create room demand, either directly through convention and meeting attendees, or through hotel room compression resulting from large convention activity.

To enable the development of ever larger, state-of-the-art convention center facilities, Texas Hotel & Lodging Association (THLA) works on state legislation to provide important economic development tools for Texas municipalities. Our primary argument in favor of increased state economic development investment in the hotel and convention industry is straightforward: While convention center and convention center hotel development are capital-intensive endeavors, both the local and state governments experience long-term economic benefits for decades.

In the 2023 Legislative Session, THLA authored and supported legislation to expand and preserve convention industry economic development tools for cities large and small in Texas. These programs, known as the "Qualified Hotel Project" (QHP) program and "Project Financing Zone" (PFZ) program provide generous state tax revenues to Texas municipalities to enable critical convention center hotel and convention center facility construction and expansion.

Qualified Hotel Projects (QHPs) overview:
In recent years, convention center hotel development has grown in importance for communities seeking to increase the viability of convention center success. While convention center hotels have long been a mainstay of large convention center projects, increasingly, medium-sized and even smaller cities are discovering a convention center hotel is a necessity for attracting large meetings. The challenge is that convention center hotel development is expensive, and municipalities often need the right package of economic development incentives to facilitate the development of a convention center hotel project.

In 1997, Texas established a unique economic development program for convention center hotel projects. Initially limited to Houston and then expanded to the five largest cities, the Texas Legislature allowed certain qualified convention center hotel projects to receive an entitlement of state hotel occupancy tax revenue and state sales tax revenue for a 10-year period to help the municipality cover the costs associated with financing the hotel project's development.

This program, which subsequently became known as the Qualified Hotel Project (QHP) program enabled the largest convention center hotel projects to proceed in Houston, Dallas, Fort Worth, and San Antonio. Since 1997, THLA has assisted 69 municipalities obtain QHP enabling legislation. Thirteen qualified hotel projects have opened, with at least another ten projects in various stages of development.

To be eligible to participate in the program, the qualified hotel project must be located on land owned by the municipality and also located within 1,000 feet of a municipally owned convention center facility. Once the qualified hotel project opens for initial occupancy, the municipality is entitled to receive state hotel occupancy tax revenue and state sales tax revenue collected at the QHP for a 10-year period. This state tax revenue entitlement allows the municipality to pay for financing costs associated with the hotel's development, while also utilizing less expensive borrowing tools available only to a governmental entity. After the initial 10-year period, the State of Texas retains the state tax revenue collected by the qualified hotel project, providing a positive economic impact on the State for decades.

Qualified Hotel Projects (QHPs) 2023 legislation:
While the QHP program has a long history of success, some conservative legislators expressed concerns in past legislation about the use of state tax revenue to finance the development of city-owned hotel projects. In fact, the Chair of the Texas Senate Committee which considers whether to pass these new state QHP proposals at the Legislature intimated that unless there was some type of guarantee that the State of Texas would have some assurance that its investment in these projects would yield a documentable return of investments, it was unsure whether he would allow his committee to pass further QHP bills. These concerns of the Senator primarily centered on a perceived lack of accountability or other assurance that the State of Texas would have a commensurate benefit from the investment of state tax dollars into these local projects.

To address these concerns, THLA drafted an extensive and detailed Senate interim committee report (attached) with information about the history of the program, an update and report card on qualified hotel projects that have opened over the past two decades, and a status report on QHPs in the development pipeline. Importantly, the THLA report also included an analysis of the amount of time needed for the State of Texas to "recoup" its investment of state tax revenue. We determined that on average, the State of Texas has recouped more than 100 percent of its state tax revenue investment by years 16-18 of the project. This time period includes the ten years that the state program provides for a local entitlement to all of the state sales tax and state hotel tax to be used toward the local QHP, immediately followed by the number of years it takes on average (six to eight years) for the State to recoup all of its investment it provided to the local QHP – through retention of the state sales tax and state hotel tax moving forward from the QHP.

Using this data, THLA worked with the relevant Senate committee leadership in the legislative session to draft new statutory Return on Investment (ROI) legislation that would serve to preserve the QHP program. In that legislation, SB 1420 as excerpted below, it provides that on the 20th anniversary of the qualified hotel project's opening, the State of Texas must do an analysis to determine whether the State retained more state tax revenue in years 11-20 of the project than the State remitted to the city for years 1-10 of the project. If the city received more state funds in years 1-10 than the State retained in years 11-20, the city must reimburse the State for the difference by remitting local hotel tax revenue from the qualified hotel project. In other words, we produced an ROI standard that gave local Texas communities a ten-year period to achieve full ROI back to the State for the local QHP, based on our data that showed that the average ROI time period for local QHPs was historically only a six-to-eight-year time period after the ten year incentive program for the QHP ended.

Excerpt of SB 1420:

<u>Sec. 351.162. RECAPTURE OF LOST STATE TAX REVENUE FROM CERTAIN MUNICIPALITIES.</u>

<u>(b) On the 20th anniversary of the date a hotel designated</u>

as a qualified hotel by a municipality as part of a qualified project to which this section applies is open for initial occupancy, the comptroller shall determine:

(1) the total amount of state tax revenue received under Section 351.156 and, if applicable, under Section 351.157 by the municipality from the qualified project during the period for which the municipality was entitled to receive that revenue; and

(2) the total amount of state tax revenue described by Subdivision (1) received by the state during the period beginning on the 10th anniversary of the date the qualified hotel opened for initial occupancy and ending on the 20th anniversary of that date from the same sources from which the municipality received the revenue described by Subdivision (1).

(c) If the amount determined under Subsection (b)(1) exceeds the amount determined under Subsection (b)(2), the comptroller shall promptly provide written notice to the municipality stating that the municipality must remit to the comptroller the difference between those two amounts in the manner provided by this subsection. The municipality shall, using money lawfully available to the municipality for the purpose, remit monthly payments to the comptroller in an amount equal to the total amount of municipal hotel occupancy tax revenue received by the municipality from the qualified hotel in the preceding month until the amount remitted to the comptroller equals the total amount due as stated in the notice. The first payment required under this subsection must be made not later than the 30th day after the date the municipality receives the notice from the comptroller. Subsequent payments are due on the 20th day of each month until the total amount stated in the notice is paid. The comptroller shall prescribe the procedure a municipality must use to remit a payment required by this subsection to the comptroller.

We were ultimately successful in passing SB 1420 into law this year. And this state legislation included not only the new ROI Standard for the QHP program that gave comfort to the Texas Senate leadership, but also included the approval of 18 additional Texas cities that would now also be able to pursue Texas Qualified Hotel Projects. From the State's perspective, for the first time, state law guarantees that the State of Texas will recoup its investment of state tax revenues, quelling this concern of conservative lawmakers, and empowers more Texas cities to engage in convention center hotel development projects that will drive hotel room night sales for their communities. We believe this legislation ensures the QHP program will remain a viable economic development tool for years to come.

Project Financing Zones (PFZs).
THLA worked to pass economic development legislation that allowed those cities to designate a specific project such as a convention center or a sports complex as a "qualified project." This statutory authority allows those cities to receive "incremental" state hotel occupancy tax revenues, state sales tax revenues, and mixed beverage tax revenues for 30 years from hotels within a three-mile radius of a "qualified project." Known as a "project financing zone" or a "PFZ," this special development tool was originally created in 2013 for Fort Worth and Dallas with THLA's assistance. And in the case of PFZ areas, the hotels do not have to be on city-owned land to be eligible to have their incremental increase in state taxes earmarked for this zone.

This legislative session, THLA worked to amend the statute to also add Houston, San Antonio, Austin, and Corpus Christi to the PFZ program via HB 5012, SB 1057, and SB 2220.

The "incremental tax revenue" consists of the additional state hotel occupancy tax revenues, state sales tax revenues, and mixed beverage tax revenues at certain hotels that exceed a base amount collected from hotels within a three-mile radius of the project. The state funding can be used to fund the construction or improvement of the qualified project, and local hotel tax revenue can also be pledged to the qualified project.

To start the PFZ process, the city first designates the project financing zone by city ordinance. Within 30 days of the designation of the project financing zone, the city notifies the Texas Comptroller of the designation. Base year amounts are determined for state hotel occupancy tax revenues, state sales tax revenues, and mixed beverage tax revenues collected from hotels located within the three-mile zone starting in the year in which financing zone is designated by the city.

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

Crucially, the PFZ programs provides these cities with state tax revenues to develop large, state-of-the-art convention centers and convention center districts. The 30-year funding period allows for beneficial debt financing terms and allows Texas cities to better compete nationally and internationally for large conventions and major sporting events.