



Texas Hotel Tax Expenditure Requirements

State-Approved Uses of Local Hotel Occupancy Tax Revenues

McKinney Convention & Visitors Bureau

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The State of Texas has established a two-part test for every expenditure of local hotel occupancy tax. Any local hotel occupancy tax monies collected in a city may be allocated to an entity as long as they meet both criteria as governed by Texas Tax Code § 351.101.*

Project/purpose **must meet Criteria #1 **AND** one of the nine categories listed under Criteria #2.*

Criteria #1:

First, every expenditure must **DIRECTLY** enhance and promote tourism **AND** the convention and hotel industry in the City of McKinney (“City”).

Criteria #2:

Every expenditure of the local hotel occupancy tax must clearly fit into **one** of the following **eight** statutorily-provided categories for expenditure of local hotel occupancy tax revenues.

- 1) The acquisition of sites for and the construction, improvement, enlarging, equipping, repairing, operation, and maintenance of convention center facilities or visitor information centers, or both.
- 2) The furnishing of facilities, personnel, and materials for the registration of convention delegates or registrants.
- 3) Advertising and conducting solicitations and promotional programs to attract tourists and convention delegates or registrants to the City or its vicinity.
- 4) The encouragement, promotion, improvement, and application of the arts, including instrumental and vocal music, dance, drama, folk art, creative writing, architecture, design and allied fields, painting, sculpture, photography, graphic and craft arts, motion pictures, radio, television, tape and sound recording, and other arts related to the presentation, performance, execution, and exhibition of these major art forms.
- 5) Historical restoration and preservation projects or activities or advertising and conducting solicitations and promotional programs to encourage tourists and convention delegates to visit preserved historic sites or museums (i) at or in the immediate vicinity of convention center facilities or visitor information centers; or (ii) located elsewhere in the City or its vicinity that would be frequented by tourists and convention delegates.
- 6) Expenses, including promotion expenses, directly related to a sporting event in which the majority of participants are tourists who substantially increase economic activity at hotels and motels within the municipality or its vicinity.
- 7) Signage directing the public to sights and attractions that are visited frequently by hotel guests in the City.
- 8) Transportation systems to transport tourists from hotels in and near the City to: (1) the commercial center of the City; (2) a convention center in the City; (3) other hotels in or near the City; and (4) tourist attractions in or near the City.

Guidelines for Usage of the Local Hotel Occupancy Tax

If the MCVB cannot fit an expenditure into one of the eight statutorily-provided categories, local hotel occupancy tax revenues **cannot** be used.

With regard to the use of local hotel occupancy taxes, there is no time limit for the City to expend all of its hotel occupancy tax funds. At a minimum, however, state law requires that cities with a seven percent local hotel occupancy tax rate spend at least one-seventh of local hotel occupancy tax revenues on advertising and conducting solicitations and promotional programs to attract tourists and convention delegates or registrants to the City or its vicinity.

There is no statutory formula for determining the level of economic impact an event must have to satisfy the requirements to directly enhance and promote tourism and the hotel and convention industry in the City. However, communities with successful tourism promotion programs generally award the amount of the local hotel occupancy tax by the proportionate economic impact on tourism and hotel industry incident to the funding request. Entities applying for local hotel occupancy tax revenue funding should indicate how they will market the event to attract tourists and hotel guests. If an entity does not adequately market its events to tourists and hotel guests, it is difficult to produce an event or facility that will directly enhance and promote tourism and the hotel and convention industry in the City.

IMPORTANT DISTINCTION: *The MCVB will consider whether a proposed event will be held in a venue that will likely attract tourists and hotel guests. For example, if an event is held in a local school or community center, it may be less likely to attract tourists than if it is held at a local performing arts venue, museum or civic center. MCVB in its sole discretion will assess whether the facility hosting the function is likely to attract tourists and hotel guests. Thus, a community picnic, local parade, educational class, or other similar type of event, will likely not attract tourists and hotel guests, and will likely not be eligible for local hotel occupancy tax funding.*

Additional information pertaining to state-approved uses of collected local hotel occupancy tax by McKinney:

Cities with populations between 125,000 and 200,000.

Minimum expenditure on advertising and promotion:

Cities, like McKinney, with populations between 125,000 and 200,000 must spend a minimum amount of local hotel occupancy tax revenue on advertising and promotion, and that minimum depends on the local hotel occupancy tax rate adopted by the city. If a city adopts a tax rate of not more than 3 percent, at least one-half of 1 percent of the rate must be spent on advertising and promotion of the city and its vicinity. If a city adopts a rate that exceeds 3 percent, at least 1 percent of the rate must be spent on advertising and promotion of the city and its vicinity. For example, if a city has a 7 percent hotel occupancy tax rate, at least 1/7 of the hotel occupancy tax proceeds must be spent on advertising and promoting the city and its vicinity to attract tourists and hotel and convention activity. An exception to the minimum threshold for advertising and promotion expenditures is provided if the city receives in excess of \$2 million in local hotel tax revenues annually, in which case, the city should allocate its revenue by ordinance.

15 Percent maximum expenditure for the arts and 15 percent maximum expenditure for historical restoration and preservation:

Under § 351.103(c), a city, like McKinney, with a population between 125,000 and 200,000 may not expend more than the greater of either 15 percent of the local hotel occupancy tax revenue collected, or the amount of tax received by the city at the rate of 1 percent of the cost of a room, on promotion of the arts. Additionally, a city with a population of more than 125,000 may not spend more than 15 percent of its local hotel occupancy tax revenue on historical restoration and preservation programs.