



**TO:** Mayor and Council Members

**CC:** Spencer Cronk, City Manager

**FROM:** Elaine Hart, Chief Financial Officer

**DATE:** August 24, 2018

**SUBJECT:** **Allocate 15% of Chapter 351 Hotel Occupancy Tax (HOT) for Historic Preservation Response to Resolution 20170831-060**

---

This memo provides an update on Resolution 20170831-060 which directed the City Manager to reallocate 15% of existing hotel occupancy tax (HOT) revenue that the City receives from the “Chapter 351” portion of HOT to fund historic preservation. The resolution specified two areas of use for these funds:

- operations and maintenance of City historic properties and sites, and
- capital and acquisition costs for historic restoration and preservation projects and activities.

Per the resolution, these projects may be City facilities and sites funded through direct allocations as well as non-City facilities and sites, which could be supported through heritage grants. Reallocating the Hotel Occupancy Tax to achieve a 15% allocation for historic preservation was a significant policy change requiring compliance with State statutes covering HOT.

As a reminder, the City collects HOT of 9 cents per dollar of hotel/motel room rental – 7 cents “Chapter 351” or Texas Tax Code Section 351 HOT and 2 cents “Chapter 334” (Venue) HOT. “Chapter 351” HOT funds the Tourism and Promotion Fund, Cultural Arts contracts, Historic Preservation, and a portion of Austin Convention Center operations and maintenance. Venue HOT (2%) is pledged to debt repayment on the 2002 Convention Center expansion and Waller Creek Tunnel project and may also be used for operations and capital projects related to the expansion portion of Austin’s existing convention center. Texas Tax Code Section 351.101(a)(5) authorizes hotel occupancy taxes to be used to promote tourism and the convention industry for historic 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.

During the FY 2018 Budget adoption proceedings, Council established a Historic Preservation Fund (HPF) to promote tourism through the preservation, restoration, and rehabilitation of historic properties and sites. HPF revenue includes transfers of hotel occupancy tax revenue. HPF funding is used to offset General Fund expenditures eligible for historic preservation uses in accordance with State statutes. These may include restoration, preservation, and/or eligible operation and maintenance of City historic facilities and sites. The HPF may also be used for HOT eligible historic preservation capital projects and acquisitions.

During the mid-September 2017 budget deliberations, I responded to Resolution 20170831-060 recommending a phased approach to HOT reallocation with an initial 11.57% HOT allocation for historic preservation for FY 2018 of \$8,600,000. Although Council ultimately approved a lower allocation of 9.4% or \$6,950,000, this initial funding for the Historic Preservation Fund in the FY 2018 Approved Budget made significant progress toward achieving Council's 15% policy goal. At the same time, it allowed City staff to take a measured, informed approach in evaluating the impact of attaining the 15% policy goal on convention center operations, City bond requirements, and potential impact on future funding options for expansion of the convention center.

When I recommended a phased approach for reallocation, I also committed to reaching the 15% policy goal as soon as possible and to working with our legal, financial, and convention center staff along with the City's Bond Counsel and Financial Advisor to assess any potential impact on HOT revenue pledged via bond covenants to support Austin Convention Center's debt requirements. The additional time to review and assess this policy change was valuable and provided positive results. Our work indicates the HOT reallocation does not preclude an expansion opportunity should Council wish to consider potential future expansion of the Austin Convention Center.

As you know, the City Manager's FY 2019 Proposed Budget includes a transfer of 15% of HOT revenue to the Historic Preservation Fund totaling \$11.2 million, a \$2.6 million increase over the FY 2018 Approved Budget.

In addition, on your August 30 Agenda (Item #8), staff is requesting approval of a budget amendment to also bring the current year FY 2018 funding for the Historic Preservation Fund to the 15% policy level, a \$2.5 million increase. This amendment will result in transfers of \$9,441,937 (see table below) to the Historic Preservation Fund in FY 2018. Funding is provided by a transfer from the Austin Convention Center Operating Budget.

During the FY 2018 budget adoption, Council created the Historic Preservation Fund (HPF) with an allocation of \$6,950,000 from HOT revenue. Other Council budget actions reduced the recommended HOT transfer to HPF by \$1,650,000 and increased the HOT transfer to the Tourism and Promotion Fund by a like amount. A recap of those actions follows:

- **\$1,200,000** - With Council direction to Visit Austin to expend non-HOT funding for public safety costs related to the spring festival season (\$1,200,000 to be reinstated in FY 2019) and decrease the General Fund Police budget \$1,200,000 for one year only; reflecting reimbursement by Visit Austin.
- **\$250,000** - With Council direction to Visit Austin to expend for Heritage Grants.
- **\$200,000** - With Council direction to Visit Austin to expend for Local Business Marketing Grants.

Below is a summary of these actions since September 2017:

\$ 6,950,000	Historic Preservation Fund established in FY 2018	Historic Preservation Fund
\$ 2,491,937	Proposed FY 2018 Budget Amendment	Historic Preservation Fund
<b>\$ 9,441,937</b>	FY 2018 Amended Budget for Historic Preservation Fund	Historic Preservation Fund
\$ 1,650,000	Council actions during FY 2018 Budget Adoption	Tourism and Promotion Fund
<b>\$ 11,091,937</b>	FY 2018 Amended Budget represents 15% of 7 cents "Chapter 351" HOT revenue	

Council Ordinance 20171214-005 amended City Code Section 11-2-7 relating to the allocation of Hotel Occupancy Taxes for authorized uses and codified the 15% policy. When adopting the annual budget, Council may change the established HOT allocation, and if the Council does so, it is not a violation of this Code section.

## Process for HPF Allocations following Budget Adoption

On June 12, 2018, the Council received a Work Session briefing by the Heritage Grant Working Group on their recommendations which built on those of the Visitor Impact Task Force. The Heritage Grant Working Group, identified in December 2017, is composed of representatives from the preservation and heritage community, the hotel/lodging sector, tourism sector, Convention Center staff, and other City staff. Their recommendations included:

- Create and fund a Heritage Tourism Division within the Economic Development Department.
- Develop a city-wide Heritage Tourism Plan to guide HOT and other tourism investments.
- Establish separate funding allocations for City departments and the Heritage Grant Program.
- Increase equity through expanded outreach and application support, criteria for underrepresented communities and geographies, grant payment in installments, and capacity-building for historic sites.
- Renaming to reflect their purpose: Heritage Grant Program (Heritage Tourism Grant) and Historical Preservation Fund (Heritage Tourism Fund).

Management determined that it was necessary for Visit Austin to administer the FY 2018 second round of Heritage Grant awards and requested that Visit Austin begin the award process (\$250,000).

The FY 2019 Proposed Budget includes \$157,000 for a new position in Economic Development Department to manage the Historic Preservation Fund as the department plays a similar role with the Cultural Arts Fund. The FY 2019 Proposed Budget provides \$500,000 to maintain the Heritage Grants program at its current funding level. A recommendation for allocation of remaining funds will be brought forward subsequent to budget adoption.

Staff's work with historic preservation stakeholders and City departments will continue. Our goal is delivery of a rolling five-year plan of projects eligible for HOT historic preservation funding. Staff appreciates your support and continued input during this process.

I am available should you have any questions.

Respectfully,



Elaine Hart  
Chief Financial Officer

CC: City Manager's Executive Team  
Mark Tester, Director, Austin Convention Center  
Carla Steffan, Assistant Director, Austin Convention Center  
Leela Fireside, Assistant City Attorney

**Transition of Hotel Occupancy Tax (HOT) Allocation**

Category	Type of HOT	Pre-FY2018 HOT Allocation		Staff - FY2018 Recommendation (Res. 20170831-060) HOT Allocation		FY 2018 Approved Budget HOT Allocation		FY 2019 Proposed Budget HOT Allocation		Comments
		Cents	%	Cents	%	Cents	%	Cents	%	
Convention Center	Ch. 351	4.50	64.29% of 7 cents	4.50	64.29% of 7 cents	4.500	64.29% of 7 cents	4.50	64.29% of 7 cents	Pledged to debt repayment; also used for operations and capital projects.
Tourism and Promotion	Ch. 351	1.45	20.71% of 7 cents	0.64	9.14% of 7 cents	0.792	11.31% of 7 cents	0.40	5.71% of 7 cents	Funds Visit Austin (ACVB) and historic preservation grants.
Cultural Arts	Ch. 351	1.05	15.00% of 7cents	1.05	15.00% of 7 cents	1.050	15.00% of 7 cents	1.05	15.00% of 7 cents	Maximum allowed by law for cultural arts grants is 15%.
Historic Preservation	Ch. 351	n/a	n/a	0.81	11.57% of 7 cents	0.658	9.40% of 7 cents	1.05	15.00% of 7 cents	Maximum allowed by law for historic preservation is 15%.
Subtotal		7.00	100.0%	7.00	100.0%	7.00	100.0%	7.00	100.0%	
Convention Center and Waller Creek Tunnel Venue	Ch. 334	2.00	100.00% of 2 cents	2.00	100.00% of 2 cents	2.00	100.00% of 2 cents	2.00	100.00% of 2 cents	Pledged to debt repayment; also used for capital projects on expansion portion of Convention Center.
Total		9.00		9.00		9.00		9.00		

**Funding for Historic Preservation Fund from Hotel Occupancy Tax:**

- Prior to FY 2018 Approved Budget - \$ 0. However, funding of \$500,000 for historic preservation grants was managed by Visit Austin.
- FY 2018 Approved Budget – \$6,950,000.
- FY 2019 Proposed Budget – \$11,202,856.