



**City Auditor's Office
CMS2025-10 Park Board
Hotel Occupancy Tax Audit for Fiscal Years 2022 and 2024**

September 29, 2025

The scope of this audit report is to ensure compliance with expenditures of hotel occupancy tax disbursed by the Galveston Park Board for fiscal years 2022 and 2024. The Galveston City Auditor's Office tested one hundred (100) percent of the hotel occupancy tax expended by the Galveston Park Board for fiscal years 2022 and 2024 in the performance of this audit. Since the inception of this report, there have been material changes in the executive management of the Galveston Park Board.

The criteria used to audit the Galveston Park Board policies and procedures pertaining to hotel occupancy taxes are:

1. Section 351.101 (a) of the Texas Tax Code.
2. Attorney General of Texas Opinion No. GA-0124.

Essential excerpts from these two criteria are restated below:

1. SECTION 351.101 (a) OF THE TEXAS TAX CODE

"Revenue from the municipal hotel occupancy tax may be used only to promote tourism and the convention and hotel industry....."

2. ATTORNEY GENERAL OF TEXAS OPINION NO. GA-0124

"..... Whether a particular proposed expenditure of municipal hotel occupancy tax revenue is a permissible use and will "directly enhance and promote tourism and the convention and hotel industry" is for a municipality's governing body to determine in the first instance."

DISCOVERY OF FACTS – 1:

The Galveston Park Board spent hotel occupancy tax funds on lobbyist activities for fiscal years 2022 and 2024 in the amounts of \$132,766.10 and \$136,043.59, respectively. Since these monies were spent out of hotel occupancy tax funds, it is essential that it can be proven to the General Public that these lobbying expenditures will promote tourism and the convention and hotel industry, as stated in Section 351.101 (a) of the Texas Tax Code.



It was determined through this audit that a portion of these paid lobbyist activities from the hotel occupancy tax funds mentioned above were spent on actions involving Texas Senate Bill 2779, Texas Senate Bill 2532, and Texas House Bill 5596. (It should be noted that the exact amount of lobbying fees spent on these bills cannot be determined because a flat monthly rate was paid to the Lobbyist for all combined work performed.)

The City of Galveston Auditor's Office also obtained summaries of these bills from the actual paid lobbyists themselves. The summaries are as follows:

Texas Senate Bill 2279: *"SB 2779 amends, TX Tax Code § 156.2511, by directing the comptroller to issue a warrant drawn on the general fund to the park board of trustees created by the eligible coastal municipality to allocate the two percent state hotel occupancy tax (HOT) revenue received from hotels located in the eligible coastal municipality."*

Texas Senate Bill 2532, and Texas House Bill 5596: *"SB 2532 and HB 5596 as substituted in the Senate applies singularly to the City of Galveston with punitive action requiring the City to automatically allocate all hotel occupancy tax (HOT) revenues to the Park Board, an unelected body, and any unrelated non-Hot revenue received from the Park Board and spent by the City or the City must face a recalculated reduced voter- approval rate."*

Based on the Lobbyist's summaries, these bills were designed to allocate funds away from the City of Galveston to the Galveston Park Board. This specific task does not promote tourism and the convention and hotel industry but rather addresses funding mechanisms. This is further supported by the opinions of the Texas Hotel & Lodging Association and the interim executive management of the Galveston Park Board.

Spending hotel occupancy tax funds to divert funds away from a Texas municipality is not the intent of Section 351.101 (a) of the Texas Tax Code. The underlying reason why this inappropriate spending occurred is due to the absence of policies specifically regarding professional services when paid out of hotel occupancy tax funds.

It is imperative that policies regarding professional services paid out of hotel occupancy taxes be written, approved, and adhered to as soon as possible. Failure to do so could jeopardize state funding in the future.

The City Auditor's Office would like to suggest to the Galveston City Council, as well as the Galveston Park Board of Trustees, that when professional services are paid by hotel occupancy taxes, it is announced in open session. More specifically, the "general description of work performed by the professional service" and "how the professional service work promotes tourism and the convention and the hotel industry." The Galveston City Auditor's Office is aware that the current Interlocal agreement between the Galveston Park Board and the City of Galveston forbids lobbying expenditures from being spent out of hotel occupancy taxes. However, there may be a



need in the future to consider using hotel occupancy taxes for lobbying expenditures when the purpose of lobbying is to promote tourism and the convention and hotel industry. Should such a need arise, the decision would be entirely up to the Galveston City Council, per Attorney General of Texas Opinion No. GA-0124.

DISCOVERY OF FACTS – 2:

The Galveston Park Board policy covering hotel occupancy taxes at the beginning of this audit was positioned in the credit card policies section and read as follows:

"Cardholders must ensure every purchase is an appropriate use of public funds. This includes ensuring all purchases covered by Hotel Occupancy Tax and Beach User Fees adhere to Chapter 351 of the local Government Tax Code....."

The above policy does not consider the levels of service and consumption appropriate for governmental employee travel and business (including entertainment) expenses. For example:

1. Can an employee buy alcohol for themselves, and their clients with no formal written limits?
2. Can employees stay at premium hotels on business travel?
3. Can employees purchase air travel in business class instead of economy class?
4. Can employees rent luxury vehicles for travel?
5. Can employees participate in spa treatments when purchasing personal services for clients?

There are undesirable consequences without specific controls on the levels of service and consumption for governmental employee travel and business (including entertainment) expenses. A "Yes" answer to any of the five questions above might lead the General Public to view the expenditure of hotel occupancy tax funds by employees as extravagant, potentially leading to a loss of faith in the transparency of government employees. Therefore, specific controls on the levels of service and consumption for governmental employee travel and business (including entertainment) expenses are undeniably necessary.

The Galveston City Council is charged with the responsibility to determine the allowable use of expenditures for revenues derived from hotel occupancy taxes in the City of Galveston. Confirmation of this responsibility by the Galveston City Council will help to clear up any misunderstandings with the Galveston Park Board. This is confirmed by the Attorney General of Texas Opinion No. GA-0124:



"..... Whether a particular proposed expenditure of municipal hotel occupancy tax revenue is a permissible use and will "directly enhance and promote tourism and the convention and hotel industry" is for a municipality's governing body to determine in the first instance."

Therefore, it is incumbent upon the Galveston City Council to insist on specific controls on the levels of service and consumption for governmental employee travel and business (including entertainment) expenses.

The Galveston City Auditor's Office is aware that "new" specific control policies on the levels of service and consumption for governmental employee travel and business (including entertainment) expenses have been put into effect by interim executive management of the Galveston Park Board prior to the issuance of this report. The Galveston City Auditor's Office has read these new control policies and agrees with the Galveston Park Board interim executive management on these new control policies being activated and commends them as well for their efforts in expediency.

The City Auditor's Office would like to make three suggestions to Galveston City Council and the Galveston Park Board to remedy this problem and keep it from recurring.

1. Inaugurate into City policy that the Galveston City Council is the governing body to determine the permissible use of hotel occupancy tax funds per Attorney General of Texas Opinion No. GA-0124.
2. Establish a plan at the Galveston Park Board to review and if necessary, amend policies regarding compliance relating to hotel occupancy tax expenditures. Any necessary amendments to hotel occupancy tax expenditure policies should be forwarded to the Galveston City Council for approval.
3. Suggest to The Galveston Park Board of Trustees that their external auditors include procedures in their annual external audits to test for compliance with the expenditures of hotel occupancy tax funds.