

DEPARTMENT OF TAXATION

2006 Fiscal Impact Statement

1. Patron Frederick M. Quayle

2. Bill Number SB 626

3. Committee Senate Agriculture, Conservation and
Natural Resources

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. Title Lodging Tax and Recordation Tax;
Revenues Dedicated to Virginia Water
Quality Improvement Fund

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill establishes a \$1 per day lodging fee, effective January 1, 2008, on the rental of every room, lodging, or accommodation furnished to a transient for less than 90 days by any hotel, motel, inn, tourist camp, tourist cabin, campgrounds, club or any other establishment furnishing accommodations. This fee would be collected by the Tax Commissioner in the same manner as the retail sales and use tax and the revenues from this fee deposited in the Virginia Water Quality Improvement Fund for funding water quality. This bill also provides that \$40 million dollars annually in recordation tax revenues would be deposited in the Virginia Water Quality Improvement Fund.

The effective date of this bill is not specified.

5. Fiscal Impact Estimates are: Preliminary. (See Line 8.)

6a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2006-07	\$23,800	GF
2007-08	\$323,900	GF
2008-09	Minimal	GF
2009-10	Minimal	GF
2010-11	Minimal	GF
2011-12	Minimal	GF

6b. Revenue Impact:

2006-07	(\$40.0) million \$40 million	GF NGF
2007-08	(\$40.0) million \$53.5 million	GF NGF

2008-09	(\$40.0) million \$72.3 million	GF NGF
2009-10	(\$40.0) million \$72.3 million	GF NGF
2010-11	(\$40.0) million \$72.3 million	GF NGF
2011-12	(\$40.0) million \$72.3 million	GF NGF

6. Budget amendment necessary: Yes.

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8. Fiscal implications:

Administrative Costs Impact

If this bill is passed, TAX will incur administrative costs for systems development, forms development and postage of \$23,800 in FY 2007, and \$323,886 in FY 2008. Costs will be minimal for FY 2009 through FY 2012. The lodging fee imposed in this bill would require significant modifications to TAX's processing and accounting systems to accept the new returns required and to properly track the revenues.

Revenue Impact

According to the Virginia Tourism Board, there are 1,349 hotels/motels in Virginia with a combined lodging capacity of 136,082 rooms. The data suggest that the daily occupancy rate is approximately 65%, or 88,453 rooms occupied each day. At \$1 per day per room in lodging tax, yearly revenue from hotels/motels would be \$32.3 million. The effective date of this bill is January 1, 2008; therefore, the revenue estimate for FY 2008 is based on 5 months and would be \$13.5 million. It should be noted that this estimate is based solely on hotels/motels, as data for other overnight accommodations, i.e., campgrounds, private clubs, bed and breakfasts, etc., is not available.

Under this legislative proposal, the transfers of recordation tax revenue to the Water Quality Improvement Fund are \$40 million in FY 2007 and beyond. To implement this transfer, a reduction of an equal amount of general fund support from other areas in the introduced budget will be required. Given the magnitude of funding involved, funding would need to be transferred from areas with significant general fund support.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Accounts

10. Technical amendment necessary: No.

11. Other comments:

Generally

This bill establishes a statewide \$1 per day lodging fee on the rental of every room, lodging, or accommodation furnished to a transient for less than 90 days by any hotel, motel, inn, tourist camp, tourist cabin, camp grounds, club or any other establishment furnishing accommodations. This new fee would be imposed in addition to the retail sales and use tax and transient occupancy tax. Unlike the retail sales and use tax and the local transient occupancy taxes which are both excise taxes computed as a percentage of the charge for the accommodations, the \$1 lodging fee is a flat fee that is imposed at the same rate regardless of the price of lodging.

Distribution of Revenues

All revenues generated by the lodging fee proposed in this bill to be effective January 1, 2008 will be deposited into the Virginia Water Quality Improvement Fund. In addition to these deposits, beginning in FY 2007, and every year thereafter, \$40 million in recordation tax revenues will be deposited in the Virginia Water Quality Improvement Fund. All moneys in the Fund would be used to provide grants to local governments, soil and water conservation districts, institutions of higher education and individuals for pollution prevention, reduction and control programs.

Similar Legislation

House Bill 1555 and **Senate Bill 701** imposes a \$5 per day lodging fee, effective January 1, 2008, on accommodations for less than 90 days.

Senate Bill 413 would require the transfer of \$100 million of recordation tax revenue to the Water Quality Improvement Fund annually.

cc : Secretary of Finance

Date: 02/06/2006 WBS
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