

DEPARTMENT OF TAXATION

2006 Fiscal Impact Statement

1. **Patron** Nick Rerras

2. **Bill Number** SB 655

3. **Committee** Passed House and Senate

House of Origin:

 Introduced

 Substitute

 Engrossed

4. **Title** Retail Sales and Use Tax: Entitlement to
Sales Tax Revenues for the City of Norfolk

Second House:

 In Committee

 Substitute

 X **Enrolled**

5. **Summary/Purpose:**

This bill would expand the current entitlement to certain sales tax revenues to include a public facility located in the City of Norfolk, to pay the cost of such facility. This bill would also amend the definition of "public facility" to exclude residential condominiums, townhomes, and other residential units.

The effective date of this bill is not specified.

6. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

7. **Budget amendment necessary:** No.

8. **Fiscal implications:**

Administrative Costs Impact

TAX considers implementation of this bill as "routine," and does not require additional funding.

Revenue Impact

TAX is unable to estimate the revenue impact of this bill as most sales made at public facilities are made by private concessionaires and private business participating in special events. The City of Norfolk estimates that the annual sales tax collections from the facility would be approximately \$390,000. As such, this bill would require the transfer of unrestricted General Fund state retail sales and use tax revenue to the City of Norfolk of approximately \$390,000 per year. To implement this transfer, a reduction of an equal amount of general fund support from other areas in the introduced budget will be required. An increase in appropriation would have to be made for Item 260 "Remittance of Sales Tax Revenues From Public Facilities." The current budget estimate for Item 260 is \$620,000 in fiscal year 2006 for all qualifying entitlements statewide.

The sales tax revenues diverted to a municipality consist of only the 2½% General Fund unrestricted portion of the sale tax and the 1% local option tax. The ½% portion dedicated to the Transportation Trust Fund and the 1% distributed to localities based on school-age population are not affected.

9. Specific agency or political subdivisions affected:

Department of Accounts
Department of Taxation
City of Norfolk

10. Technical amendment necessary: No.

11. Other comments:

Current Law

Virginia Code § 58.1-608.3 (formerly the Public Facilities Act) allows sales tax revenue attributable to sales in new or substantially renovated public facilities to be transferred back to municipalities to pay the costs of the bonds issued to finance such facilities. Qualifying public facilities include an auditorium, coliseum, convention center, conference center, or hotel that is owned by a Virginia county, city, town or authority or other such public entity.

Sales tax revenues generated from all transactions taking place in the facility, including, but not limited to, concessionaires sales, vending machine sales, and merchandise sales, are transferred back to the municipality. Entitlement to these sales tax revenues continue for the lifetime of the bonds, but not to exceed 35 years, and all such revenues are required to be applied to the repayment of the bonds. No remittance is made until construction of the facility is complete.

Legislative History

As originally enacted in 1992, this transfer mechanism applied only to one facility in the City of Roanoke. The 1998 General Assembly amended the population requirements to include the City of Portsmouth, and in 1999, the population requirements were again amended to include the City of Suffolk. The General Assembly in 2000 amended the population requirements to include the City of Hampton, in 2001 to include the City of Staunton, and 2004 to include the City of Newport News and the City of Salem.

This Proposal

This bill would add the City of Norfolk to those localities currently entitled to certain sales tax revenues generated at public facilities within the locality. The City of Norfolk will use the sales tax revenues generated at the Norfolk Executive Conference Center to repay 20 year bonds used to finance the project. This bill would also amend the definition of what constitutes a “public facility” to exclude residential condominiums, townhomes, and other

residential units. The City of Norfolk will use the sales tax revenues generated at the Norfolk Executive Conference Center to repay 20-year bonds used to finance the project. The Norfolk Executive Conference Center is planned to provide the opportunity to develop a multi-floor executive center with approximately 70,000 net rentable square feet, one large ballroom of approximately 23,000 square feet, a full service hotel with at least 240 rooms, an upscale destination restaurant, hotel retail experiences, and 50 condominiums. The project is expected to be completed in 2008.

Similar Legislation

House Bill 1235 achieves the same purpose as this bill.

cc : Secretary of Finance

Date: 03/15/2006 WBS
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