DEPARTMENT OF TAXATION
2006 Fiscal Impact Statement

REVISED

1. Patron Lynwood W. Lewis, Jr.

2. Bill Number HB 67

House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

3. Committee House Finance

4. Title Recordation Tax: Additional Distribution to Localities

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

5. Summary/Purpose:

This bill would provide that 50% of the amount of state recordation taxes collected that are attributable to deeds and other instruments recorded be apportioned and distributed annually to or for each such county or city. This provision would apply to any county or city that has a Purchase of Development Rights program in effect, or has filed a statement of intent with the Virginia Department of Agriculture and Consumer Services that it will create such a program within three years or less from the date of such filing.

This bill would be effective beginning June 30, 2007.

6. Fiscal Impact Estimates: Preliminary. (See Line 8.)

Revenue Impact:

Fiscal Year	*Dollars*	*Fund*
2006-07	($43.3 million)	GF - unrestricted
	$43.3 million	Local
2007-08	($43.7 million)	GF - unrestricted
	$43.7 million	Local
2008-09	($45.0 million)	GF - unrestricted
	$45.0 million	Local
2009-10	($45.0 million)	GF - unrestricted
	$45.0 million	Local
2010-11	($45.0 million)	GF - unrestricted
	$45.0 million	Local
2011-12	($45.0 million)	GF - unrestricted
	$45.0 million	Local

7. **Budget amendment necessary:** Yes.
   Page 1, Revenue Estimates

8. **Fiscal implications:**

   Under this legislative proposal, the estimated transfers from the General Fund of recordation tax revenue to counties or cities are $43.3 million for FY 2007, $43.7 million for FY 2008, and $45.0 million for FY 2009 and beyond. This total includes $3.9 million for FY 2007 and 2008, and $4.0 million for FY 2009 and beyond to be held in trust for three years for those localities that are developing Purchase of Development Rights programs. 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 Agriculture and Consumer Services
   Office of the Comptroller
   Cities and counties that have, or plan to create, Purchase of Development Rights programs

10. **Technical amendment necessary:** No.

11. **Other comments:**

    This bill would provide that 50% of the amount of state recordation taxes collected that are attributable to deeds and other instruments recorded be 1) apportioned and distributed annually to each such county or city that has a Purchase of Development Rights program in effect, or 2) held for a locality if it has filed a statement of intent with the Virginia Department of Agriculture and Consumer Services that it will create such a program within 3 years or less.

    The 50% of the state recordation taxes collected from counties and cities which have filed a statement of intent to create a Purchase of Development Rights program will be held in trust until a program is created. If the county or city fails to create the program within the 3-year time period, the taxes collected will be distributed to all counties and cities by the ratio of the state recordation taxes imposed and paid in the particular county or city to the amount of recordation taxes actually paid into the state treasury.

    All of the money distributed to counties or cities that have a Purchase of Development Rights program in effect must be used solely to fund the Purchase of Development Rights program.

    Purchase of Development Rights Programs

    Under a Purchase of Development Rights program, a landowner voluntarily sells his or her rights to develop a parcel of land to a public agency or a charitable organization charged with the preservation of farmland. The landowner retains all other ownership rights attached to the land, and a conservation easement is placed on the land and recorded. The buyer (often a local unit of government) essentially purchases the right to develop the land and retires that right permanently, thereby assuring that development will not occur on that particular property. In placing such an easement on their farmland, participating landowners often take the proceeds from sale of the development rights to invest in their farming operations or retire from the business, allowing another farmer to purchase the land at a lower price (i.e. the value without development rights).

As of January 26, 2006, eight Virginia localities had operating Purchase of Development Rights programs: Albemarle County, Augusta County, Clarke County, Fauquier County, Isle of Wight County James City County, Chesapeake and Virginia Beach. Three additional localities are developing programs and intend to have them operating within three years: Frederick County, Northampton County and Rockbridge County. The Department of Agriculture and Consumer Services is aware of at least three localities that are investigating programs: Nelson County, Rockingham County and Westmoreland County.

<u>Other Legislation</u>

HB 92 and **SB 277** would earmark $0.02 per $100 of the state recordation tax (equivalent to 8% of revenue) to the Virginia Housing Partnership Revolving Fund (renamed Virginia Housing Trust Fund).

HB 166 would earmark $250 million of state recordation tax revenue to the Virginia Defense Facility and Transportation Improvement Fund and Program for transportation infrastructure improvements in certain highway construction districts in which federal defense facilities or bases are expanded as the result of actions of the Base Realignment and Closure Commission.

HB 410 would earmark all state recordation tax revenues, after existing earmarks of $80 million, to the Commonwealth Transportation Board for use throughout the Commonwealth for (i) projects that will reduce poor air quality, (ii) projects that will reduce traffic congestion, and (iii) projects that will enhance the safety of motorists or pedestrians.

HB 485 would reduce the recordation tax rates to the levels that existed prior to the increase imposed in 2004.

HB 659 would earmark recordation tax revenues not already dedicated to the Commonwealth Transportation Board for transportation projects in localities throughout the Commonwealth on a pro rata basis pursuant to the amount of recordation tax collected in each locality.

HB 1436 would earmark recordation tax revenues generated as a result of the rate increase imposed in 2004 to the Transportation Trust Fund.

SB 413 would earmark $100 million of recordation tax revenue to the Virginia Water Quality Improvement Fund.

cc : Secretary of Finance