DEPARTMENT OF TAXATION
2011 Fiscal Impact Statement

1. Patron Matthew James

2. Bill Number HB 2285

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

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

3. Committee House Finance

4. Title Tourism Zones; Retail Sales and Use Tax Revenues

5. Summary/Purpose:

This bill would provide that in a locality that has established a tourism zone with a tourism plan and has an authorized tourism project as determined by guidelines set forth by the Virginia Tourism Authority, the project is entitled to 1% of the sales tax revenues generated by transactions taking place on the premises of the tourism project to apply to outstanding debt used to construct and equip the project to assist the developer with a gap between expected development costs and available debt and equity capital. The entitlement would continue until the gap is paid or refinanced.

The bill would also provide that a locality that has established a tourism zone and a authorized tourism program as determined by guidelines set forth by the Virginia Tourism Authority, but has not adopted a tourism plan, the locality may direct at least 1% of the local sales tax revenues, or other local taxes, generated by transactions taking place on the premises of the tourism project in the same manner.

Prior to any entitlement of tax revenues, the owner of the project must i) have a minimum of 80% of funding for the project in place through debt or equity, ii) enter into a performance agreement with the local economic development authority or similar local or regional political subdivision, and iii) enter into an agreement to pay an access fee. The access fee would be the equivalent to 1% of the sales and use tax revenue generated and returned to the project. Both the access fee and tax revenues would be used to pay the debt service required to finance the project. In the event that the sales tax entitlement and the access fee exceeds any annual debt service required to finance the construction of the tourism project, such excess would be held in an account dedicated for the project until the debt is paid in full.

Under current law, localities are authorized to establish, by ordinance, one or more tourism zones. Localities may provide tax incentives within tourism zones for up to 20 years including, but not limited to 1) reduction of permit fees, 2) reduction of user fees and 3) reduction of any type of gross receipts tax.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** No.

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

8. **Fiscal implications:**

   The magnitude of the revenue loss associated with this bill is unknown as it is dependent on the construction of and bonding for authorized tourism projects. To the extent that tourism projects qualify to be receive 1% of the Retail Sales and Use Tax revenues generated by transactions taking place on the premises of the tourism project, passage of this bill would require transfers of unrestricted General Fund revenue to qualifying localities. To the extent that a locality elects to direct local tax revenues to authorized tourism projects, this bill would have an unknown negative revenue impact on the locality.

9. **Specific agency or political subdivisions affected:**

   Department of Taxation
   All localities

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

11. **Other comments:**

   Background

   Localities are authorized to establish, by ordinance, one or more tourism zones. Localities may provide tax incentives within tourism zones for up to 20 years including, but not limited to 1) reduction of permit fees, 2) reduction of user fees and 3) reduction of any type of gross receipts tax. Localities are also authorized to provide regulatory flexibility within tourism zones for up to ten years including, but not be limited to 1) special zoning, 2) permit process reform, 3) exemption from ordinances and 4) any other incentive. The establishment of a tourism zone does not preclude the area from also being designated by the state as an enterprise zone.

   Localities are authorized to establish a local enterprise zone development taxation program that allows a specified percentage of real estate and machinery and tools tax revenue resulting from the incremental increase in the assessed value of real estate and machinery and tools located within an enterprise zone or technology zone to be allocated to the "Local Enterprise Zone Development Fund." This fund is used for grants aimed at attracting businesses to an enterprise zone or enhancing governmental services within an enterprise zone.

   Proposal

   This bill would provide that in a locality that has established a tourism zone with a tourism plan and has an authorized tourism project as determined by guidelines set forth by the Virginia Tourism Authority, the project is entitled to 1% of the sales tax revenues generated by transactions taking place on the premises of the tourism project to apply to outstanding debt used to construct and equip the project to assist the developer with a gap between expected development costs and available debt and equity capital. The entitlement would continue until the gap is paid or refinanced.

The bill would also provide that a locality that has established a tourism zone and a authorized tourism program as determined by guidelines set forth by the Virginia Tourism Authority, but has not adopted a tourism plan, the locality may direct at least 1% of the local sales tax revenues, or other local taxes, generated by transactions taking place on the premises of the tourism project in the same manner.

Prior to any entitlement of tax revenues, the owner of the project must i) have a minimum of 80% of funding for the project in place through debt or equity, ii) enter into a performance agreement with the local economic development authority or similar local or regional political subdivision, and iii) enter into an agreement to pay an access fee. The access fee would be the equivalent to 1% of the sales and use tax revenue generated and returned to the project. Both the access fee and tax revenues would be used to pay the debt service required to finance the project. In the event that the sales tax entitlement and the access fee exceeds any annual debt service required to finance the construction of the tourism project, such excess would be held in an account dedicated for the project until the debt is paid in full.

Similar Legislation

Senate Bill 1193 is identical to this bill.

House Bill 1926 would require that a portion of the growth in state taxes attributable to the Inland Port in Montgomery County once it is operational, not to exceed $50 million in any fiscal year, be deposited into a special fund, the Salem Highway Construction District Transportation Revenue Fund.

House Bill 2222 would require that 30 percent of the growth in the state tax revenues attributable to localities embraced by the Northern Virginia Transportation Authority, and facilities located in Hampton Roads, and the Richmond, Salem and Staunton Highway Construction Districts be appropriated from the General Fund to the Northern Virginia Transportation Authority and for construction projects in localities embraced by the Hampton Roads Transportation Authority and the Richmond, Salem, and Staunton Highway Construction Districts starting in Fiscal Year 2011.

Senate Bill 1285 would dedicate all state retail sales and use and income taxes paid by highway contractors to the Transportation Trust Fund.

cc : Secretary of Finance

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