

DEPARTMENT OF TAXATION

2012 Fiscal Impact Statement

1. **Patron** Jill Holtzman Vogel

2. **Bill Number** SB 684

3. **Committee** Senate Finance

House of Origin:

☐ Introduced

☐ Substitute

☐ Engrossed

4. **Title** Retail Sales and Use Tax; Entitlement to
Certain Sales Tax Revenue for the Cities of
Lynchburg and Winchester

Second House:

☐ In Committee

☐ Substitute

☒ Enrolled

5. **Summary/Purpose:**

This bill would add the City of Winchester and the City of Lynchburg to the list of municipalities eligible to receive certain sales tax revenues generated by qualifying public facilities in their jurisdiction to repay bonds issued to pay the costs of such facilities.

Under current law, certain municipalities that have issued bonds during a specified time period to pay the cost of any public facility are entitled to a portion of the sales tax revenues generated by transactions taking place in the public facility. Eligible municipalities include the cities of Hampton, Newport News, Norfolk, Portsmouth, Richmond, Roanoke, Salem, Staunton, Suffolk, and Virginia Beach.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** Yes.

Page 1, Revenue Estimates

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

8. **Fiscal implications:**

Administrative Costs Impact

The Department would incur no administrative costs in implementing this bill.

Revenue Impact

The introduced Executive Budget allocates currently undedicated Retail Sales and Use Tax revenues from the General Fund to the Highway Maintenance and Operating Fund ("HMOF") beginning July 1, 2012. The revenue impact of this bill assumes passage of the introduced Executive Budget.

The sales tax revenues diverted to a municipality consists of the 2 ½% General Fund portion of the sales tax and the 1% local option tax. Because the 1% local option tax is

already transferred to localities under current law, the 1% local option tax does not affect state revenue. The ½% portion dedicated to the Transportation Trust Fund and the 1% distributed to localities based on school-age population are not affected.

This bill would result in a decrease in state revenues, the magnitude of which is unknown. The Department understands that this bill is intended to apply to a baseball facility that has been proposed in the City of Winchester and a conference center that is being considered in the City of Lynchburg. Assuming there are no other qualifying public facilities in the City of Winchester, the transfer of sales tax revenues proposed in this bill is estimated to reduce state revenues by \$25,000 in Fiscal Year 2014, and \$62,000 in Fiscal Year 2015 and each fiscal year thereafter. The baseball facility is expected to open in 2014; thus, the first fiscal year estimate reflects the two months of sales tax revenue included in the first fiscal year. The estimates assume that attendance for each game will be 3,150 for the first year. Although the Department understands that this bill is intended to address a baseball facility, this bill would authorize a transfer in sales tax revenues generated from any of the other public facilities outlined in the *Code*, including, for example, auditoriums, coliseums, and convention centers. It is unknown whether qualifying public facilities already exist in the City of Winchester or whether Winchester will elect to establish any of the other types of public facilities.

While there is speculation that the City of Lynchburg is considering building a conference center, the actual type of public facility intended in the City of Lynchburg is unknown. The number of public facilities that are currently located in the City of Lynchburg and to which this bill would apply is similarly unknown.

9. Specific agency or political subdivisions affected:

Department of Accounts
Department of Taxation
City of Winchester
City of Lynchburg

10. Technical amendment necessary: No.

11. Other comments:

Va. *Code* § 58.1-608.3 (formerly the Public Facilities Act) allows sales tax revenue attributable to sales in new or substantially and significantly renovated or expanded public facilities to be transferred back to municipalities to pay the costs of the bonds issued to finance such facilities. Qualifying public facilities include auditoriums, coliseums, convention centers, conference centers, and certain hotels and sports facilities located in the Cities of Hampton, Newport News, Norfolk, Portsmouth, Richmond, Roanoke, Salem, Staunton, Suffolk and Virginia Beach. Currently, shopping centers and malls do not qualify for the public facility designation.

Under current law, the sales tax revenue can be used to pay the following costs for which bonds are issued: 1) the purchase price of the public facility; 2) expenses incident in determining the feasibility or practicability of the public facility; 3) the costs of plans, specifications, surveys and estimates of costs and revenues; 4) the cost of land, property,

rights, easements, and franchises acquired; 5) the costs of improvement, property or equipment; 6) the cost of engineering, legal, and other professional services; 7) the cost of construction or reconstruction; 8) the costs of labor, materials, machinery and equipment; 9) financing charges; 10) interest before and during construction and for up to one year after completion of construction; 11) start-up costs and operating capital; 12) payments by the locality of its share of the cost of any multijurisdictional public facility; 13) administrative expenses; 14) amounts deposited to reserve or replacement funds; and 15) other necessary expenses.

Under current law, a substantial and significant expansion to a public facility entails an increase in floor space of at least 50 percent over that existing in the preexisting facility or an increase in floor space of at least 10 percent over that existing in a currently qualifying public facility.

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 continues for the lifetime of the bonds, but not beyond 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, in 2004 to include the City of Newport News and the City of Salem, in 2006 to include the City of Norfolk, and in 2009 to include the City of Richmond and the City of Virginia Beach.

Proposal

This bill would add the City of Winchester and the City of Lynchburg to the list of municipalities eligible to receive certain sales tax revenues generated by qualifying public facilities in their jurisdiction to repay bonds issued to pay the costs of such facilities.

The effective date of this bill is not specified.

Similar Legislation

House Bill 1116 and **Senate Bill 607** (identical) would provide that development projects that meet the requirements for a development of regional impact and that are located in the City of Bristol are entitled to a portion of the sales tax revenues generated by such projects, and would require that the Department review the locality's report concerning whether it meets this bill's requirements, and to provide a written report on its findings to the Chairmen of the House and Senate Finance Committees and the House Appropriations Committee.

cc : Secretary of Finance

Date: 3/2/2012 KP
DLAS File Name: SB684FER161