

# DEPARTMENT OF TAXATION

## 2013 Fiscal Impact Statement

1. **Patron** K. Rob Krupicka

3. **Committee** House Finance

4. **Title** Retail Sales and Use Tax; Entitlement to  
Sales Tax Revenue

2. **Bill Number** HB 1650

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would provide that any municipality which has i) created a service district prior to January 1, 2013, in which an infill station or an entrance to an infill station is located, and ii) issued bonds after July 1, 2013, to pay the cost of the infill station, is entitled to a portion of the sales tax revenues generated within the service district, not to exceed \$1.25 million per year. The bonds must pay at least 30 percent of the cost of the infill station. The entitlement would begin 90 days after the issuance of the bonds and continue for the lifetime of the bonds or 30 years, whichever comes first. An infill station is a train station built on an existing passenger line to address demand in a location between existing stations.

Under current law, Virginia localities may create service districts within the locality to provide additional, more complete, or more timely services of government than are desired in the locality or localities as a whole. Upon passage of an ordinance creating a service district, localities may levy and collect an annual tax on taxable real estate zoned for residential, commercial, industrial, or other uses, or any combination of such use classification, within the boundaries of the service district.

The effective date of this bill is not specified.

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

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

8. **Fiscal implications:**

#### Administrative Costs Impact

The Department considers implementation of this bill as routine, and does not require additional funding.

## Revenue Impact

The sales tax revenues diverted to the municipality would consist of only the 2 ½% General Fund unrestricted portion of the sales 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.

The bill provides for the diversion of sales tax revenues generated within a qualifying service district, not to exceed \$1.25 million per year. The City of Alexandria has two service districts that may meet the requirements of this bill. If the maximum diversion of sales tax revenues is met in both districts, this bill would have a revenue gain to the City of Alexandria of \$2.5 million a year and a loss of approximately \$1.8 million in General Fund revenues and \$0.7 million in local revenues.

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

Department of Taxation  
Department of Accounts  
All localities

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

### **11. Other comments:**

#### Background

Virginia law authorizes any locality to create service districts within the locality, by ordinance. The purpose of service districts is to provide additional, more complete or more timely services of government than are desired in the locality or localities as a whole. Localities seeking to create a service district must conduct a public hearing prior to the district's creation. The ordinance establishing the service district must include the name and boundaries of the proposed district; specify any areas within the district that are to be excluded; describe the purposes of the district and the facilities and services proposed within the district; describe a proposed plan for providing such facilities and services within the district; and describe the benefits which can be expected from the provision of the proposed facilities and services within the district.

Upon passage of an ordinance creating a service district, localities are statutorily granted several powers with respect to these districts. Among these powers, localities may levy and collect an annual tax on any property in the service district that is subject to local taxation to pay for the expenses and charges for providing certain governmental services to the locality, such as water supply, garbage removal and disposal, and transportation. The tax may be levied on taxable real estate zoned for residential, commercial, industrial or other uses, or any combination of such use classification, within the boundaries of the service district. The annual tax may not be levied to pay for schools, police, or general government services. Proceeds from the tax must be allocated to the district in which the funds were raised.

## Public Facilities

*Virginia 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, Lynchburg, Newport News, Norfolk, Portsmouth, Richmond, Roanoke, Salem, Staunton, Suffolk, Virginia Beach, and Winchester. Developments of regional impact located in the City of Bristol are also deemed to be qualifying public facilities.

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.

The sales tax revenues diverted to a municipality consists of only the 2 ½% General Fund unrestricted portion of the sales 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.

## Proposal

This bill would provide that any municipality which has i) created a service district prior to January 1, 2013, in which an infill station or an entrance to an infill station is located, and ii) issued bonds after July 1, 2013, to pay the cost of the infill station, is entitled to a portion of the sales tax revenues generated within the service district, not to exceed \$1.25 million per year. The bonds must pay at least 30 percent of the cost of the infill station. The entitlement would begin 90 days after the issuance of the bonds and continue for the lifetime of the bonds or 30 years, whichever comes first. An infill station is a train station built on an existing passenger line to address demand in a location between existing stations.

The sales tax revenues diverted to the municipality would consist of only the 2 ½% General Fund unrestricted portion of the sales 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.

The effective date of this bill is not specified.

## Similar Bills

**Senate Bill 861** would provide that payments of sales and use tax revenue generated on the premises of a public facility located in the City of Bristol used to pay bonds issued to construct the public facility shall begin upon certification by the governing body of the

municipality that a business license has been issued to an occupant of the public facility, even though the public facility has not been completed.

cc : Secretary of Finance

Date: 1/12/2013 AM  
DLAS File Name: HB1650F161