

DEPARTMENT OF TAXATION

2014 Fiscal Impact Statement

1. **Patron** Isreal D. O'Quinn

2. **Bill Number** HB 734

3. **Committee** House Counties, Cities and Towns

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Entitlement to Sales Tax Revenues: City of Virginia Beach

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would allow the City of Virginia Beach to transfer its portion of the sales tax revenue entitlement generated from the construction or operation of a qualifying sports arena or conference center to the private facility owner, provided the City has contributed infrastructure or real property to the private facility owner. Under the terms of the bill, the entitlement would continue for the lifetime of the facility. In addition, the bill would modify the existing sunset provisions of the statute by providing that, if the applicable facility does not meet one of the other listed criteria, or is not privately owned and financed, the bond authority and sales tax revenue entitlement would expire on January 1, 2018. Finally, the bill would provide that if the City of Virginia Beach has contributed infrastructure or real property to a facility that is privately owned and financed, the City's sales tax entitlement and bond authority would expire on the earliest of: 1) the maturity date of any bonds first issued by the City of Virginia Beach or the City's Development Authority; 2) the repayment of all outstanding indebtedness on the facility by a private facility owner or 3) July 1, 2043.

Under current law, the City of Virginia Beach is entitled to a portion of state sales and use tax revenues generated as a result of the construction, operation or conduct of trade or business occurring within a qualifying arena or stadium constructed for the purpose of: 1) conducting games by a NHL or NBA team; or 2) holding conferences and entertainment events. This entitlement will expire on January 1, 2018, unless the City of Virginia Beach has either: 1) executed a lease with a NHL or NBA team; or 2) issued bonds for an arena in order to hold conferences and entertainment events, in which case, the entitlement will expire on the earliest of the maturity date of bonds issued by the City or the Development Authority or July 1, 2043.

The effective date of this bill is not specified.

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

7. **Fiscal Impact Estimates are:** Preliminary (See line 8).

8. Fiscal implications:

Administrative Costs

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

Revenue Impact

Legislation enacted in 2013 authorizes the City of Virginia Beach to a portion of the sales tax revenues generated by the construction and operation of a qualifying NBA or NHL sports arena, or qualifying conference center. As this bill does not change the amount of sales and use tax revenues that will be transferred to the City of Virginia Beach pursuant to the entitlement, this bill would have no additional impact on state revenues.

9. Specific agency or political subdivisions affected:

City of Virginia Beach
Department of Accounts
Department of Taxation
Department of Treasury
State Comptroller

10. Technical amendment necessary: No.

11. Other comments:

Current Law

Public Facilities Sales Tax Entitlement

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 Town of Wise and the Cities of Fredericksburg, Hampton, Lynchburg, Newport News, Norfolk, Portsmouth, Richmond, Roanoke, Salem, Staunton, Suffolk, Virginia Beach, and Winchester.

Virginia Beach Sales Tax Entitlement

Legislation enacted in 2013 grants the City of Virginia Beach expanded authority to receive state sales and use tax revenues generated as a result of the construction or operation of a facility intended to serve as an arena for a NHL or NBA team or for the purpose of holding conferences and entertainment events. In addition to the arena or conference facility, the City will be similarly entitled to a portion of the sales tax revenues generated in franchise offices, restaurants, concessions, retail, and lodging facilities

owned and operated adjacent to the arena or other structure, parking lots, garages, and any other directly related properties, provided these facilities are both appurtenant to and directly or indirectly benefited by the arena. Sales and use tax revenues include all tax revenues collected from the sales and use tax generated by transactions that take place on the premises of the arena or facility, as well as revenue generated in connection with the development and construction of the facility or arena. Sales and use tax revenues also include any transactions that occur on the premises of a temporary facility in connection with games or other activities of a sports franchise conducted at the temporary facility.

The entitlement provisions will expire on January 1, 2018 if the City has not executed a lease with a NHL or NBA team, or issued bonds for an arena to hold conferences and entertainment events. If the City meets one of these two requirements, the entitlement will expire on the earliest of the maturity date of bonds issued by the City or the Development Authority, or July 1, 2043.

Proposal

This bill would allow the City of Virginia Beach to transfer its portion of sales tax revenue entitlement generated from the construction or operation of a qualifying sports arena or conference center to the private facility owner, provided the City has contributed infrastructure or real property to the owner. Under the terms of the bill, the entitlement would continue for the lifetime of the facility. As the bill would allow for the transfer of sales tax revenue to pay private entities, the bill would constitute a departure from the current policy of entitling qualifying localities to a portion of sales tax revenues generated from public facilities in order to pay back municipal bonds issued for the construction of these facilities.

In addition, the bill would modify the existing sunset provisions of the statute by providing that, if 1) the City of Virginia Beach has not executed a lease with a NHL or NBA team; 2) the City or the Development Authority has not issued bonds for an arena to hold conferences and entertainment events; or 3) the facility is not privately owned and financed, the bond authority and sales tax revenue entitlement would expire on January 1, 2018.

Finally, the bill would provide that if the City of Virginia Beach has contributed infrastructure or real property to a facility that is privately owned and financed, the City's sales tax entitlement and bond authority would expire on the earliest of: 1) the maturity date of any bonds first issued by the City of Virginia Beach or the City's Development Authority; 2) the repayment of all outstanding indebtedness on the facility by a private facility owner; or 3) July 1, 2043.

The effective date of this bill is not specified.

Similar Legislation

House Bill 1267 and Senate Bill 571 (identical) would allow the City of Virginia Beach to contract for the construction, development, and maintenance of a qualifying sports arena or conference center; designate any funds made available for the facility or center to the

fulfillment of such contracts; and extend the deadline for the sales tax entitlement, bond authority, and any other authority related to the arena if the city enters into such contracts.

cc : Secretary of Finance

Date: 1/24/2014 KP
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