

Commission on Local Government

Estimate of Local Fiscal Impact

2015 General Assembly Session

Bill: HB1294

Patron: Morris

Date: 1/22/2015

In accordance with the provisions of §30-19.03 of the Code of Virginia, the staff of the Commission on Local Government offers the following analysis of the above-referenced legislation:

Bill Summary:

Exempts churches, religious associations, and religious denominations from all state and local taxes, fees, and other charges.

Executive Summary:

Under the provisions of HB 1294, churches, religious associations, and religious denominations would be exempted from all state and local taxes and fees.

Local governments have estimated the negative impact of HB 1294 to be \$500-1,500,000. Larger localities with a larger concentration of such groups stand to lose the most revenue from this legislation. Additionally, localities with educational facilities that are tied to a religious group stand to lose revenue from the provisions of HB 1294. Local governments that are currently granting exemptions to churches and religious groups will not be as affected. It is likely that the true impact of the bill would be felt by the rest of the community if jurisdictions raise rates in order to remain revenue-neutral.

If a university with a religious affiliation were to qualify for these tax exemptions, it is possible that other private universities would consider a religious affiliation if HB 1294 were enacted. Additionally, it is possible that other nonprofit institutions will seek these exemptions in future years, which could add to the losses that could be experienced by local governments.

Local Analysis:

Locality: City of Chesapeake

Estimated Fiscal Impact:
\$1,500,000.00

We are not able to provide an estimate of the fiscal impact of a general exemption of taxes and fees on religious organizations. However, our analysis indicates that this provision will reduce storm water revenues by nearly \$450,000. We expect relief from all local fees and service charges could easily be two to three times as much as the stormwater reduction alone.

If the General Assembly approves this bill, we are also very concerned that other non-religious non-profit organizations will expect a similar exemption to apply to them. Local governments are already resource-deprived and depend heavily on real estate taxes to meet operations. Approval of measures such as HB 1294 will result in a shift of taxes to property owners. In the case of Chesapeake, homeowners can expect their real estate taxes to rise because of the exemption. Furthermore, under current statutes, the City of Chesapeake already has the discretion to grant tax exemptions to religious organizations and has chosen not to do so. This bill attempts to mandate a local matter.

Locality: City of Danville

Estimated Fiscal Impact: \$5,000.00

Using the listing in the Fiscal Impact Statement (local admissions, stormwater charges, contractors use exemption, motor vehicle tax exemption, local meals tax exemption), this should have a minimal impact on the City. The \$5,000 estimate was provided by the Commissioner of Revenue, but there is not any hard data to back up the information.

Locality: City of Falls Church

Estimated Fiscal Impact: \$80,000.00

At the present time, religious organizations are exempt for all local taxes; however they do pay stormwater fees and permit fees. Stormwater fees are assessed annually and are \$63,936.00 in the City of Falls Church. Permit and other fees are ad hoc and range widely based upon the work to be performed. An annualized estimate for all other fees would increase that figure to \$80,000.00. This relates to a one-quarter cent increase of the tax rate. One suggestion is that instead of exempting churches the approach should be a credit program as an avenue to reduce fees but to also provide an incentive that addresses water quality issues.

Locality: City of Lexington (2)

Estimated Fiscal Impact: \$50,000.00

This is the estimated annual impact for the waiver of stormwater fees. No other impacts expected.

Locality: City of Lynchburg

Estimated Fiscal Impact:
\$1,000,000.00

\$1,000,000 may be the lower end of the estimate. If the provisions of HB 1294 include colleges and universities that are faith-based, stormwater alone would be \$600,000. Other things included could be the amusement tax, building permit fees, land disturbance, sign permits, and personal property. There is no way that localities could make up for this revenue except to increase the real estate taxes on citizens.

Locality: City of Roanoke

Estimated Fiscal Impact: \$100,000.00

The estimated fiscal impact of this bill cannot be readily determined in a timely manner to respond as requested. The numerous churches, religious associations and religious denominations represented in the City lead to the assumption that the fiscal impact would be significant if all local taxes, fees and other charges were included. The likelihood of rate adjustments affecting all other entities to retain the current level of revenue is a likely outcome. With the inclusion of real estate, stormwater, personal property and other charges, the fiscal impact without rate adjustments would easily exceed \$100,000.

Locality: City of Winchester

As noted in the bill’s impact statement, it is difficult to estimate the local impact of this bill, though it will certainly have an adverse effect. Almost all of the lost revenue will be in sales taxes. The state impact statement notes that TAX does not keep data on such purchases, so neither the state nor localities can estimate a figure. The City is opposed to any local exemptions granted at the state level, as all local governments see a slow, steady erosion of revenue-generating opportunities at the local level combined with continued cuts to direct aid to localities.

Locality: Henrico County

Estimated Fiscal Impact: \$10,000.00

The estimated fiscal impact includes the known collection of taxes from churches. It does not include any impact from exempting "religious associations" or "religious denominations" as those are not tracked. Also not included is any impact to the marketplace for making these entities exempt from the taxes included in this legislation.

Locality: Powhatan County

Estimated Fiscal Impact: \$6,324.00

Based on the Commissioner of Revenue's review, we only currently have one daycare that is in a commercial zone, but is owned by a church. Currently their assessment is \$702,200 and their tax due is \$6,324.30. If this passes this would be our potential loss at this time.

Locality: Rappahannock County

Estimated Fiscal Impact: \$3,000.00

It is unclear if this would affect such things as meals tax collections for events sponsored by these groups or not. It is very difficult to determine how this would affect such things, but "fees" would presumably include building permits and the like, and service costs would need to be borne by other payers as these facilities are not exempt from the Uniform Statewide Building Code or regulatory oversight. We would raise the fee schedules for all such permitting on other permit holders sufficient to not burden the general taxpayer for such issues and there would not be a fiscal impact, per se, to the County.

Locality: Richmond County

Estimated Fiscal Impact: \$1,000.00

The impact is difficult to determine. It would depend upon how many churches look to do this type of work each year.

Locality: Rockingham County

Rockingham County does not administer an admissions tax. Relief from taxes and fees will have no fiscal impact, with the exception of stormwater fees.

Rockingham County currently has stormwater fees for construction, but no annual fees for management of the program. Relief from stormwater fees does not eliminate the costs associated with running such programs; it simply means that those fees are borne by others. There should be no exemption from stormwater fees for any property owner, including schools, cities, towns, churches, religious associations, colleges/universities, etc. Those groups may gain relief from fees through implementation of Best Management Practices like those available to the private sector.

Locality: Spotsylvania County

Not able to be determined at this time.

Locality: Town of Front Royal

Estimated Fiscal Impact: \$500.00

Churches are currently tax-exempt. The Town charges fees for the review of development plans to cover costs associated with reviews and inspections. The loss of these fees would impact cost recovery.

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**Professional Organization Analysis:**

**Organization:** VGFOA

HB 1294 pushes more of the burden for financing the cost of government to others that are not exempt. Localities reduced maintainance expenditures for infrastructure and capital assets during the recession and are now needing to increase taxes in order to complete much needed maintainance. Offering more exemptions to other entities only serves to increase the tax burden or fees for remaining members of the community.

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Organization: Virginia Commissioners of Revenue

Many localities will experience minimal impact, as most exemptions are already elected by the locality. Most of the bill is “cleanup,” standardizing language defining the exemption for a “church, religious association, or religious denomination” as they are defined in §58.1-3617 (current) or §58.1-3606 (pre-1971), largely for operating exclusively for charitable, religious, or educational purposes overall.

Some exemptions will be broadened in so doing, especially sales tax exemptions. Prior restrictions based on use will be lifted when bought by a church or by a building contractor working on a church building (potentially a source for abuse).

The bill broadly exempts churches and associations from fees as well, most of which are for services which are otherwise assessed based on use, and from BPOL (which may be read to extend to otherwise taxable “unrelated business income,” depending on interpretation of the exemption and whether such business risks the church’s broader exemption).

While impact may be minimal in many fiscal ways, it may be worth noting that some of the exemptions (especially on service fees) impact other taxpayers in an adverse competitive way. More exemptions in certain areas may yield a competitive disadvantage to other taxpayers providing similar services or paying otherwise exempt fees for the same services (such as storm-water fees or fuel taxes).

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