DEPARTMENT OF TAXATION
2015 Fiscal Impact Statement

1. Patron Frank M. Ruff, Jr.

2. Bill Number SB 975

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

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

3. Committee Senate Finance

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

5. Summary/Purpose:

This bill would lower the amount of funding that an authorized tourism project must have in place before receiving any entitlement of tax revenues from 80 percent to 70 percent.

Under current law, a locality may enact an ordinance dedicating at least an amount equal to the revenues generated by a 1 percent local sales and use tax, or an equivalent amount of other local tax revenues, generated by transactions taking place on the premises of an authorized tourism project to the payment of principal and interest on the gap financing. If the locality enacts such an ordinance, the project is also entitled to an amount equal to the revenues generated by a 1 percent state sales and use tax on transactions taking place on the premises of the tourism project from discretionary General Fund revenues.

Prior to any entitlement of tax revenues, the owner of the project must currently 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 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:

<u>Administrative Costs</u>

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

Revenue Impact

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 authorized tourism projects meet the proposed minimum funding threshold of 70 percent, but would not qualify under the existing 80 percent requirement, passage of this bill would result in an increase of transfers of unrestricted General Fund revenue to qualifying localities for payment of the gap financing and an unknown negative revenue impact on the tax revenues of such localities.

9. Specific agency or political subdivisions affected:

Department of Taxation
All localities

10. Technical amendment necessary: No.

11. Other comments:

Generally

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.

Authorized Tourism Projects

Currently, a locality that has established a tourism plan as determined by guidelines set forth by the Virginia Tourism Authority and has an authorized tourism project to meet a deficiency identified in the tourism plan may direct local tax revenues to assist the developer with a gap between expected development costs and available debt and equity capital. A locality may enact an ordinance dedicating at least an amount equal to the revenues generated by a 1 percent local sales and use tax, or an equivalent amount of other local tax revenues, generated by transactions taking place on the premises of the tourism project to the payment of principal and interest on the gap financing. If the locality enacts such an ordinance, the project is also entitled to an amount equal to the revenues generated by a 1 percent state sales and use tax on transactions taking place on the premises of the tourism project from discretionary General Fund revenues. The dedication continues until the gap is paid or refinanced.

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 is equivalent to the amount of state revenue returned to the project. Both the access fee and tax revenues must be used to pay the debt service required to finance the project. In the event that the sales tax entitlement and the access fee exceed any annual debt service required to finance the construction of the tourism project, the excess is held in an account dedicated for the project until the debt is paid in full.

Proposal

This bill would clarify the amount of sales tax that authorized tourism projects are entitled to receive. Localities are entitled to state sales tax revenues, provided they dedicate at least the revenues generated by the one percent local sales and use tax, or an equivalent amount of other local tax revenues, to authorized tourism projects.

The effective date of this bill is not specified.

Similar Legislation

House Bill 1756 is identical to this bill.

cc : Secretary of Finance

Date: 1/22/2015 AM
DLAS File Name: SB975F161