JLARC
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION

Fiscal Impact Review

2018 General Assembly Session

Date: February 1, 2018

Bill number: HB 1356; State Transient Occupancy Tax

Review requested by: Chairman Cox, House Rules Committee

JLARC Staff Fiscal Estimates

JLARC staff concur with the fiscal impact statement issued by the Department of Taxation, which indicates that HB 1356 would have a positive fiscal impact to state revenue collections, starting with a $44.1 million increase in revenue in FY19. HB 1356 would expand the regional two percent transient occupancy tax imposed in Northern Virginia to all cities and counties statewide. The methodology used by the Department of Taxation to estimate the additional revenue that would be collected appears reasonable.

An explanation of the JLARC staff review is included on the pages that follow.

Authorized for release:

Hal E. Greer

Hal E. Greer, Director

Bill summary

HB 1356 would expand the regional two percent transient occupancy tax (a tax on hotel and motel room stays) imposed in Northern Virginia to every county and city in the state. The bill would require that 35 percent of the revenue generated by the two percent tax be used to fund the Washington Metropolitan Area Transit Authority. The remaining revenue generated would be used to fund transit and transportation projects throughout the state.

Fiscal implications

As indicated in the fiscal impact statement prepared by the Department of Taxation (TAX), HB 1356 would have a positive fiscal impact to state revenue collections in FY19 and subsequent fiscal years (Table 1). This additional revenue would be collected from jurisdictions outside of the Northern Virginia region. Northern Virginia jurisdictions already impose an additional two percent transient occupancy tax, which is distributed to the Northern Virginia Transportation Authority fund.

TABLE 1
Expanding the regional 2% transient occupancy tax statewide would generate additional state revenue beginning in FY19

	Additional revenue (expanded 2% tax)
FY19	$44.1 M
FY20	50.4
FY21	52.9
FY22	55.5
FY23	58.4
FY24	61.5

SOURCE: JLARC analysis of data from the Department of Taxation.
NOTE: Excludes additional revenue that would be collected from the few localities that are not currently collecting the transient occupancy tax and for which taxable sales for lodging are unknown. Excludes revenue collected from Northern Virginia localities that are subject to the existing two percent regional transient occupancy tax.

To estimate the additional revenue collections, TAX obtained data on local transient occupancy tax rates and tax collections for FY16. The tax rates and collection data were used to calculate the taxable sales for hotel and motel stays in FY16 by jurisdiction statewide. The taxable sales for FY16 were then adjusted to reflect inflation and changes in demand for hotel and motel room stays (derived from historical information on demand in Virginia). TAX excluded the Northern Virginia localities that already pay the two percent regional occupancy tax from its estimate of additional revenue that would be collected. (Tax collection data was obtained from the Auditor of Public Accounts; most jurisdictions impose a transient occupancy tax and are required to report revenue collections to the APA every year. Data on local transient occupancy tax rates by jurisdiction for FY16 was obtained from the Weldon Cooper Center for Public Service.)

The estimate of additional revenue is slightly conservative because not all jurisdictions impose a transient occupancy tax and taxable sales for hotel and motel room stays is not available for inclusion in the analysis. Most of these jurisdictions are rural, and therefore additional revenue collections from these localities would likely be small.

HB 1356 would also require that the two percent statewide occupancy tax collections be used by the Commonwealth Transportation Board to fund the Washington Metropolitan Area Transit Authority (35 percent) and the remaining (65 percent) to fund transit and transportation projects statewide (Table 2). This would result in a change in disbursement of funds. The Northern Virginia Transportation Authority Fund would no longer receive the portion of the tax collected in Northern Virginia (Planning District 8).

TABLE 2
Thirty-five percent of statewide two percent transient occupancy tax revenue would be distributed to Washington Metropolitan Area Transit Authority

	Total statewide 2% transient occupancy tax collections	35% distribution to Washington Metropolitan Transit Authority	65% distribution to transit and transportation projects throughout state
FY19	$73.3M	$25.7M	$47.6M
FY20	83.8	29.3	54.5
FY21	88.0	30.8	57.2
FY22	92.4	32.3	60.0
FY23	97.2	34.0	63.2
FY24	102.3	35.8	66.5

SOURCE: JLARC analysis of data provided by the Department of Taxation.

Budget amendment necessary? Yes, a budget amendment would be necessary to reflect the increase in revenue collections and the disbursement of funds.

Agencies affected: All localities, the Washington Metropolitan Authority, and the Northern Virginia Transportation Authority

Prepared by: Ellen Miller

Date: February 1, 2018