

DEPARTMENT OF TAXATION

2020 Fiscal Impact Statement

1. **Patron** Lynwood W. Lewis, Jr.
3. **Committee** Senate Finance and Appropriations
4. **Title** City of Norfolk; Financing of an Arena and Facility

2. **Bill Number** SB 787
House of Origin:
 X **Introduced**
 Substitute
 Engrossed

Second House:
 In Committee
 Substitute
 Enrolled

5. **Summary/Purpose:**

This bill would grant the City of Norfolk ("the City") certain powers relating to construction of an arena and facility, including the authority to:

- Issue bonds to construct the arena and facility;
- Receive state sales and use tax revenue that is attributable to the arena and facility;
- Use such revenue to repay the bonds.

The City's entitlement to state sales and use tax revenue would expire on the earliest of (i) the maturity date of any bonds it issues related to constructing the arena and facility, (ii) the expiration date of its contractual obligations related to the arena or facility, or (iii) July 1, 2055.

If enacted during the Regular Session of the 2020 General Assembly, this bill would become effective July 1, 2020.

6. **Budget amendment necessary:** No
7. **Fiscal Impact Estimates are:** Not available. (See Line 8.)
8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") considers implementation of this bill as routine and does not require additional funding. This bill could result in unknown administrative costs to the City of Norfolk.

Revenue Impact

The proposed legislation would result in an unknown General Fund loss for the Commonwealth and an unknown revenue gain for the City.

9. Specific agency or political subdivisions affected:

Department of Taxation
City of Norfolk

10. Technical amendment necessary: No

11. Other comments:

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.

The powers that would be granted by this bill to the City of Norfolk are similar to those granted to the City of Virginia Beach with respect to a sports or entertainment project. Legislation enacted in 2013 granted the City of Virginia Beach 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 an NHL or NBA team or for the purpose of holding conferences and entertainment events. The entitlement, bond authority, and all other authority granted pursuant to the 2013 legislation expired on January 1, 2018 because the City had not executed a lease with an NHL or NBA team, or issued bonds for an arena to hold conferences and entertainment events.

Legislation enacted in 2019 granted the Virginia Beach certain powers relating to construction of a sports or entertainment project and any related facilities, including the authority to (i) issue bonds to construct a sports or entertainment project, (ii) receive state sales and use tax revenue that is attributable to such project, and (iii) use such revenue to repay such bonds. The legislation provided that the City of Virginia Beach's entitlement to state sales and use tax revenue would expire on July 1, 2039.

Proposal

This bill would grant the City of Norfolk certain powers relating to construction of an arena and facility, including the authority to:

- Issue bonds to construct the arena and facility;
- Receive state sales and use tax revenue that is attributable to the arena and facility;
- Use such revenue to repay the bonds.

The City's entitlement to state sales and use tax revenue would expire on the earliest of (i) the maturity date of any bonds it issues related to constructing the arena and facility, (ii)

the expiration date of its contractual obligations related to the arena or facility, or (iii) July 1, 2055.

The tax entitlement would not include the tax revenue generated by the one-half percent sales and use tax dedicated to the Transportation Trust Fund; the one percent of the state sales and use tax revenue distributed among the counties and cities on the basis of school-age population; and the additional sales and use tax for transportation in Northern Virginia and Tidewater.

If enacted during the Regular Session of the 2020 General Assembly, this bill would become effective July 1, 2020.

Similar Legislation

House Bill 120 would extend the sunset date on the entitlement to state sales and use tax revenue of the City of Virginia Beach that is attributable to a sports or entertainment project from July 1, 2039 to July 1 following the twentieth anniversary of the completion of construction of the sports and entertainment project.

House Bill 559 is identical to this bill.

House Bill 1102 would create the Hampton Roads Regional Arena Authority and grant it certain powers relating to construction of an arena and facility. Among those powers is the authority to (i) issue bonds to construct the arena and facility, (ii) receive state sales and use tax revenue that is attributable to the arena and facility, (iii) use such revenue to repay such bonds, and (iv) distribute any excess revenue to any Hampton Roads locality that elects to contribute to the financing of the construction of an arena and facility.

Senate Bill 163, Senate Bill 559, and House Bill 906 would add the City of Chesapeake to the list of localities that are authorized to issue bonds for the construction of public facilities and retain sales and use tax revenue generated within such facilities to pay off such bonds. The bills also add outdoor amphitheater to the list of authorized public facilities and extends the sunset date on bonds eligible for the sales tax entitlement from July 1, 2020 to July 1, 2024.

cc: Secretary of Finance

Date: 1/23/2020 SK
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