

DEPARTMENT OF TAXATION

2011 Fiscal Impact Statement

1. **Patron** J. Chapman Petersen

3. **Committee** Local Government

4. **Title** Transient Occupancy Tax; Amends Charter
in City of Fairfax

2. **Bill Number** SB 847

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would make several amendments to the charter of the City of Fairfax. First, it would remove the four percent limitation on the amount the city may charge in transient occupancy tax. Second, the bill would change the date of the first meeting of the newly elected council from the first Tuesday of July following the election of the Council to either the second Tuesday of July or the first scheduled regular or special meeting of the City Council in July, whichever occurs first. Third, this bill would authorize the City of Fairfax to issue revenue bonds without holding a referendum. Finally, this bill would require that revenue bonds be authorized, executed, and sold, as provided under general law, specifically the provisions of the Virginia Public Finance Act of 1991.

Under the City of Fairfax's current charter, the City may levy a transient occupancy tax on accommodations at a maximum rate of four percent of the amount of charge for the occupancy of any room occupied. The charter also mandates that the first meeting of a newly elected Council must take place on the first Tuesday of July following the Council's election. Finally, under the current charter, all bonds, including revenue bonds, require a 2/3 affirmative vote from the Council for adoption, and a bond referendum.

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:**

This bill would have no impact on state revenues. Currently, the City of Fairfax levies a 4% transient occupancy tax. As it is not known whether the City would increase its transient occupancy tax rate, the local revenue impact is unknown.

If the City of Fairfax chooses to increase its transient occupancy tax rate from 4% to 5%, it is estimated that it would result in an increase in local revenues of \$122,000 in Fiscal Year

2012, \$136,000 in Fiscal Year 2013, \$138,000 in Fiscal Year 2014, \$141,000 in Fiscal Year 2015, \$144,000 in Fiscal Year 2016 and \$147,000 in Fiscal Year 2017.

9. Specific agency or political subdivisions affected:

City of Fairfax

10. Technical amendment necessary: No.

11. Other comments:

Transient Occupancy Tax

Cities and towns are granted the authority to levy the transient occupancy tax under the “general taxing powers” found in their charters. In 2009, 36 cities reported imposing a transient occupancy tax, and the median rate of the tax for those cities was 6%. The minimum rate was 2%, and the maximum rate was 10%.

Under its current charter, the City of Fairfax may levy a transient occupancy tax on hotels, motels, and boarding houses. The rate of the tax is limited to 4% of the amount of charge for the occupancy of any room occupied. The tax does not apply to rooms rented for continuous occupancy for thirty or more days in hotels, motels, and boarding houses.

This bill would remove the 4% rate limitation in its charter, thereby authorizing the City of Fairfax to impose the transient occupancy tax at an unlimited rate.

Council Members

Under the charter, all powers vested in the City of Fairfax must be exercised by the City Council, which consists of six members who are elected for two-year terms. Among its many additional powers, the Council is authorized to determine the composition and operation of city boards, departments, bureaus, etc., to create, alter or abolish such entities, and to designate the time and place for all Council meetings. Once elected, the first meeting of a newly elected Council must take place on the first Tuesday of July following the Council's election.

This bill would change the date of the first meeting of the newly elected City Council members to the second Tuesday of July following their election, or at the first scheduled regular or special meeting of the City Council in July, whichever occurs first.

Revenue Bonds

Under the current charter, the City Council is authorized to issue negotiable general obligation bonds or notes for the purpose of financing all or part of the cost of any capital improvement project. A general obligation bond is issued under the same procedure as the passage of any other ordinance, except that it requires a 2/3 vote of the entire Council for adoption. Once adopted by the Council, there must be a special election of the qualified voters of the City, and if a majority of those voting approves the ordinance, it will take effect.

The current charter also authorizes the City to construct, acquire, repair, improve, extend and operate water systems, sewer systems, gas systems, electric systems, and public parking systems, and to issue revenue bonds to be paid for from the revenues derived from these systems. Currently, the revenue bonds must be issued under the same process as the general obligation bonds, upon a 2/3 vote of the entire Council and a special election of qualified voters of the City.

This bill would remove the referendum requirement applicable to revenue bonds. The bill would also require that revenue bonds be authorized, executed and sold, as provided under general law, specifically the provisions of the Virginia Public Finance Act of 1991.

The effective date of this bill is not specified.

Similar Bills

House Bill 1742 is identical to this bill.

House Bill 1451 would authorize Madison County (like Rappahannock County) to levy a combined transient occupancy and food and beverage tax on the aggregate charges for rooms and meals in bed and breakfast establishments when such charges are not separately stated.

House Bill 1452 would add Madison County to the list of localities that are currently authorized to impose a transient occupancy tax at a maximum rate of five percent. Revenues from the portion of the tax in excess of two percent would be required to be used solely for tourism or marketing of tourism.

House Bill 1467 would add Accomack County to the list of localities that are currently authorized to impose a transient occupancy tax at a maximum rate of five percent. Revenues from the portion of the tax in excess of two percent would be required to be used solely for tourism or marketing of tourism.

House Bill 1513 and **Senate Bill 980** (*identical*) would extend the sunset date for the additional transient occupancy tax in Arlington County from January 1, 2012 to January 1, 2015.

House Bill 1711 and **Senate Bill 984** (*identical*) would add Brunswick County to the list of localities that are currently authorized to impose a transient occupancy tax a maximum rate of five percent. Revenues from the portion of the tax in excess of two percent would be required to be used solely for tourism or marketing of tourism.

Senate Bill 743 and **House Bill 1634** (*identical*) would add Washington County to the list of localities that are currently authorized to impose a transient occupancy tax at a maximum rate of five percent. Revenues from the portion of the tax in excess of two percent would be required to be used solely for tourism or marketing of tourism.

cc : Secretary of Finance

Date: 1/22/2011 KP

DLAS File Name: SB847F161