DEPARTMENT OF TAXATION
2015 Fiscal Impact Statement

1. Patron Thomas K. Norment, Jr.

2. Bill Number SB 1401

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 increase the entitlement to state sales and use tax revenues for authorized tourism projects that meet the requirements to be tourism projects of regional significance from an amount equal to the revenues generated by a one percent sales and use tax on transactions taking place on the premises of the project to an amount equal to the revenues generated by a 1.75 percent sales and use tax. In order for the tourism project to qualify for the entitlement, the locality would be required to enact an ordinance dedicating an amount equal to the revenues generated by a one percent sales and use tax on transactions taking place on the premises of the project. The owner of a tourism project of regional significance would be required to pay an access fee equal to the revenues generated by a one percent sales and use tax on transactions taking place on the premises of the project. Tourism projects of regional significance would be defined as authorized tourism projects that represent a new capital investment by a private entity of at least $100 million and is determined by the Virginia Tourism Authority to i) support increased hotel occupancy, ii) new job creation, iii) an increase in the number of out-of-state visitors to the Commonwealth, or iv) other factors of significant fiscal and economic impact. No project that is majority retail in nature would qualify for the increased entitlement to sales and use tax revenues.

Under current law, a locality may enact an ordinance dedicating at least an amount equal to the revenues generated by a one percent local sales and use tax 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 may qualify for an entitlement to an amount equal to the revenues generated by a one percent state sales and use tax on transactions taking place on the premises of the tourism project from 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 equal to the revenues generated by a one percent state sales and use tax on transactions taking place on the premises of the tourism project.

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:**

Administrative Costs

The Department of Taxation ("the Department") has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, the Department considers implementation of this bill as "routine," and does not require additional funding.

The Department will provide specific administrative costs on any legislation that is not "routine." Additionally, the Department will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, the Department will identify the costs at that time.

Revenue Impact

The magnitude of the revenue loss associated with this bill is unknown as it is dependent on the construction of and financing for authorized tourism projects that meet the requirements of a tourism project of regional significance. To the extent that future tourism projects would be considered tourism projects of regional significance, passage of this bill would result in an increase of transfers of General Fund revenue 75 percent higher than the amount currently prescribed by law for payment of the gap financing. This bill would have no impact on local revenues.

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.

Authorized Tourism Projects

Currently, a locality that has established a tourism plan as determined by guidelines established 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 an amount of local tax revenues equal to the revenues generated by a one percent local sales and use tax 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 one percent state sales and use tax on transactions taking place on the premises of the tourism project from 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 increase the entitlement to state sales and use tax revenues for authorized tourism projects that meet the requirements to be tourism projects of regional significance from an amount equal to the revenues generated by a one percent sales and use tax on transactions taking place on the premises of the project to an amount equal to the revenues generated by a 1.75 percent sales and use tax. In order for the tourism project to qualify for the entitlement, the locality would be required to enact an ordinance dedicating an amount equal to the revenues generated by a one percent sales and use tax on transactions taking place on the premises of the project. The owner of a tourism project of regional significance would be required to pay an access fee equal to the revenues generated by a one percent sales and use tax on transactions taking place on the premises of the project. Tourism projects of regional significance would be defined as authorized tourism projects that represent a new capital investment by a private entity of at least $100 million and is determined by the Virginia Tourism Authority to i) support increased hotel occupancy, ii) new job creation, iii) an increase in the number of out-of-state visitors to the Commonwealth, or iv) other factors of significant fiscal and economic impact. No project that is majority retail in nature would qualify for the increased entitlement to sales and use tax revenues.

The effective date of this bill is not specified.

Similar Legislation

House Bill 1756 and **Senate Bill 975** would lower the threshold of financing from 80 percent to 70 percent that an authorized tourism project must have in place before qualifying for an entitlement to sales and use tax revenues to repay the gap financing necessary to complete the project.

cc : Secretary of Finance

Date: 2/2/2015 AM
DLAS File Name: SB1401F161