DEPARTMENT OF TAXATION
2016 Fiscal Impact Statement

1. Patron Barry D. Knight

2. Bill Number HB 138
House of Origin:
_____ **Introduced**
_____ **Substitute**
_____ **Engrossed**

3. Committee Senate Finance

4. Title Virginia Beach Arena; Extension of Retail Sales and Use Tax Entitlement

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

5. Summary/Purpose:

This bill would extend from July 1, 2043 to July 1, 2050 the expiration date for a contingent provision in the law granting the City of Virginia Beach the authority to issue bonds to, construct, operate, and receive a portion of sales tax revenues generated by a qualifying sports arena, conference center, or entertainment center proposed in the City of Virginia Beach.

Under current law, the City of Virginia Beach is authorized to contract for the construction, development, or maintenance of, and regulate the use and operation of a qualifying sports arena or conference center proposed in the City. The City is also entitled to receive a portion of state sales and use tax revenues generated as a result of the construction and operation of the facility. The entitlement, bond authority, and all other authority granted to the City of Virginia Beach related to this facility will expire on January 1, 2018, if the City has not: 1) executed a lease with a NHL or NBA team; 2) issued bonds for an entertainment or conference arena; or 3) entered into a contract for the construction, development, operation or maintenance of the facility. If the City has met one of these three requirements by the January 1, 2018 deadline, then the City's authority will expire on the earliest of 1) the maturity date of bonds issued by the City or its Development Authority; 2) the expiration of the City's or Authority's contractual obligations for the construction, development, operation or maintenance of the facility; or 3) July 1, 2043.

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:

Legislation enacted in 2013 authorizes the City of Virginia Beach to a portion of the sales tax revenues generated by the construction and operation of a qualifying NBA or NHL sports arena, or qualifying conference center. It is not known whether a qualifying facility

will be built, and if built, the amount of the Retail Sales and Use Tax entitlement. As this bill would extend the time period in which sales and use tax revenues may be transferred to the City of Virginia Beach pursuant to the entitlement, this bill would extend the length of time that there would be an unknown negative impact on state tax revenues if the Arena is built and qualifies for the entitlement.

9. Specific agency or political subdivisions affected:

City of Virginia Beach
Department of Accounts
Department of Taxation
Department of Treasury

10. Technical amendment necessary: No.

11. Other comments:

Background

Legislation enacted in 2013 and 2014 grant the City of Virginia Beach a number of powers in order to facilitate the construction and operation of a qualifying NBA or NHL arena, conference center, or entertainment center in Virginia Beach. Specifically, the City may develop, establish, construct, erect, repair, remodel maintain, and operate the applicable facility; issue bonds to fund the facility; charge and collect fees, surcharges, etc., for use of the facilities; create and utilize an Arena Financing Fund to pay expenses and pledge the payment of debt service; and carry out all other activities necessary or convenient for funding, operating, and maintaining the facility. The City must provide a written report to the General Assembly prior to acquiring or entering into a lease or a construction contract involving a facility site, and provide copies to the State Treasurer of all documents relating to the issuance of any bonds.

Virginia Beach Arena Sales Tax Entitlement

The 2013 and 2014 legislation also grant the City of Virginia Beach the 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 a NHL or NBA team or for the purpose of holding conferences and entertainment events. In addition to the arena or conference facility, the City will be entitled to a portion of the sales tax revenues generated in franchise offices, restaurants, concessions, retail, and lodging facilities owned and operated adjacent to the arena or other structure, parking lots, garages, and any other directly related properties, provided these facilities are both appurtenant to and directly or indirectly benefited by the arena. Sales and use tax revenues include all tax revenues collected from the sales and use tax generated by transactions that take place on the premises of the arena or facility, as well as revenue generated in connection with the development and construction of the facility or arena. Sales and use tax revenues also include any transactions that occur on the premises of a temporary facility in connection with games or other activities of a sports franchise conducted at the temporary facility. The City must use the sales tax entitlement revenues for the payment of debt service or to meet contractual obligations related to the facility. The Tax Commissioner

must provide an annual report by July 1 to the Chairmen of the Senate and House Finance Committees and the House Appropriations Committee that provides the amount of the sales tax entitlement if the City has executed a lease with an NBA or NHL team.

Expiration Provisions

The entitlement, bond authority, and all other authority granted pursuant to the 2013 and 2014 legislation will expire on January 1, 2018, if the City has not: 1) executed a lease with a NHL or NBA team; 2) issued bonds for an entertainment or conference arena; or 3) entered into a contract for the construction, development, operation or maintenance of the facility. If the City has met one of these three requirements by the January 1, 2018 deadline, then the authority will expire on the earliest of 1) the maturity date of bonds issued by the City or its Development Authority; 2) the expiration of the City's or Authority's contractual obligations for the construction, development, operation or maintenance of the facility; or 3) July 1, 2043.

Proposal

This bill would extend from July 1, 2043 to July 1, 2050 the expiration date for the contingent provision in the law granting the City of Virginia Beach the authority to issue bonds for, construct, operate, and receive a portion of sales tax revenues generated by a qualifying sports arena, conference center, or entertainment center proposed in the City of Virginia Beach.

The effective date of this bill is not specified.

Similar Legislation

Senate Bill 642 is identical to this bill.

cc : Secretary of Finance

Date: 2/9/2016 KP
DLAS File Name: HB138FE161