Tourism Development Financing Program Update

City Council Briefing by Douglas L. Smith
November 3, 2015
Presentation Overview

• Program Purpose

• Current Virginia Beach policy

• New General Assembly enabling Legislation

• Policy Considerations

• Recommendation
Tourism Development Financing Program (TDFP)

Purpose

• Mechanism whereby Virginia cities can provide project generated annual sales tax remittances for private sector debt service to close a desirable project’s financial gap

• Ensures projects fill tourism voids

• Creates partnership between developers, localities, financial institutions, and the state

(Section 58.1-3851.1 and 58.1-3851.2)
Adopted March 13, 2012

Project Requirements:
- Capital investment ≥ $30 million
- Taxable sales ≥ $1 million annually
- Increases year-round employment
- Fills a tourism void
- Located in the tourism zone
- Proven private financing gap
- Avoids additional public investment
Current TDFP City Ordinance and Plans

• A tourism zone has been established in the Resort Strategic Growth Area

• Tourism voids are identified in the Resort Area Strategic Action Plan (RASAP)
TDFP Policy Process
(Adopted March 13, 2012)

• Developer submits an application.

• Staff reviews, including fiscal and economic impact and application requirements, etc.

• City Council and the Development Authority (VBDA) are briefed.

• A project endorsement ordinance is prepared dedicating 1% of the sales tax generated by the project.

• If approved by City Council, the project application is submitted to the Virginia Tourism Corporation (VTC) for approval.

• The VBDA and developer execute a performance agreement.
Localities and TDFP

**Virginia Beach**
- Cavalier Hotel
- Project cost: $145 million

**Fredericksburg**
- Hyatt Place Hotel
- Project cost: $13 million

**Newport News**
- City Center retail/restaurants
- Project cost: $22 million

**Norfolk**
- Hilton Hotel (The Main)
- Project cost: $77 million
Current TDFP City Ordinance

• TDFP compensates for a financing gap not to exceed 20% of the project cost

• Each TDFP partner contributes an amount equal to 1% of the general sales tax generated by the project
Gap Financing Cash Flow

- **Commercial Bank**
  - Private Sector Debt
- **Developer**
  - 80% Debt and Equity Qualification
- **Virginia Beach Development Authority**
  - 1% Developer Access Fee
- **City of Virginia Beach**
  - 1% City Tax Revenue
- **Commonwealth of Virginia (State)**
  - 1% State Tax Revenue

**Flowchart Diagram:**
- Revenue Redirect
- State Tax Revenues
- City Sales Tax Revenues
- 1% Sales Tax
New General Assembly

Tier 1:
- The TDFP maximum financing gap threshold can be increased to **30%, with 1% dedicated sales tax**

Tier 2:
- Adheres to §58.1-3851.1 *(Tier 1)*
- A tourism project of **regional significance**
- Project cost > $100 million
- **TDFP maximum Financing gap is 20%, with 1½% deducted sales tax**
- *Excludes* retail outlets
- The *Virginia Tourism Corporation* determines if:
  - Hotel occupancy increases
  - New jobs are created
  - Project lures out-of-state visitors
  - Significant fiscal and economic impact is generated
Considerations

• Oceanfront development is expensive
  o poured in place concrete
  o high rise
  o all rooms facing oceanfront
  o structured parking
• Cost of redevelopment limits motivation, reinvestment is good for whole beach
• Assembling parcels is difficult and expensive
• Franchise affiliation is important driver in attracting higher income demographic
• “B” market makes hotel financing hard
• access to State money and developer fee
City Policy Considerations

• Current Policy
  o Project Requirements:
    • Capital investment ≥ $30 million
    • Taxable sales ≥ $1 million annually
    • Increases year-round employment
    • Fills a tourism void
    • Located in the tourism zone
    • Proven private financing gap
    • Avoids prohibitive additional public investment

• Increase gap threshold on projects <$100m to 30% with hurdles
  o $30M to $50M project – stay with 20%
  o > $50M project cost – allow 30% with some of the following criteria
    • Creates significant jobs, > 50 FTE
    • Redevelopment
    • Premium Flag and/or fills a brand gap

• Amend program for > $100M but be very deliberate with use, because we must find the additional 0.5%
Staff Recommendations

Amend the current City policy to include State Code Changes in order for desirable projects meeting City policy and VTC guidelines to potentially take advantage of newly adopted financing limits.
Next Steps

If Council concurs with recommendations:

• A policy amendment will be drafted

• An ordinance will be prepared

• Both can be presented to City Council for adoption on 11/17/15
Discussion