Virginia's Tourism Development Financing Program Gains Steam Around the State

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The unique financing alternative afforded to tourism project developers under Virginia Code Section 58.1-3851.1 creates exciting opportunities for growth in tourism and resort areas throughout the state. The expected development costs for tourism projects often exceed the debt and equity capital available through traditional financing techniques, leaving a ?financial gap? between available debt and equity and expected costs. The Tourism Development Financing Program (?TDFP?) targets that gap, having been designed to compensate for these shortfalls in tourism project financing. In conjunction with the Virginia Tourism Corporation, the Virginia Resources Authority, and the locality?s economic development authority, developers can qualify for receipt of tax revenues that are then used to pay down the gap portion of project debt. This valuable program often provides much needed additional capital to tourism projects that might not otherwise move forward because of such a gap in project financing.

As an initial step, the locality in which the project will be located must adopt a tourism plan and establish a tourism zone. The Virginia Tourism Corporation reports that many localities throughout the Commonwealth have already established tourism zones including, but not limited to, the cities of Fredericksburg, Newport News, Norfolk and Virginia Beach and the counties of Fauquier, James City and Rockbridge.

A qualified project must be located in an established tourism zone and must fill a void or deficiency identified in the locality?s adopted tourism plan. Depending on the locality, such voids or deficiencies may include additional high-end hotels, targeted mixed use space, promotion of housing in a certain area and the creation of public spaces. For projects under $100,000,000, the developer must show evidence of committed financing for at least 70% of the project?s total costs. For projects of regional significance over $100,000,000, the developer must provide evidence of committed financing for at least 80% of the project?s total cost. Accordingly, the gap financing can cover up to 30% of the project costs (and up to 20% of the project costs for projects of regional significance over $100,000,000.). Each of the locality, its economic development authority, the state tourism department and the state comptroller must authorize the specific project and allocation of the tax revenues.

Once an approved project is completed and generating income, the debt service on the gap financing is paid down through three separate streams of revenue. Each of the state, the locality and the developer contributes an equal amount. Each of the state and the locality contributes an amount equal to the revenues generated by a 1% state sales and use tax and a 1% local sales and use tax, respectively, on transactions taking place on the project premises, and the developer pays an access fee in an amount equal to the revenues generated by the 1% state sales and use tax. In sum, although the debt is owned exclusively by the developer, the state and the locality make payments to the gap financing debt service. To the extent that the tax entitlements and developer access fee exceed the gap financing debt service, the excess money is applied to principal.

The assistance provided by this gap financing can have a tremendous impact on project development. For example, imagine a hotel project that, in its first quarter, generates $1,000,000.00 in revenues from transactions taking place on the project premises. A one-percent state sales and use tax will generate $10,000.00 in revenue. That $10,000.00 ?state tax? revenue will be matched by the state and by the developer, which means the total payment made in the first quarter alone toward principal and interest on the gap financing will be $30,000.00.

The TDFP is relatively new and is still evolving, but the Virginia Tourism Corporation reports that localities and developers throughout the state are realizing the benefits associated with the TDFP and that developments utilizing the TDFP in Fredericksburg, Waynesboro and Spotsylvania County have seen job creation, hundreds of thousands of dollars in local capital investments and growth of tourism- and travel-related revenue and also reports that successful TDFP applicants include the Hampton Roads cities of Newport News, Norfolk and Virginia Beach. Again, however, a successful TDFP project requires coordination among the developer, the locality, the state and the gap financer, so financers and developers alike should not go it alone. Experienced legal counsel can help bring a TDFP project from concept to completion more smoothly.

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