A Gap Financing Program Filling Tourism Deficiencies In Virginia Communities

1. Are local experiences and attractions creating a high, visitor demand?
2. What local products do you lack to meet this visitor demand?

- TDFP is not a subsidized grant or up-front investment fund
- Much like TIF (Tax Incremental Financing,) TDFP is a program where a project acquires all the lending it needs, in advance, to complete the construction of the project
- Once open and generating revenue, a Locality, the Developer and the State divert and contribute future sales tax revenues towards the Developer’s debt with the Lender
- TDFP Certification must be granted before the project begins construction

The following document provides a TDFP overview covering:
* First point of contact is the Locality’s EDO

THE PARTNERS
The roles of each partner – Locality, a Developer and the State – in applying for TDFP

THE DEFICIENCY
Before projects are identified – what product and experiences a Locality lacks, to meet current, high visitor demand

THE PROJECT
The type and scope of the project – its capital investment, job creation, annual gross and tax revenue

THE FINANCING
How gap financing works – partners remitting, quarterly, a percentage of sales tax collected from the project

THE PROCESS
How a locality applies for TDFP – the process, requirements, timeline and final project certification
THE PARTNERS

LOCALITY — A local Economic Development Organization (EDO/EDA/EDP) is the Applicant
— First identifies & proves a tourism Deficiency based on current research and planning
— The EDO works to first educate, then get approval from the municipality to proceed with TDFP

DEVELOPER — Provides research via a current market study
— The study demonstrates the project fills a Deficiency in meeting current, high, visitor demand
— It provides the crucial data proving their project fills the Locality’s Deficiency

LENDER — If a gap occurs in available funding, the Developer secures all lending to complete the project
— The gap Lender agrees to fund the gap financing of the projects
— The Lender also agrees to the TDFP debt-service model fulfilling the gap funding debt service

DEBT SERVICE — Locality, Developer & State agree to pay an amount equal to a % of the project’s quarterly revenue
— This is based on the tier = Tier 1 = 1% | Tier 2 = 1.5% | Tier 3 = 2%
— Much like TIF (Tax Incremental Financing,) TDFP is a program where a project acquires all the lending it needs, in advance, to complete the construction of the project

THE DEFICIENCY

Identifying & Proving Tourism Deficiency
— Is there a sector of local tourism activity in your area which has reached such high demand, that current tourism product cannot meet?
— Do you track current visitor engagement and spending?
— Do you have research benchmarking and tracking traveler visitation, activity and visitor spending?
  o Community Comprehensive Plans
  o Tourism Development Plans and Tourism Marketing Plans
  o Market and Feasibility Studies

If you’ve answered YES to these questions, then the TDFP may be a consideration for your community
Is there a Deficiency in satisfying current visitor demand in your community?

1. What tourism segments [Spokes] are driving unprecedented visitation in your locality [Hub]?

2. What traveler engagement and spending are you tracking to document this high visitor demand?

3. Does your traveler data and research adequately illustrate the deficiency in product needed?
THE PROJECT

Potentially Eligible

- Projects which potentially fill a local Deficiency are primarily large-scale and boutique, high-end lodging
- The quantity and revenue from these room nights create the revenue necessary to satisfy the quarterly revenue substantial enough to attract a Lender and contribute to gap financing
- Limited retail such as gift or specialty shop directly part of and related to the project can be included
- Sports fields with an adequate revenue from fields, courts and meeting spaces to rent and may be considered
- A dining district or collection of restaurants owned by the same Developer can be considered

Not Eligible

- All projects filling a local Deficiency must generate sales and use tax
- Thus, projects with admissions tax are not eligible
- It precludes individual lodging homes and restaurants creating limited revenue
- Examples of these types of businesses are:
  - Ticket and admissions-based projects
  - Theme, adventure and water parks
  - Music and performance venues
  - Museums and attraction-based experiences
- Retail shopping outlets, ancillary retail structures not directly related to the tourism purpose of the project or other retail establishments commonly referred to as shopping centers or malls
- Residential condominiums, town homes or other residential units
- Any revenue from surrounding businesses – only revenue directly from the specific project

TDFP Certified Projects *as of July 1, 2022*

<table>
<thead>
<tr>
<th>Certified Projects</th>
<th>% Gap Used</th>
<th>Capital Investment</th>
<th>Local Tax Revenue</th>
<th>Jobs</th>
<th>FTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hyatt Place Hotel – Fredericksburg</td>
<td>7.7%</td>
<td>14,900,000</td>
<td>$327,000</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>City Center at Oyster Point – Newport News</td>
<td>17.3%</td>
<td>22,000,000</td>
<td>$2,200,000</td>
<td>250</td>
<td></td>
</tr>
<tr>
<td>Cavalier Hotel &amp; Oceanfront Resorts – VA Beach</td>
<td>9.9%</td>
<td>247,500,000</td>
<td>3,500,000</td>
<td>350</td>
<td></td>
</tr>
<tr>
<td>The MAIN</td>
<td>Hilton Hotel – Norfolk</td>
<td>9.4%</td>
<td>71,700,000</td>
<td>2,000,000</td>
<td>250</td>
</tr>
<tr>
<td>Hotel Weyanoke – Farmville</td>
<td>22.5%</td>
<td>12,200,000</td>
<td>$516,280</td>
<td>76</td>
<td></td>
</tr>
<tr>
<td>Element Hotel – Hampton</td>
<td>10.5%</td>
<td>17,000,000</td>
<td>$234,025</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Tru Hotel – Manassas</td>
<td>10.8%</td>
<td>13,900,000</td>
<td>$369,000</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Sessions Hotel – Bristol</td>
<td>19.8%</td>
<td>20,345,667</td>
<td>$556,019</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td>Boutique Hotel – NOVA *announced at grand opening</td>
<td>9.0%</td>
<td>69,600,000</td>
<td>$451,506</td>
<td>111</td>
<td></td>
</tr>
</tbody>
</table>

Results

- $495,145,667
- $10,253,830
- 1,209
THE FINANCING  | (3) Tiers

- Based on the tier of the project, each partner (quarterly) contributes an amount equal to the percentage of (a particular tier’s) quarterly revenue generated from the project.
- The State remits its quarterly contribution from its sales and use tax collected from the project.
- The Developer and Locality may do the same, or find their contributions from different sources.
- This is based on the tier of the project.

### Tourism Projects

**< $100 million**

<table>
<thead>
<tr>
<th>Tier</th>
<th>Secured Financing</th>
<th>Developer</th>
<th>Gap Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>70%</td>
<td>30%</td>
<td>developer: 1/3, locality: 1/3, state: 1/3</td>
</tr>
</tbody>
</table>

*Each partner pays a (quarterly) sales tax remittance = 1% of the project’s quarterly revenue*

**$100 million +**

<table>
<thead>
<tr>
<th>Tier</th>
<th>Secured Financing</th>
<th>Developer</th>
<th>Gap Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>80%</td>
<td>20%</td>
<td>developer: 1/3, locality: 1/3, state: 1/3</td>
</tr>
</tbody>
</table>

*Each partner pays a (quarterly) sales tax remittance = 1.5% of the project’s quarterly revenue*

**$500 million +**

<table>
<thead>
<tr>
<th>Tier</th>
<th>Secured Financing</th>
<th>Developer</th>
<th>Gap Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>70%</td>
<td>30%</td>
<td>developer: 1/3, locality: 1/3, state: 1/3</td>
</tr>
</tbody>
</table>

*Each partner pays a (quarterly) sales tax remittance = 2% of the project’s quarterly revenue*

*Major Tourism Projects*  
*500 Job Minimum*
THE FINANCING | Quarterly Payments

- *The Locality, Developer & State* each agree to pay an amount equal to a % of the project's quarterly revenue
- This is based on the tier = Tier 1 = 1% | Tier 2 = 1.5% | Tier 3 = 2%
- This same process is repeated each quarter until debt service on the gap lending is complete

Once the project has received certification:

- Once the project is open for business and generating revenue, the Tax Commissioner’s office will work with the Locality to identify the amount of revenue generated from the project quarterly
- The appropriate percentage of that revenue is identified, and the State’s portion is remitted to the Locality
- This is done quarterly, based on this approximate schedule:
  - Quarterly Sales and Use Tax #1 » Identified in **February** Payment made in **March**
  - Quarterly Sales and Use Tax #2 » Identified in **May** Payment made in **June**
  - Quarterly Sales and Use Tax #3 » Identified in **August** Payment made in **September**
  - Quarterly Sales and Use Tax #4 » Identified in **November** Payment made in **December**

- The Locality and Developer set up a primary account where all partner’s funds are collected
- The Locality then confirms collection of the Developer’s contribution (access fee), the State’s contribution and the Locality’s contribution and confirms payment to the Lender
- This continues quarterly and throughout the years until debt service on the gap lending is complete

**Tier 1**

**EXAMPLE: Quarterly Payments**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Quarterly Hotel Revenue</th>
<th>%</th>
<th>Quarterly Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Quarter</td>
<td>$1,000,000</td>
<td>1%</td>
<td>$30,000</td>
</tr>
<tr>
<td>2nd Quarter</td>
<td>$1,500,000</td>
<td></td>
<td>$45,000</td>
</tr>
<tr>
<td>3rd Quarter</td>
<td>$750,000</td>
<td></td>
<td>$22,500</td>
</tr>
<tr>
<td>4th Quarter</td>
<td>$1,000,000</td>
<td></td>
<td>$30,000</td>
</tr>
</tbody>
</table>

**Yearly** $4,250,000 = $127,000

*Three partners’ annual, combined debt service*
THE PROCESS

- Below is a brief outline for an Applicant / Locality to apply for TDFP | Gap Financing certification
- These (10) steps must be completed in order
- An application is only complete once Steps ❶ - ❽ have been completed, in order

1. LOCAL TOURISM INVESTMENT + SUBSTANTIATE DEFICIENCY
   - Locality (Applicant) shares current tourism investment in staff, infrastructure, development & marketing
   - The Locality submits local Comprehensive Community Plans, Community Development Plans & Market Studies explicitly identifying & substantiating a tourism Deficiency in their local, tourism economy

2. IDENTIFY PROJECT + SUBMIT TOURISM DEVELOPMENT PLAN
   - The Locality identifies a Developer & Project filling the Deficiency
   - The Locality completes VTC’s Tourism Development Plan
   - The Developer submits a Letter of Need stating that but for the TDFP, the project cannot proceed with its current funding

3. DEFICIENCY & PROJECT REVIEW
   - Initial review of data and research collected with (3) outcomes:
     1. The Deficiency is not met, and not eligible for TDFP
     2. There are areas of improvement before reviewing again
     3. Deficiency is met, and the project can proceed with applying

4. VERIFY FINANCING + FINALIZE PERFORMANCE AGREEMENT
   - Work with Virginia Resources Authority to verify committed financing, debt structuring & gap reimbursement
   - The Developer is sole owner of all debt with Lenders and secures all financing, including the gap financing, prior to applying for TDFP gap financing

5. CREATE & VERIFY TOURISM ZONE ORDINANCE
   - Pass a Local Ordinance creating a Tourism Zone in which the project’s footprint must be located
   - Must be completed AFTER Steps ❶ through ❷ + reviewed by VTC

6. ADOPT A PROJECT ORDINANCE
   - Pass a Local Ordinance adopting Steps ❶ through ❹
   - Including specific project by name & commitment to financing
   - The Final Application is collection of all completed documentation

7. PAY APPLICATION FEE
   - Submit $500 application & processing fee (Developer or Locality)
   - Only when Steps (1) through (6) are deemed complete by VTC is considered the “completed application”

8. APPLICATION REVIEW BY STATE COMPTROLLER
   - The State Comptroller reviews Final Application
   - Review period, including possible requests for more data
   - Sends Certification Letter if certification is approved

9. ANNOUNCE TDFP CERTIFICATION
   - VTC coordinates with Locality a Media Release from the Governor’s + Announcement Event if requested
   - VTC provides Locality with VA Dept. of Tax Contact to arrange partner payments for duration of financing debt

10. DEBT SERVICE > After business opening
Tourism Development Plan

- The Tourism Development Plan supplied by VTC is completed and submitted to VTC for an initial review.
- The application process cannot proceed until this is completed and reviewed by VTC.
- This eight page document collects key Deficiency and Project information including: the Locality’s tourism infrastructure, assets, attributes, strengths and weaknesses, unique experiences and out-of-state competition.
- It also includes submitting a copy of the Locality’s current Tourism Marketing Plan.
Performance Agreement

Locality/Applicants interested in applying for TDFP must enter into Performance Agreement with the Developer.

A Developer should structure their project debt and equity financing, and enter into a Performance Agreement with the appropriate political subdivision in the Locality and confirm they will pay an access “fee equal” to a specific tier’s percent of the sales tax revenue generated and returned to the tourism project.

- The performance agreement is between the economic development authority or other appropriate political subdivision in the Locality where the tourism project will be located and the project Developer.
- It states that the tourism project Developer will pay an “access fee” equal to specific tier’s percent of the sales tax revenue generated and returned to the tourism project.
- It specifies that the access fee, plus the returned sales taxes will be used to pay annual debt service on the gap funding until such debt is paid in full.
- It provides for the Locality in which the project is located to notify the State Comptroller and the Department of Taxation when the taxes are no longer subject to being remitted.
- Once the developed project is generating revenue, the Tax Commissioner certifies on a quarterly basis the amount of entitled sales tax revenues to the State Comptroller. The State Comptroller remits the tax revenue to the Locality; the Locality’s Treasurer remits them to their Economic Development Office or other appropriate political subdivision.
- The agreement must include and explicitly state the following:
  
  In the event that the total amount of sales tax entitlement and the access fee exceeds any annual debt service on the qualified gap financing, such excess shall be paid to the principal of the loan until the qualified gap financing is paid in full.

Verification of at least 70% Funding of Tourism Project through Debt or Equity

- Plan of Finance
  - a short half-page description of how the project will be financed
  - substantiates the sources of funding
- Sources and Uses of Funds
  Minimum of Tier-specified percentage (70% or 80%) of the financial package is in place
  - Term Sheets
  - Commitments
  - Loan agreement drafts

For more information on step 4 Verifying the Financing + Finalizing the Performance Agreement, please contact:

Shawn B. Crumlish
Executive Director
Virginia Resources Authority
1111 East Main Street, Suite 1920, Richmond, VA 23219
(804) 616 3445 | scrumlish@VirginiaResources.org
Sources + Uses of Funds

When submitting the final financing, the following sources and uses of funds will need to be identified and reviewed with VRA [Virginia Resources Authority]

Sources and Uses of Funds

Sources of Funds:

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Source 1</td>
<td>$ ___</td>
</tr>
<tr>
<td>Equity Source 2</td>
<td>$ ___</td>
</tr>
<tr>
<td>Debt Financing Source 3</td>
<td>$ ___</td>
</tr>
<tr>
<td>Debt Financing Source 4</td>
<td>$ ___</td>
</tr>
<tr>
<td>Gap Financing Source 5</td>
<td>$ ___</td>
</tr>
<tr>
<td>Total Source of Funds</td>
<td>$ ___</td>
</tr>
</tbody>
</table>

Use of Funds:

<table>
<thead>
<tr>
<th>Use of Funds</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of Funds 1</td>
<td>$ ___</td>
</tr>
<tr>
<td>Use of Funds 2</td>
<td>$ ___</td>
</tr>
<tr>
<td>Use of Funds 3</td>
<td>$ ___</td>
</tr>
<tr>
<td>Use of Funds 4</td>
<td>$ ___</td>
</tr>
<tr>
<td>Use of Funds 5</td>
<td>$ ___</td>
</tr>
<tr>
<td>Total Use of Funds (Total Project Cost):</td>
<td>$ ___</td>
</tr>
</tbody>
</table>

Total Debt and Equity Sources of Funds: $ ___
Total Use of Funds (Total Project Cost): $ ___
Debt and Equity Sources / Project Cost $ ___
Establishing a Tourism Zone

Found online at ‒› www.VATC.org/tourismzones

Localities interested in pursuing the Commonwealth of Virginia Tourism Development Financing Program will need to have a defined tourism zone(s) within which the proposed project is contained. Virginia cities, counties, or towns can currently establish such tourism zones as allowed for in the Code of Virginia. Interested localities are encouraged to begin development of the required tourism zones.

§ 58.1-3851. Creation of local tourism zones

A. Any city, county, or town may establish, by ordinance, one or more tourism zones. Each locality may grant tax incentives and provide certain regulatory flexibility in a tourism zone.

B. The tax incentives may be provided for up to 20 years and may include, but not be limited to (i) reduction of permit fees, (ii) reduction of user fees, and (iii) reduction of any type of gross receipts tax. The extent and duration of such incentive proposals shall conform to the requirements of the Constitutions of Virginia and of the United States.

C. The governing body may also provide for regulatory flexibility in such zone that may include, but not be limited to (i) special zoning for the district, (ii) permit process reform, (iii) exemption from ordinances, excluding ordinances or provisions of ordinances adopted pursuant to the requirements of the Chesapeake Bay Preservation Act (§ 10.1-2100 et seq.), the Erosion and Sediment Control Law (§ 10.1-560 et seq.), or the Virginia Stormwater Management Act (§ 10.1-603.1 et seq.), and (iv) any other incentive adopted by ordinance, which shall be binding upon the locality for a period of up to 10 years.

D. The establishment of a tourism zone shall not preclude the area from also being designated as an enterprise zone.

Tourism Zone Specifics

- Virginia localities can establish a Tourism Zone independent of the TDFP program
- Tourism Zones are passed by local ordinance and contain both requirements and benefits for existing and new tourism businesses, including lodging, dining, retail, meeting and sports facilities, outdoor recreation areas, theme parks and event venues.
- Localities can create a new Tourism Zone during the TDFP application process if one does not exist
- Much like traditional business enterprise zone, a tourism zone allows for businesses to take advantage of state and local tax credits and deductions not available to businesses elsewhere. The goal of the incentives is to stimulate business attraction, growth, and increased employment opportunities within economically challenged areas of a Locality. This can include, but is not limited: hiring credits, sales & use tax credits, expense and interest deductions, discount utilities hook-up and payment plans, sewer facility hookup payment plans and reduced parking requirements
- Any city, county, or town may establish, by ordinance, one or more tourism zones
- Each Locality may grant tax incentives and provide certain regulatory flexibility in a tourism zone
Tourism Zone Specifics ... continued

In Virginia, tax incentives may be provided for up to 20 years and may include, but are not limited to:
- Reduction of permit fees
- Reduction of user fees
- Reduction of any type of gross receipts tax
- The extent and duration of such incentive proposals shall conform to the requirements of the Constitutions of Virginia and of the United States

A governing body may also provide for regulatory flexibility in such zone that may include, but not be limited to:
- Special zoning for the district
- Permit process reform
- Exemption from some ordinances, excluding ordinances or provisions adopted pursuant to the Chesapeake Bay Preservation Act, Erosion & Sediment Control Law and the VA Storm water Management Act
- Other incentive adopted by ordinance, which shall be binding upon the Locality for a period of up to 10 years

Tourism Zone Considerations
Factors when considering the opportunity and impact of tourism zones
- Pre-existing enterprise or business development zones
- Different and multiple zones can overlap, and not share requirements and benefits
- The level and nature of adjoining development projects
- Any relevant local planning policy, legislation, state planning policies and development control regulations
- Preparation, advertising, adoption and implementation tourism zones, in relation to local community and business development plans
- Any tourism development zone fundamentals including the use of land, including the extent of preservation, further development, land use
- Density or proximity of any residential developments within a tourism zone
- Tourist center and Locality-wide services and operations
- Any new types or quantities of merchandise or goods to be stored, processed, produced or sold
- Personal safety and security in streets and around buildings or new business development
- Strategic importance for the tourist industry is for local residence and out-of-town tourists
- Balance with local transportation without restricting access and use of tourist attractions
- Tourists visit places for a variety of purposes which do not include work or a permanent home
- Effectiveness of travel, retail and hospitality signage
- Control the service of alcohol so as not to adversely impact on residents or the community
- Storm water drainage details including design levels and erosion control at outlets
- Access to non-emergency and emergency health care needs of visitors
- Diverse lodging development and needs, in relations to residential nearby
**Tourism Zone Examples**

The level of incentives is determined based on the size of the capital investment, the number of jobs created and how the project meets the following areas of interest to the City of Fredericksburg.

- Increase in local sales tax generation
- BPOL tax generation
- Location within a priority area, as defined in the JumpStart! Plan and 2007 Comp Plan
- Connection to the City’s Pathways Plan
- Incorporation of public art into the project
- Use of the Economic Development Authority in financing the project
- Environmental Innovation
- Historic Preservation
- Benefits to new, expanding and existing businesses

<table>
<thead>
<tr>
<th>Eagle Village + Celebrate Virginia South-Central Park</th>
<th>Downtown - Princess Anne Street</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>New</strong></td>
<td><strong>Expanding</strong></td>
</tr>
<tr>
<td>Minimum $500,000 capital investment</td>
<td>create at least 25 jobs</td>
</tr>
<tr>
<td><strong>Existing</strong></td>
<td></td>
</tr>
<tr>
<td>Minimum $125,000 capital investment</td>
<td>create at least 5 jobs</td>
</tr>
</tbody>
</table>
Spotsylvania County, VA

Tourism Zone Program

The Tourism Zone Program serves both new and existing qualified businesses, affording tax rebates on Business, Professional and Occupational License (BPOL) and Machinery & Tools Tax (M/T). The qualified business is also placed in the County’s Targeted Industry Program, initiating the Fast Track Development Review Process. There are three designated Tourism Zones in the County to encourage growth in Spotsylvania’s Tourism sector.

Qualifications

A Tourism Business
- Business whose primary purpose is to establish a desirable destination to attract tourists from outside of the community and create an environment for those visitors that will deliver a memorable experience or promote educational opportunities while increasing travel-related revenue.

Existing Tourism Businesses must meet one of the following criteria:
- Capital Investment of at least $250,000 over the base year

New Tourism Businesses must meet one of the following criteria:
- Provide Capital Investment of at least $500,000 within the boundaries of the Tourism Zones

Conditions that apply to both Existing and New Tourism Businesses
- The Tourism Business must meet and maintain the minimum qualifying employment and investment levels through Year 5 in order to qualify as a Qualified Tourism Business.

Incentives Available

Tax Rebates:
- Rebate on business, professional and occupational license tax imposed by the County
- Rebate on machinery and tools tax imposed by the County
- For those Qualified Tourism Businesses that are Existing Tourism Businesses, rebates shall only be applicable to taxes assessed on the portion of gross receipts or acquired machinery and tools directly attributable to the expansion of the business.

Targeted Industry Status:
- Qualified Tourism Businesses shall be placed in the County’s established Fast Track Development Review, Permitting and Inspections program.

For more information and full details on the Spotsylvania County Tourism Zone Program call 1-540-507-7210 or visit www.spotsylvania.org