TOURISM DEVELOPMENT FINANCING PROGRAM

2023

TDFP | Tourism Development Financing Program

Website ›› http://www.vatc.org/TDFP » *eligibility requirements & application process*

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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 procced 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?

- Community Comprehensive Plans
- Tourism Development Plans and Tourism Marketing Plans
- 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

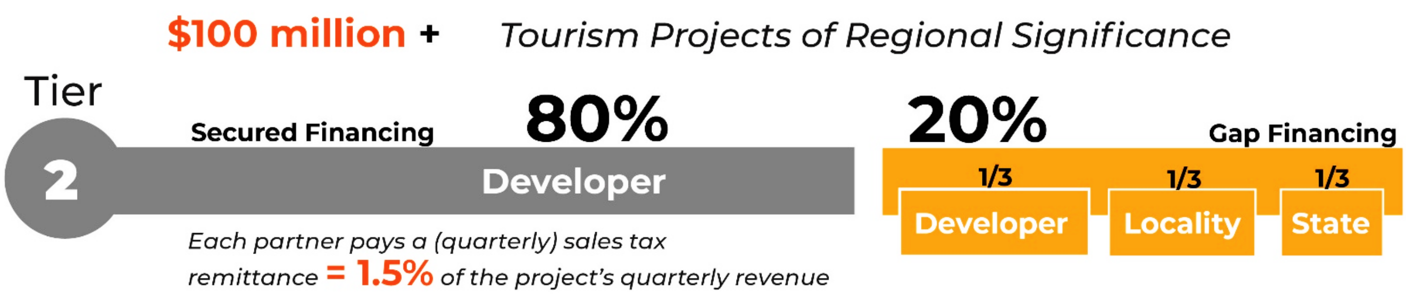
- **All projects filling a local *Deficiency* must generate sales and use tax**
- **Thus, projects with admissions tax are not eligible**
- It precludes individual lodging homes and restaurants creating limited revenue
- Examples of these types of businesses are:
  - Ticket and admissions-based projects
  - 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 – <u>only</u> revenue directly from the specific project

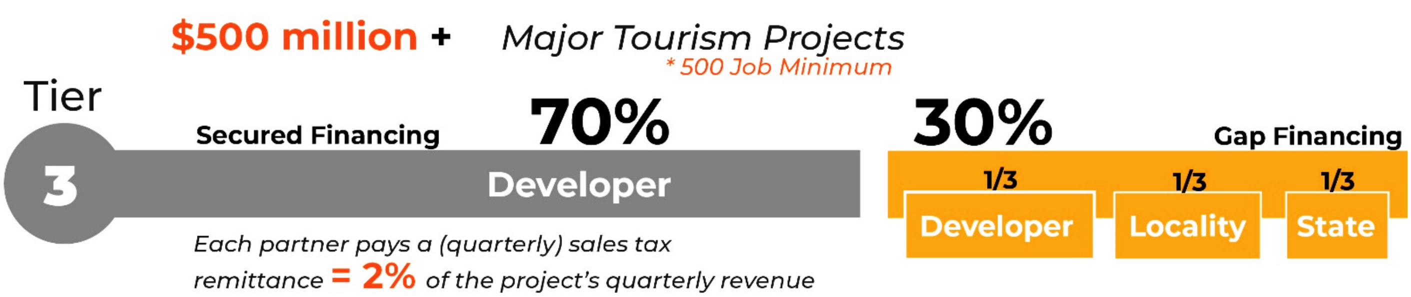
TDFP Certified Projects **as of July 1, 2022*

Certified Projects	% Gap Used	Capital Investment	Local Tax Revenue (annually)	Jobs | FTE (1st yr.)
Hyatt Place Hotel – Fredericksburg	7.7%	14,900,000	$327,000	40
City Center at Oyster Point – Newport News	17.3%	22,000,000	2,200,000	250
Cavalier Hotel & Oceanfront Resorts – VA Beach	9.9%	247,500,000	3,600,000	350
The MAIN | Hilton Hotel – Norfolk	9.4%	77,700,000	2,000,000	250
Hotel Weyanoke – Farmville	22.5%	12,200,000	$516,280	76
Element Hotel – Hampton	10.5%	17,000,000	$234,025	22
Tru Hotel – Manassas	10.8%	13,900,000	$369,000	35
Sessions Hotel – Bristol	19.8%	20,345,667	$556,019	75
Boutique Hotel – NOVA **announced at grand opening*	9.0%	69,600,000	$451,506	111
Results		**495,145,667**	**$10,253,830**	**1,209**
		$495 million	**$10.2 million**	**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





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*

	Quarterly Hotel Revenue	1%		Quarterly Payment	
1st Quarter	*$ 1,000,000*	*= $ 10,000*	*X 3*	*$ 30,000*	
2nd Quarter	*$ 1,500,000*	*= $ 15,000*	*X 3*	*$ 45,000*	
3rd Quarter	*$ 750,000*	*= $ 7,500*	*X 3*	*$ 22,500*	
4th Quarter	*$ 1,000,000*	*= $ 10,000*	*X 3*	*$ 30,000*	
Yearly	*$ 4,250,000*	*= $ 42,500*		*$ 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 <u>in order</u>
- An application <u>is only complete</u> once Steps ❶ - ❼ have been completed, in order

Local Government

❶	***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
❷	1. ***IDENTIFY PROJECT + SUBMIT TOURISM DEVELOPMENT PLAN*** 2. **DEVELOPER SUBMITS A LETTER OF NEED**	○ 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
❸	***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 procced with applying*
❹	***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
❺	***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 ❺ + reviewed by VTC
❻	***ADOPT A PROJECT ORDINANCE***	○ **Pass a Local Ordinance** adopting Steps ❶ through ❺ ○ Including specific project by name & commitment to financing ○ **The Final Application** is collection of all completed documentation
❼	***PAY APPLICATION FEE***	○ Submit $500 application & processing fee (**Developer** or **Locality)**
❽	***APPLICATION REVIEW BY STATE COMPTROLLER***	○ Only when **Steps (1)** through **(6) are deemed complete by VTC** is considered the "**completed application"** ○ The **State Comptroller** reviews **Final Application** ○ Review period, including possible requests for more data ○ Sends **Certification Letter** if certification is approved
❾	***ANNOUNCE TDFP CERTIFICATION***	○ **VTC coordinates** with **Locality** a **Media Release** from the Governor's + **Announcement Event** if requested
❿	***DEBT SERVICE >*** ***After business opening***	○ VTC provides **Locality** with VA **Dept. of Tax Contact** to arrange partner payments for duration of financing debt

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 weaknesess, unique experiences and out-of-state competition
- It also includes submitting a copy of the *Locality's* <u>current</u> *Tourism Marekting Plan*

TDFP | Step ❷ TOURISM DEVELOPMENT PLAN

Localities that are interested in pursuing the financing will need to submit a Tourism Development Plan which will be reviewed and certified by the Virginia Tourism Corporation (VTC). The Tourism Development Plan submitted can be an existing plan already adopted by a locality, or a plan can be created using VTC's Tourism Development Plan website.

The purpose of the plan is to (1) outline the specific void the proposed project will fill; (2) provide accurate representations of a locality's current tourism product and assets, infrastructure, marketing efforts and visitor profiles; and (3) show the return on investment the proposed project will have to the local tourism economy.

SECTION 1: PROPOSED DEFCIENCY

1-A What deficiency exists in your local tourism economy?

1-B Provide the data supporting the deficiency in your Locality's comprehensive community plans and project-related market studies

1-C Provide the data supporting the deficiency in your Developer's specific market study
* For the above, please highlight the specific data proving the deficiency
* The data should include an inventory of similar tourism product and visitor demand indicators
* If lodging, include number, name, proximity, service level & pricing of existing, local lodging

1-D Provide information supporting the Developer's need for State and Local gap financing?
* Include information citing the specific financial need for TDFP and potential project termination without TDFP

1-E Briefly describe the overall scope of your project and how it fills your proven deficiency?

1-F What is the total capital investment of the development project?

1-G What is the estimated, total gap financing amount requested for the project?

1-H Will this proposed project fit into an existing Tourism Zone? Yes |or| No

1-I The proposed project will accomplish the following: *jobs, tax revenue, increased visitation

Annual, Total # of Full-time employees **(40 hrs./week)*	
Annual, Total # of Part-time employees **(less than 30 hrs./week)*	
Annual, Total # of <u>hours</u> for Full-time employees **(40 hrs./week)*	
Annual, Total # of <u>hours</u> for Part-time employees **(less than 40 hrs./week)*	
Projected FTE (Full Time Equivalent) Jobs	
Projected, annual, <u>local</u> tax revenue from project expected to be	
Projected, annual, <u>state</u> tax revenue from project expected to be	
Projected, annual visitors to the new business (total) are expected to be	

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 ❹ 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:	
Equity Source 1	$ _____
Equity Source 2	$ _____
Debt Financing Source 3	$ _____
Debt Financing Source 4	$ _____
Gap Financing Source 5	$ _____
Total Source of Funds:	$ _____

Use of Funds:	
Use of Funds 1	$ _____
Use of Funds 2	$ _____
Use of Funds 3	$ _____
Use of Funds 4	$ _____
Use of Funds 5	$ _____
Total Use of Funds (Total Project Cost):	$ _____

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.

2006 Virginia Code § 58.1-3851 - Creation of local 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:

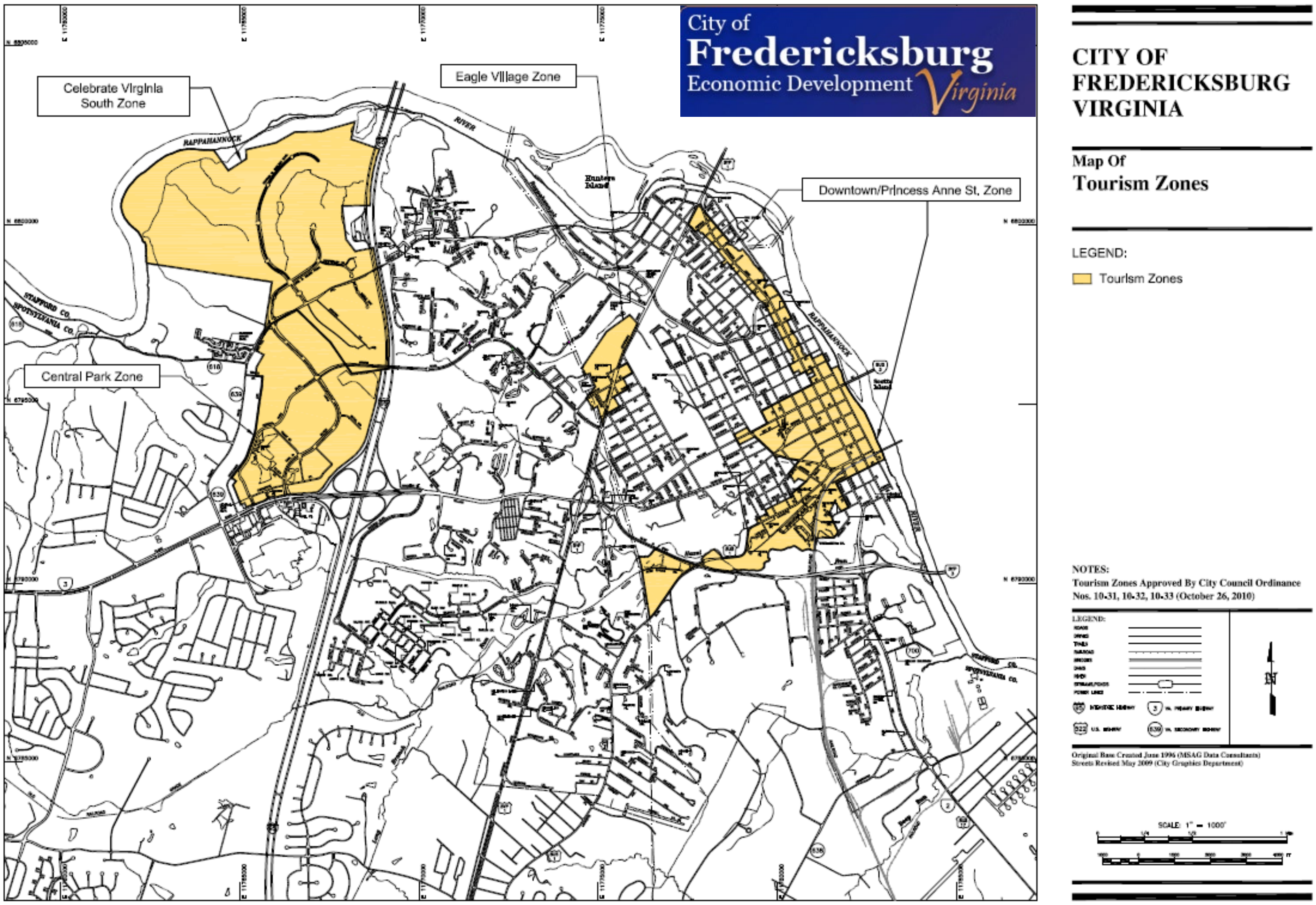
- ≡ Special zoning for the district
- ≡ Permit process reform
- ≡ Exemption from some ordinances, excluding ordinances or provisions adopted pursuant to the Chesapeake Bay Preservation Act, Erosion & Sediment Control Law and the VA Storm water Management Act
- ≡ Other incentive adopted by ordinance, 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

	New | Expanding | Existing
Eagle Village + Celebrate Virginia South-Central Park	– Minimum **$500,000 capital investment** – create at least **25 jobs**

	New | Expanding	Existing
Downtown - Princess Anne Street	– Minimum **$250,000 capital investment** – create at least **10 jobs**	– Minimum **$125,000 capital investment** – create at least **5 jobs**

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

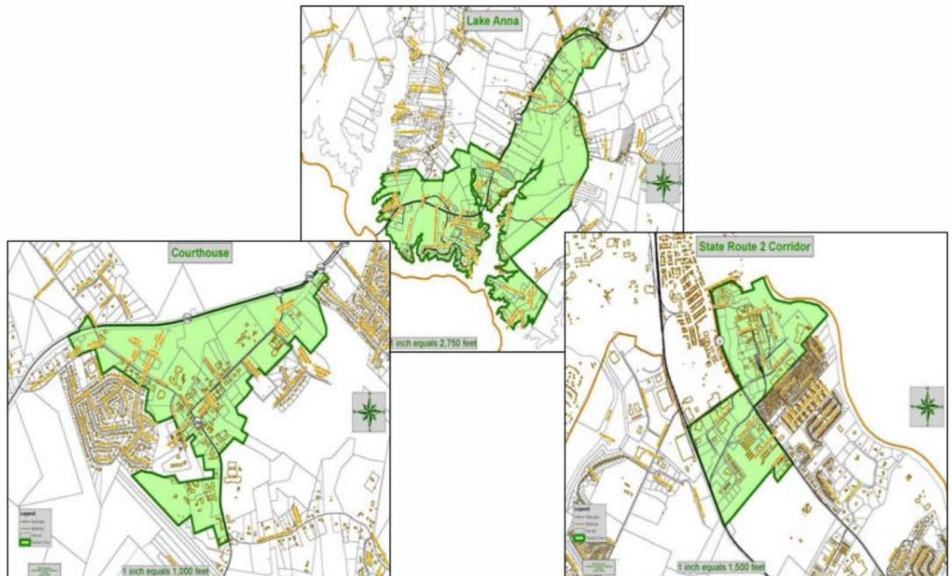
New Tourism Businesses must meet **one** of the following criteria:

- 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.

Zone Maps



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

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WWW.SPOTSYLVANIA.ORG