LEGISLATIVE FISCAL ESTIMATE TO

[First Reprint]
ASSEMBLY, No. 2504

STATE OF NEW JERSEY

DATED: FEBRUARY 28, 1997

Assembly Bill No. 2504 (1R) of 1996 allows an increase in the tax on tourism related receipts levied in municipalities that have formed a tourism improvement and development district, and provides a partial sales tax exemption to offset the increase. Currently, certain contiguous municipalities may form a tourism improvement and development authority and levy a 2 percent tax on hotel room rentals, restaurant food and drink sales, and admissions charges in the district. The tax is in addition to the 6 percent State sales tax on these transactions, for a total tax of 8 percent. Currently, this tax is only levied in support of the projects of the Greater Wildwood Tourism Development Authority.

The bill increases the tax rates that the municipalities may levy, and provides an exemption that reduces the State sales tax by the amount of the increase in the municipal tax for the period that tourism project bonds are outstanding. The combined rate of tax will remain at 8 percent for the period that tourism project bonds are outstanding: the local share of the levy supporting tourism projects will increase from 2 percent to 4 percent (subject to a dollar value cap, discussed below) and the State share will decrease from 6 to 4 percent.

This bill also provides an interim division of the 8 percent total tax. For a period, the funds will be divided 3 percent to the State and 5 percent to the authority (subject to a dollar value cap, discussed below). This period will last until the 1 percent “extra” share to the authority yields funds to the authority equal to the additional amount that the authority would have received if the authority had received 4 percent of the funds for the entire period it was receiving 2 percent of the funds.

The bill limits the total annual tax revenues that will be deposited to the reserve fund for the tourism authority. For the interim years until the additional amount that the authority would have received if the authority had received 4 percent of the funds for the entire period it was receiving 2 percent of the funds, the maximum deposited to the fund from tax revenues will be $500,000 for the operating expenses of the tourism authority and $5,750,000 for bonding purposes, a total of $6,250,000 annually. Thereafter, the maximum deposited to the fund from tax revenues will be $500,000 for the operating expenses of the tourism authority and $5,000,000 for bonding purposes, a total of $5,500,000 annually. Any amount of tax revenue in excess of the maximum will be deposited to the State general fund.

Based on calendar year funds transfer information supplied by the Greater Wildwood Tourism Development Authority, the tax currently imposed in the Wildwoods at 2 percent is expected to generate approximately $2.6 million in State fiscal year 1997. Revenues seem to be increasing by about 4 percent annually, which would be compatible with recent general inflation rates, but it is difficult to separate the continuing effects of price inflation from the more limited revenue increase resulting from the "learning curve" of vendors collecting this recently imposed levy. Also, the construction and completion of the convention center (or other capital construction project) that this revenue stream is to fund is expected to increase economic activity in the Wildwoods and would be expected to increase municipal levy revenues. Because of the complexity and unpredictability of future changes in economic activity, this analysis will assume flat economic activity, which may understate future revenue changes.

The bill allows an increase to a 5 percent municipal rate until the levy yields funds equal to the additional amount that the authority would have received if the authority had received a 4 percent levy for the entire period it was receiving a 2 percent levy. At a 5 percent rate, the amount of the increase in municipal levy and corresponding decrease in sales tax revenue to the State general fund is expected to be $3.9 million annually, for a total municipal levy of $6.5 million annually. The period over which this rate would be imposed depends on the lapse of time from the original imposition of the 2 percent levy, which began in August of 1993, until the higher rate could be implemented. If the higher rate could be implemented by July 1, 1997, the duration of the 5 percent rate would be approximately 7.5 years. Thereafter, the maximum rate would be 4 percent, expected to increase the municipal levy (and correspondingly decrease State sales tax revenue by $2.6 million annually for the period that tourism project bonds are outstanding), for a total municipal levy of $5.2 million for each full fiscal year in which it is in effect.

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67.