

Memorandum

From: Boat Tax Subcommittee

To: Hampton City Council Finance Committee

Re: Assessment of the Economic Impact of Recreational Boating in the City of Hampton and the Boat Tax

Date: February 26, 2009

The Hampton City Council directed the City Council Finance Committee to conduct a study of the economic impact of recreational boating in the city. The City Council Finance Committee in turn selected a Boat Tax Subcommittee to manage the process and to report back to the full committee.

The members of the subcommittee included:

- Rick Bagley
- Jim Holt
- Dr. Jesse Hughes
- Hon. Ross Mugler, Commissioner of the Revenues
- Councilman Randy Gilliland
- Councilman George Wallace
- Susan Borland
- Staff Support:
 - Pete Peterson
 - Shelley Shiflett

After an RFP, process managed by city procurement, inclusive of respondent interviews, with the input of the subcommittee and city staff, Virginia Institute for Marine Science (VIMS) was selected to conduct the study.

On January 15, 2009, the VIMS presented their findings resulting from the Assessment of the Economic Impact of Recreational Boating in the City of Hampton Virginia (the Study). The findings of the Study provide quantitative support for Council's current policy and strategy to grow Hampton as a home dock for recreational boats by lowering the personal property tax on those boats to an effective rate of zero. The study specifically excluded any equity or qualitative aspects focusing solely on quantitative data.

Quantitatively, the report draws the following key conclusions from the data:

1. The ownership and enjoyment of recreational boating is a significant economic engine for the City. Spending by recreational boaters generates an economic impact of \$55.03 million and over 690 jobs to the City. As a result, of that economic impact the City gains \$2.29 million in additional tax revenues.
2. Approximately 58% or \$1.31 million of the additional tax revenues is derived from non-resident boat owners. To put this in perspective, the indirect tax impact

of \$1.31 million from non-resident boat owners is equivalent to one (1) cent on the City's real estate tax rate. This effectively enables the city to enjoy a one (1) cent lower real estate tax rate than it would otherwise. This tax revenue is approximately three times greater than the \$440,000 in property taxes the city received from boat taxation prior to the reduction of the boat tax in 2002.

3. The study's economic impact data and the anecdotal data from the surveys, clearly shows a direct correlation between the growth in the economic benefit due to the growth of registered boats in the City and the reduction in the City's boat tax. Documented recreational (boat thirty feet or greater) boats increased by 228 boats, from 157 in 2002 to 385 in 2007, a 145% increase during the study period. The number of boats at Hampton's marinas grew by 483 boats, from 1313 boats in 2002 to 1796 boats in 2007, a 37% increase during the study period. During that same period, the economic impact of recreational boating increased from \$35.90 million in 2002 to \$55.03 million in 2007, a 53% increase during the study period.
4. From the survey of boat owners, 83% of the non-resident and 58% of the resident boat owners indicated that they would "move" their boat if the property tax rate on boats increased. There undoubtedly will be some relocation of boats if the boat tax rate is increased. This relocation will most likely be of the larger, higher value boats, which generate the majority of the economic impact.
5. On average, each non-resident and resident boat owner generates \$1,015 and \$573, respectively, in indirect tax revenues to the City. Prior to reduction of the boat tax, \$440,000 was generated from personal property taxes on boats. It is estimated that today a \$1/\$100 in assessment tax would generate \$1.301 million in direct property taxes if no boats are moved in response to a new boat tax.

If at least 50% of those that indicated they would move their boats, 41.5% of non-resident boat owners (.415 X \$1,312,309=\$544,608) and 28.5% of the resident boat owners (.285 X \$983,496=\$280,296), the estimated revenue from a \$1/\$100 in assessed value boat would only generate \$477,220 (\$1,302,306-824,904) in tax revenues. Thus, imposition of a new boat tax would likely result in a net loss of tax revenue, jobs and economic benefit to the city.

6. The above analysis assumes each boat contributes equally to the to the tax revenues and economic activity generated. However, the study concludes that the larger boats generate the greatest economic impact. The study further indicates that non-resident boaters account for the greater percent of the larger boats. The number of larger boats home ported in the City increased after the significant reduction in the boat tax. If the personal property tax were reinstated at some level, it is conceivable that the owners of the larger boat owner would be the first to relocate their boats to localities with the lowest tax.

Based on the data derived by the study, boats 33 feet and over accounts for the following:

- a. 73% of the Spending (\$26.3M) by Non-Resident Boater-----\$19.2M
- b. 73% of the Economic Impact (\$37.2M) by Non-Boaters----- \$27.1M
- c. 73% of the Tax Revenues (\$1.3M) Derived from Non-Resident
Boaters----- \$0.957M

The study also concludes that the average non-resident owned boat at the marinas in Hampton were 39 feet long and estimated value of \$102,000. If all of the non-resident boats over 33 feet relocated as a result of the reestablishment of the personal property tax and those boats have an average balance of \$102,000, over \$428,000 of the property tax (assuming \$1/\$100 in assess value) would not be realized. There is the prospect that City would lose \$957,000 in taxes derived from the economic impact and \$428,000 in the proposed property for total revenue losses of \$1,385,000. This is more than what a \$1/100 in assessed value tax is projected to generate.

There are many possibilities and combinations of changes in the recreational boat population in Hampton that may result from the reinstatement of a boat tax at some level. The preceding scenarios in five and six above are just two of those.

The Boat Tax Subcommittee unanimously agreed that the 2002 decision of Council to effectively eliminate the boat tax has had a positive net economic benefit for the city. They further concluded that reimposition of a boat tax would have a net negative economic impact on the city. With the exception of one subcommittee member, the subcommittee concurred with recommending to the Finance Committee and City Council that the boat tax should remain at an effective rate of zero. One member concluded that at some rate less than \$1/\$100 of value there would be a tax rate that would generate some revenue and not drive away too many boats.

The subcommittee recognizes that there are qualitative factors that Council must include in addition to the compelling quantitative data. These qualitative factors include, but are not limited to:

- Perception of fairness and equity;
- The waterfront is the city's greatest natural asset. The long-term economic health of our city is directly connected to this asset;
- Hampton's vision to be the most livable city, including the Downtown moniker of an urban waterfront village;
- The role no boat tax plays in the future enhancement of waterfront residential and marina development creating higher value housing the city needs;
- The role no boat tax will play in the future of Ft. Monroe.