

TO: Kurt Hodgen, City Manager  
FROM: Brian Shull, Economic Development Director  
DATE: July 18, 2016  
RE: Harrisonburg's Arts & Cultural District Ordinance

**Summary:** Harrisonburg's Arts and Cultural District is an asset that enables the City to both celebrate the tremendous wealth and diversity of arts venues we currently have in Harrisonburg's central core and also to offer incentives to encourage additional arts venues and businesses to cluster within the district and strengthen the offerings available for residents and visitors to enjoy. First and foremost, the district offers a marketing opportunity. Second, the district offers a 3-year BPOL exemption to help ease the initial tax burden for qualified arts businesses to get a strong foothold in the district. Third, staff proposes removing the admissions tax within the district for the benefit of both existing and future performance venues. The small changes recommended above should help make the ordinance a better tool to strengthen and grow Virginia's first, and probably best, arts and cultural district.

**Background:** Harrisonburg City Council approved Virginia's first arts and cultural district on June 12, 2001. This district has served as a sense of pride for the area's arts community. Now that we have had fifteen years of experience under our belts, it is a good time to closely examine the ordinance to see if the incentives offered do indeed help accomplish the goal of attracting more arts-related businesses and venues and helping the existing businesses to thrive.

In the fall of 2000, the Arts Council of the Valley (ACV) proposed a geographic area that would connect JMU and downtown and promote the development of arts venues in this corridor. Many groups helped promote this new district, including ACV, HDR, Harrisonburg Tourism & Visitor Services, Virginia Tourism, and VA Commission for the Arts. Full-color brochures were printed and distributed widely to promote this unique district.

During May 2016, Economic Development and ACV closely studied the geographic boundaries of the district and recommended that it was an appropriate time to expand the borders to include important venues within the district. Council approved the expanded boundaries on June 14 (map attached). The following section analyzes the two tax exemptions which are included in the current ordinance: admissions tax and BPOL tax.

#### Admissions Tax

The current ordinance states that qualified arts organizations shall be exempted from paying Harrisonburg admissions taxes for the first five full years following certification. Since ordinance adoption, one dance studio and one art studio within the district have been exempted from admissions taxes should they decide to charge admission during the first five years. Neither chose to charge admissions. There are currently no certified arts organizations in the district receiving exemptions from the admissions tax. An analysis by the Commissioner of Revenue's Office shows that less than \$700 of admissions taxes were remitted to the City from businesses within the Arts & Cultural District in FY 2015. In FY2016 which ended June 30, approximately \$5,000 of admission tax revenue was collected by the City within the district boundaries.

#### BPOL Tax

The current ordinance grants a three year exemption from BPOL taxes for certified arts organizations. The intent is to reduce the initial tax burden as the business gets established within the district. Since adoption, one dance studio and one art studio have received the BPOL exemption. The three year time line has expired for both and therefore no businesses within the district are currently receiving the BPOL exemption.

It was never the intent for restaurants to be able to qualify to have their food and drink sales to be eligible for BPOL exemption. In fact, none have received this benefit. A review of the ordinance definition for qualified arts organizations, however, brought to light that the definition should be clarified to remove any question. Several restaurants located within the district would certainly benefit from the removal of the admissions tax within the district.

**Key Issues:** N/A

**Environmental Impact:** N/A

**Fiscal Impact:** Less than \$5,000 annual tax revenue is proposed for exemption

**Prior Actions:** Expansion of the district on June 14, 2016

**Alternatives:** (a) Approve ordinance  
(b); or not approve ordinance  
(c)

**Community Engagement:** District business owners currently paying admissions taxes were engaged in drafting the recommendations. Arts Council of the Valley and Harrisonburg Downtown Renaissance staff were also contacted for input.

**Recommendation:** Staff recommends eliminating the requirement to collect admissions tax for any business physically located within the Arts and Cultural District. As you can see above, tax revenues generated by this source are minimal when compared to the costs of administering. Many of the venues collecting admissions tax are simultaneously serving food and drinks to customers who may or may not also choose to pay a cover charge (and admissions tax) for the entertainment. Determining who should pay the admissions tax is often not an easy task. Eliminating the admissions tax within the district would remove an administrative burden from the venue operators.

Revise the wording in Section 9-5-3. – Definitions.

Last sentence of this section currently states:

Additionally, in no case shall a restaurant or retail shop that is a franchise or chain with three (3) or more physical locations qualify as a qualified arts organization for the purposes of this chapter.

Recommended language:

In no case shall a restaurant qualify as a qualified arts organization for the purposes of this chapter.

Additionally, in no case shall a retail shop that is a franchise or chain with three (3) or more physical locations qualify as a qualified arts organization for the purposes of this chapter.

**PLEASE NOTE:** Businesses do not need to be certified to participate in the Arts & Cultural District. Every business physically located within the Arts & Cultural District is encouraged to market itself as a proud member of the district. Certification as a qualified arts organization only pertains to eligibility for the BPOL exemption. Simply stated, certification is a necessary function for the City to administer the specific incentives tied to the ordinance.

**Attachments:** 1. Arts & Cultural District Overlay;  
2. Ordinance;  
3. Ordinance – Reflecting proposed changes.

**Review:**

*The initiating Department Director will place in Legistar, in sequence of transmittal, the names of each department that must initial their review in order for this item to be placed on the City Council agenda. The completion of review only addresses the readiness of the issue for Council consideration. This does not address the recommendation for approval or denial of the issue.*

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