**VARIOUS TAXES**
**Professional Sports Facilities**

March 19, 2002

| | Yes | No |
|---|---|---|
| Separate Official Fiscal Note Requested | | X |
| **Fiscal Impact** | | |
| DOR Administrative Costs/Savings | X | |

## PRELIMINARY ANALYSIS

Department of Revenue
Analysis of H.F. 2214 (Mares) – As Passed by the House Tax Committee, March 12, 2002

| | Revenue Gain or (Loss) | | | |
|---|---|---|---|---|
| | F.Y. 2002 | F.Y. 2003 | F.Y. 2004 | F.Y. 2005 |
| | (000's) | | | |
| Construction Materials Exemption | $0 | ($1,300) | ($4,000) | ($3,600) |
| **General Fund Total** | **$0** | **($1,300)** | **($4,000)** | **($3,600)** |
| Sales Tax on Newspapers / Magazines (effective for sales made after 6/30/03) | $0 | $0 | $15,100 | $17,100 |
| **Sports Facilities Account** | **$0** | **$0** | **$15,100** | **$17,100** |

*Stadium Related Taxes* - Effective with the new baseball park – Estimates for first full year:

| | |
|---|---|
| Admissions Tax of up to 10% | 10%--$3,000 |
| Parking Tax and/or Parking Surcharge (not less than $2 per vehicle per event) | Undetermined |
| Media Access Fees | Undetermined |
| **Local Stadium Revenues Total** | **Undetermined** |

*Local Taxes* – Estimates for full fiscal year 2003 (start date not determined):

Any interested city in the metropolitan area can submit a bid – St. Paul and Minneapolis (city-wide estimates) are used for illustrative purposes.

| | St. Paul | Minneapolis |
|---|---|---|
| Restaurant, other meals (up to 5%) - each 1% | $3,300 | $4,900 |
| On-sale Liquor Tax (up to 5%) - each 1% | $800 | $1,700 |

The lodging tax can be applied to all or part of the city and may exempt hotels or motels based on the number of rooms available. City-wide estimates with no exemptions are provided.

| | St. Paul | Minneapolis |
|---|---|---|
| Lodging Tax (up to 5%) - each 1% | $600 | $1,700 |

**EXPLANATION OF THE BILL**

The bill provides for a selected city to own and operate a baseball park. The city would be responsible for one-half the cost ($162,500,000). The city is allowed to use local taxes and user fees to fund their portion. The state, via the sports facilities commission, can assist the city with their payments, as needed, using the sports facilities account (see below). The owner of the major league baseball team is responsible for the other half of the costs ($162,500,000), along with various requirements and assurances.

The bill creates a Minnesota sports facilities commission with general powers to oversee professional sports facilities in Minnesota, and the portion of state financial assistance for those facilities (i.e. MLB, NFL, NHL, and NBA). The commission, with input from a statewide advisory referendum, has initial responsibilities that include: 1) determining whether the construction of a baseball park should go forward, 2) selecting a city – subject to city council approval, and 3) overseeing state financial assistance to the city.

A sports facilities account is established in the general fund. The expansion of the sales tax base to the taxation of retail sales of newspapers, magazines, periodicals, and shopper guides is proposed with these additional revenues being deposited in the sports facilities account.

The city would have two primary sources of revenues: 1) stadium revenues, and 2) local option taxes. These revenues can then be supplemented by state assistance to the city via transfer payments from the sports facilities account. Before a local option tax could be imposed, the imposition of the tax would have to be approved by the voters of the jurisdiction. The stadium revenues are:

- Admissions tax of up to 10% to events at the baseball park,
- Parking tax and/or parking surcharge of at least $2 per vehicle, and
- Fees charged to broadcast and other media for access to broadcast games.

The local taxes that could be imposed are:

- Liquor and food taxes of up to 5%,
- Lodging tax of up to 5%,

The bill would exempt construction materials and supplies used to construct the baseball park or football stadium. The bill, also, provides for a property tax exemption.

## REVENUE ANALYSIS DETAIL

*GENERAL FUND*

- The estimate for the sales tax exemption for construction materials is for the baseball park which has a proposed opening date of April 2005. The assumed cost of the baseball park is $325,000,000, excluding site acquisition and preparation costs. It is assumed that construction would start in early 2003 and be completed for the season opener in April 2005.
- The property tax exemption will not have an effect until taxes payable in 2005. This could affect property tax refunds paid by the state for F.Y. 2006 and thereafter, as taxes would be shifted from the stadium and to all other properties. For taxes payable in 2005 there would be no impact since the assessment would only reflect the land. Upon completion, if the stadium were to have a taxable market value of approximately $270 million, refunds would increase by approximately $260,000.

*SPORTS FACILITES ACCOUNT*

- The new sales tax on newspapers was estimated based on information from the census of manufacturing. Nexus issues would prevent the collection of sales tax on a large portion of state-wide magazine sales. The new sales tax on magazines was estimated based on information from the Minnesota Department of Trade and Economic Development (DTED). DTED provided information on periodicals manufacturing in Minnesota. Fiscal year 2004 was adjusted to reflect 11 months of collections.

*STADIUM RELATED TAXES AND FEES*

- The admissions tax is proposed to be 10% for events at the baseball park and football stadium, with the first expected operation date for the baseball park of April 2005. The first full year estimate is for the baseball park only. An average annual attendance of 2,000,000, for the first several years, is estimated based on an attendance analysis of other major league baseball teams recently acquiring a new facility. The average ticket price is also expected to rise to $15.
- A parking tax and/or parking surcharge of not less than $2 per vehicle for game days at the baseball park and football stadium are proposed. An estimate is not included since revenue from a parking tax or parking surcharge or both depend on a variety of unspecified factors. It may be reasonable to assume that a $2 per car tax could raise approximately $1,000,000 per year, assuming the tax could be applied to most of the vehicles of the people attending the games.
- The terms for applying media outlet fees are not specified.

**REVENUE ANALYSIS DETAIL (cont.)**

*LOCAL TAX REVENUES*

- The estimates of the local restaurant and liquor taxes are based on Department of Revenue tax collections information for the individual cities. It is assumed that the local restaurant and beverages taxes would be applied administratively in the same way as the existing food and beverage taxes. Similarly, it is assumed that the liquor tax applies only to on-sale liquor.
- The estimates of the local lodging taxes are based on Department of Revenue tax collections information for the individual cities. It is assumed that the local lodging taxes would be applied administratively the same as, and in addition to, the existing lodging taxes.

**ADMINISTRATIVE/OPERATIONAL IMPACT**

There will be significant administrative or operational costs to DOR in administration of this bill. DOR will incur various costs associated with expanding the sales and use tax to certain publications.

Minnesota is currently a member of the Streamlined Sales Tax Project and has passed the model act and agreement legislation. The project is aimed at simplifying the sales tax by standardizing definitions for the tax base and establishing uniform rates within taxing jurisdictions. The long-term goal is to overcome obstacles in collecting sales tax revenues on remote sales.

The Streamlined Project is still debating the issue of the conformity of "tourism related" taxes (such as local food and beverage taxes, rental car, and lodging taxes) because many states and local governments use these revenues to fund tourism related ventures. The current agreement is similar to Minnesota law, which calls for uniform bases for local options taxes. The current agreement also calls for conforming changes to be made by 2005. Any changes in the state and/or local sales tax may have to be modified in order to achieve compliance with the parameters of the streamlined agreement by the target date.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/polic.html#analyses

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