SALES TAX
PROPERTY TAX
Baseball Stadium Financing

May 10, 2001

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

Department of Revenue
Analysis of H.F. 2513 (Mares)

	Revenue Gain or (Loss)			
	F.Y. 2002	F.Y. 2003	F.Y. 2004	F.Y. 2005
		(000's)		
General Fund				
Baseball Park Tax-Free Zone	$0	$0	$0	($1,985)
Construction Materials Exemption	$0	($1,240)	($3,725)	($3,310)
General Fund Loan / Repayment	$0	$0	($10,000)	$10,000
General Fund Total	$0	($1,240)	($13,725)	$4,705
Special Revenue Fund / Baseball Park Revolving Loan Fund				
Deposits from Assigned Risk Plan	$0	$120,000	$10,000	$10,000
General Fund Loan / Repayment	$0	$0	$10,000	($10,000)
Payments to the Local Government	$0	($120,000)	($20,000)	$0
Special Revenue Fund Total	$0	$0	$0	$0
Special Compensation Fund / Assigned Risk Plan				
Transfer to Baseball Park Revolving Loan Fund	$0	($120,000)	($10,000)	($10,000)
Interest Loss (Dept. of Finance estimates)				
Assigned Risk Plan	$0	($4,898)	($7,288)	($8,303)
General Fund	$0	$0	($284)	($308)

The proposal is effective upon a determination to be made by a special panel of three retired state court judges as specified in the proposal.

EXPLANATION OF THE BILL

Current Law: Several provisions of current law are affected by the proposal.

M.S. 79.252 establishes the assigned risk plan to provide workers' compensation coverage to employers rejected by a licensed insurance company. This plan currently has a surplus of funds.

EXPLANATION OF THE BILL (CONTINUED)

M.S. 272.02 identifies property that is exempt from property taxes. M.S. 272.01, subd. 2, specifies that when exempt property is leased to a private business, a tax shall be imposed as if the lessee was the owner, except that this provision does not apply to the use of a municipal stadium and other exceptions. M.S. 273.19 provides that if exempt property is leased for at least a year and is not taxed under M.S. 272.01, subd. 2, then the property shall be taxable as if the user was the owner.

M.S. 297A.67 identifies general exemptions from general sales and use taxes. M.S. 297A.71 identifies exemptions for construction materials.

Proposed Law: The proposal provides a public role in the financing of a stadium for major league baseball. In section 1 the proposal offers legislative findings that major league baseball has value to the citizens and economy of Minnesota, that this value should be protected through the construction of a new baseball park, and that this goal requires a public/private partnership. The intent of the proposal is to support the construction of a baseball park to be substantially financed with private support.

Section 2 provides the purposes of the act. The first purpose is to assist the baseball park with a tax-free zone and an interest-free loan which would amount to less than the increased revenues the state would receive from enhanced income tax payments from major league baseball over the life of the park. A second purpose is to encourage major league baseball to move to revenue sharing and an economic system that makes baseball more competitive.

Sections 3 through 8 establish new language to be codified in Chapter 116J, Department of Trade and Economic Development. Section 3 provides a site selection process. The commissioner of the Department of Trade and Economic Development (DTED) shall select a local unit of government through a bid selection process. The local unit of government must be within the geographical area of the Metropolitan Council and the bid must provide land suitable for development and sufficient parking. Bids may include other subsidies, and must specify the intent and capacity to operate the stadium. The commissioner shall consider public infrastructure costs and potential development advantages in selecting a site. The commissioner shall accept bids for three months after the proposal becomes effective and make the selection within five months after the effective date.

Section 4 outlines the financing components. At least one-half of the costs must be funded by the owner of the team or through other private sources. The local government and private investors shall jointly own the park and the team shall be a tenant for no less than 30 years. The total cost of the stadium excluding land and parking development shall not exceed $300 million. An interest-free loan of $140 million is provided from a baseball park revolving loan fund established in section 5. Repayments begin one-year after the first game, or within two years of stadium completion, and are backed by the full faith and credit of the team and must be repaid within 30 years. Loans may be made to the fund if funds are insufficient. The team is responsible for construction of the stadium and for cost overruns.

EXPLANATION OF THE BILL (CONTINUED)

Section 5 creates the baseball park revolving loan fund. One week after the effective date, $73 million will be transferred to the fund from the assigned risk plan under M.S. 79.252, and transfers will continue through July 2005 of unreserved balances exceeding $48 million. On January 15, 2004, a transfer from the general fund to the baseball park revolving loan fund will be made to complete the interest-free loan if sufficient funds are not available. Naming rights will be sold by the local government to pay the operating costs of the stadium with any excess being dedicated for long-term refurbishment.

Section 6 defines the obligations of the baseball team. No assistance shall be given to the team unless it: signs a 30-year lease with no escape clauses, provides $150 million in private funds; and agrees to make the stadium available on non-game days to colleges, universities, and the state high school league. During construction the team must pay the prevailing wage under M.S. 177.42, make a no-strike and no-lockout agreement with unions, and be responsible for cost overruns.

Section 7 defines the responsibilities of DTED, which include the negotiation of a contract on behalf of the state that sets a schedule for loan repayment and guarantees that the state will provide the funds for the loan.

Section 8 identifies when the proposal will become effective. The governor shall appoint a panel of three retired state court judges that will be responsible for making the determination that major league baseball and the players' association have agreed upon a new economic system that includes enhanced revenue sharing, protection of teams with below-average revenues, and enhances the viability of a new baseball park.

Section 9 exempts the new baseball park from property taxes under M.S. 272.02, and notwithstanding M.S. 272.01, subd. 2, and M.S. 273.19, but allows the park to be subject to special assessments to the extent that such assessments do not exceed the benefits received as a baseball park. This exemption expires one month after the loan is repaid.

Section 10 creates a baseball park tax-free zone and exempts from state and local sales taxes admissions, tangible personal property (goods), novelties, food, beverages, parking, club seats and suites, advertising (already nontaxable), and other retail sales at the site of the baseball park. Parking at nearby lots or ramps not on the ballpark site would remain taxable. The exemption expires one month after repayment of the loan.

Section 11 exempts materials, supplies, and equipment used or consumed in constructing, equipping, or improving the baseball park. It is assumed that the exemption of "equipment" means equipment installed in the stadium and not machinery used by construction contractors in performing the work (e.g., bulldozers, saws, drills, etc.).

REVENUE ANALYSIS DETAIL

- This estimate assumes major league baseball will come to a new bargaining agreement that provides for enhanced revenue sharing, protection of teams with below average revenues, and enhanced viability of a new baseball park; and that the appointed panel of retired judges will make the determination that allows the proposal to become effective.
- While the timeline of events is uncertain, some assumptions must be made and this estimate assumes the following timeline:

October 31, 2001	Current major league baseball bargaining agreement expires.
April 1, 2002	New major league baseball bargaining agreement reached.
July 1, 2002	Three judge panel makes determination that the bargaining agreement includes the necessary provisions to make the proposal effective.
July 8, 2002	$73 million transferred from assigned risk plan to the revolving loan fund.
October 1, 2002	All bids for stadium sites are received.
December 1, 2002	Site is selected.
January 2003	An additional $47 million is transferred from the assigned risk plan to the revolving loan fund.
March 2003	Construction of baseball park begins.
January 2004	An additional $10 million is transferred from the assigned risk plan to the revolving loan fund.
January 15, 2004	A general fund loan of $10 million is made to complete the interest-free loan.
January 2005	An additional $10 million is transfer from the assigned risk plan to the revolving loan fund and the general fund loan is repaid.
January 2005	Lease is signed, property tax exemption begins with 2005 assessment for taxes payable in 2006.
April 2005	Stadium construction is completed and the 2005 season is played in the new park.
July 2005	(Potential final transfer from the assigned risk plan, if necessary.)
April 2006	First payment made by team on the interest-free loan.

- The property tax exemption will not have an effect, assuming the lease is not signed earlier than outlined, until taxes payable in 2006. This could affect property tax refunds paid by the state for FY 2007 and thereafter, as taxes would be shifted from the stadium and to all other properties. If the stadium were to have a taxable market value of approximately $200 million, refunds would increase by approximately $190,000.
- In accordance with projections and assumptions made by the Department of Finance in estimating the interest loss on the interest-free loan, this estimate assumes that, to complete the remaining $67 million of the $140 million loan after the initial transfer of $73 million from the assigned risk plan, $47 million will be transferred from the assigned risk plan in January 2003, $10 million will be

REVENUE ANALYSIS DETAIL (CONTINUED)

transferred from the assigned risk plan in January 2004, and a general fund loan of $10 million will be made on January 15, 2004. The general fund loan will be repaid when an additional $10 million will be transferred from the assigned risk plan in January 2005. A July 2005 transfer will not be necessary. The $140 million loan is to be made when the private funds are made available, which would presumably occur in the spring of 2003. At that time, only $120 million is available and this estimate assumes the remaining $20 million would be made in January 2004.

- The interest loss estimates were estimated by the Department of Finance and are based on the average investment rate earned on state cash balances (5.15% in fiscal year 2003, 5.83% in 2004 and 6.15% in 2005) as used in the February 2001 Forecast.
- The sales tax exemption in the baseball park tax-free zone was based on data developed by Senate Counsel and Research and CSL International. Assuming completion of the stadium in 2005, the first revenue impact would occur in state fiscal year 2005. The estimate for that year reflects two months of collections, May and June. A full-season impact for F.Y. 2006 is estimated to exempt approximately $6.035 million in state sales taxes.
- The sales tax exemption for construction materials was based on information supplied by CSL International. It assumed that construction would start in early 2003 and be completed in time for the season opener in April 2005.
- The proposal intends to provide assistance that is less than the increased revenues from enhanced income tax payments from major league baseball over the life of the baseball park. The manner in which this objective is to be construed is unclear.

Number of Taxpayers Affected: Taxpayers in jurisdictions containing the baseball park may be affected by the property tax exemption. Annual attendance was estimated at approximately 2.5 million.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

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

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