

**SALES TAX
PROPERTY TAX
Baseball Stadium Financing**

May 11, 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) **As Amended (H2513DE2 and oral amendment on 5/11)**

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>
		(000's)		
General Fund				
Construction Sales Tax Exemption	\$0	(\$1,240)	(\$3,725)	(\$3,310)

NOTE: This analysis assumes that the Department of Finance would work out a debt service and repayment schedule that meets the requirement for no cash loss to the general fund. If the admissions tax were imposed by the local unit of government, the annual yield would be approximately \$6.25 million.

EXPLANATION OF THE BILL

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

M.S. 16A.67, subd. 1, authorizes the issuance of state bonds to fund a judgment against the state.

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

EXPLANATION OF THE BILL (CONTINUED)

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 provide tax incentives to encourage and stimulate private investment in a publicly owned baseball park. A second purpose is to encourage major league baseball to move to revenue sharing and an economic system that makes baseball more competitive. Therefore a loan cannot be made until the governor, with advice from a special panel and the legislative commission on planning and fiscal policy, determines a suitable new financial structure is in place.

Section 3 amends M.S. 16A.67, subd. 1, to add authority for the commissioner of finance to issue state revenue bonds to fund a loan to a local government unit of up to half of the costs of a baseball park. The principal amount of the bonds may not exceed \$140 million. The final maturity shall be no later than June 30, 2034.

Sections 4 through 9 establish new language to be codified in Chapter 116J, Department of Trade and Economic Development. Section 4 provides a site selection process. The commissioner of the Department of Trade and Economic Development (DTED), after the governor authorizes a loan, shall select a local unit of government through a bid selection process. The local unit of government must be within the metropolitan area 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 90 days after the governor's authorization and make the selection within 150 days after that authorization.

Section 5 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 unit of government shall own the park. A loan of up to \$140 million shall be provided from a baseball park loan fund established in section 6 after the governor's authorization and upon the availability of private funds. Repayments must cover the principal and interest rate paid by the state, amortized to ensure no cash loss to the general fund, and shall be made from the lease payments and admission tax revenues, as authorized. The loan must be unconditionally guaranteed by the team, personally guaranteed by the holders of the majority equity interest in the team, and repaid within 30 years. 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. A ballpark admissions tax of 10 percent is authorized that shall be exclusive of other taxes, except the sales taxes imposed by chapter 297A. The tax shall be a debt collected by the local unit of government.

Section 6 creates the baseball park loan fund. After the governor authorizes a loan, revenue bond proceeds shall be deposited in the baseball park loan fund and shall be repaid to the special revenue fund from loan repayments.

EXPLANATION OF THE BILL (CONTINUED)

Section 7 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. The team is responsible for construction of the stadium and for cost overruns.

Section 8 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 9 outlines the governor's determination that will authorize the loan. 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. The legislative commission on planning and fiscal policy shall review the panel's determination and make its advisory recommendations to the governor, who may then authorize the loan.

Section 10 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 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 to the satisfaction of the appointed panel of retired judges, the legislative commission on planning and fiscal policy, and the governor.
- 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.

REVENUE ANALYSIS DETAIL (CONTINUED)

July 1, 2002	The governor authorizes the loan after reviewing the determination of the three judge panel and the recommendations of the legislative commission on planning and fiscal policy.
October 1, 2002	All bids for stadium sites are received.
December 1, 2002	Site is selected.
January 2003	Private funding is made available, the team signs a lease and use agreement, and the \$140 million loan is made.
March 2003	Construction of baseball park begins.
April 2005	Stadium construction is completed and the 2005 season is played in the new ballpark. Repayments of bonds from admissions taxes begins.

- The property tax exemption will not have an effect, assuming the lease is not signed earlier than outlined, until taxes payable in 2004. This could affect property tax refunds paid by the state for F.Y. 2005 and thereafter, as taxes would be shifted from the stadium and to all other properties. For taxes payable in 2004 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 \$200 million, refunds would increase by approximately \$190,000.
- The ballpark admissions tax, assuming annual attendance of 2.5 million and an average ticket price of \$25, would yield approximately \$6.25 million annually. A portion of the 2005 season could affect F.Y. 2005 if remittance is made to the state prior to July 1, 2005.
- 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 construction material exemption will total approximately \$8,275,000 and entirely fall within the F.Y. 2003-05 period, as assumed.

Number of Taxpayers Affected: Taxpayers in jurisdictions containing the baseball park may be affected by the property tax exemption.

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>