

MINNESOTA • REVENUE

VARIOUS TAXES

Professional Sports Facilities

March 11, 2002

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

PRELIMINARY ANALYSIS

Department of Revenue

Analysis of S.F. 1857 (Johnson, Dean) / H.F. 2214 (Mares) – As Passed by the Senate Tax Committee, March 7, 2002

	Revenue Gain or (Loss)			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>
	(000's)			
Construction Material Exemption	\$0	(\$1,360)	(\$4,100)	(\$3,640)
General Fund Total				
13% Sports Memorabilia Wholesale Tax	\$0	\$12,200	\$12,400	\$12,700
Metrodome Additional Admissions Tax of 5%	\$0	\$3,200	\$3,200	\$3,200
6.5% Gross Revenue Tax (Metrodome)	\$0	\$1,200	\$1,200	\$1,200
Broadcasting Rental / Fee	<u>\$0</u>	<u>\$3,000</u>	<u>\$3,000</u>	<u>\$3,000</u>
Sports Facilities Acct., Spec. Rev. Fund	\$0	\$19,600	\$19,800	\$20,100

Taxes Effective with the New Baseball Facility – Estimates for first full year, assumed to be FY 2006:

10% Admissions Tax	\$3,000
6.5% Gross Revenue Tax	\$900
Naming Rights, Seat Licenses, and Bricks	Undetermined

Sports Facilities Acct., Spec. Rev. Fund

Local Option Taxes – Estimates for first full year:

	St. Paul	Mpls.	Hennepin
Restaurant, other meals – each 1%	\$3,300	\$2,900*	\$2,900*
Entertainment Tax – each 1%	\$300	\$400*	\$400*
On-sale Liquor Tax – each 1%	\$800	\$1,000*	\$1,000*
\$2 Ticket Surcharge	\$4,000	\$4,000	\$4,000
\$2 Parking Surcharge		Undetermined	
Auto Rental Surcharge \$1 per day	\$100	\$150	\$950

* Designated Minneapolis downtown area only

EXPLANATION OF THE BILL

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.

Taxes would be imposed and transferred to a sports facilities account in the special revenue fund.

The revenue sources would be:

- Sports memorabilia wholesale tax of 13% imposed statewide.
- An additional 5% admissions tax at the Metrodome with terms for the subsequent disposition of the Metrodome included.
- Admissions tax of 10% to events at the baseball park and football stadium.
- Gross revenues tax of 6.5% on all retail sales, except sports memorabilia, at the Metrodome, the baseball park, and the football stadium.
- Rent, or fee in lieu of rent, in sum not to exceed \$3 million per year, to entities broadcasting or reporting professional and collegiate sports or entertainment events at sports facilities constructed with state assistance.
- Naming rights, personal seat licenses, and commemorative bricks.

Local option taxes could be imposed by the city in which the baseball park or football stadium is located. If the city does not impose the tax, a county with a population greater than one million could impose the tax. Before a local option tax could be imposed, the imposition of the tax must be approved by the voters of the jurisdiction at a special election held on June 4, 2002. The local option taxes that could be imposed are:

- Food, beverage, and entertainment taxes – a tax of up to 3% on retail sales within a designated area. If the baseball park is located in the city of Minneapolis, the area would be the existing downtown taxing area.
- Ticket surcharge of up to \$2 per ticket for admission to the baseball park.
- Parking surcharge of up to \$2 per vehicle for game days at the baseball park or football stadium within a designated area near the facility.
- Auto rental surcharge of \$1 per day for each rental of a car, pickup truck, or van within the boundaries of the jurisdiction imposing the tax. The tax does not apply to rentals for more than 28 days. One-half of the receipts go to the sports facilities account and one-half goes is used by the city or county to pay debt on bonds issued to construct housing.

REVENUE ANALYSIS DETAIL

GENERAL FUND

- The estimate for the sales tax exemption for construction materials is for the baseball park which has an proposed opening date of April 2005. The baseball park estimate continues to be based on information previously supplied by CSL International. The assumed cost of the baseball park is \$330,000,000, net of \$40,000,000 of 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 \$220 million, refunds would increase by approximately \$210,000.

SPORTS FACILITIES ACCOUNT – SPECIAL REVENUE FUND

- The sports memorabilia tax of 13% was estimated based on information from the Sporting Goods Manufacturers Association. It is estimated that the initial wholesale price is 50% of the final retail price and that 2% of national licensed merchandise is sold at retail in Minnesota. It is assumed that this tax would be effective June 1, 2002.
- The admission tax (an additional 5%) at the Metrodome is estimated based on ticket sales information from the Metropolitan Sports Facilities Commission for the 2001 season. Terms for the subsequent disposition of the Metrodome are included in the bill. This tax is to be effective the first day of the second month following enactment (expected to be June 1, 2002).
- The gross revenues tax of 6.5% on all retail sales, excluding sports memorabilia, at the Metrodome is estimated based on current revenues at the Metrodome. It is assumed that the language intends to exclude admissions. The Metropolitan Sports Facilities Commission provided information on current sales of food and liquor (2001 season) at the Metrodome. The baseball park and football stadium revenues would be expected to replace, and potentially expand, the Metrodome revenues.
- The rent or fee in lieu of rent (in sum not to exceed \$3,000,000 per year) to entities broadcasting or reporting professional and collegiate sports or entertainment events at sports facilities constructed with state assistance is expected to initially apply to the Metrodome, the Target Center, and the Xcel Energy Center.
- The admissions tax is proposed to be 10% for events at the baseball park and football stadium, neither of which is expected to be in operation during the forecast period. 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.

REVENUE ANALYSIS DETAIL (cont.)

- The gross revenues tax of 6.5% on all retail sales, excluding sports memorabilia, at the new baseball park only, is estimated based on current revenues at the Metrodome. It is assumed that the language intends to exclude admissions. The Metropolitan Sports Facilities Commission provided information on current sales of food and liquor at the Metrodome. The revenues at the baseball park in 2005 are adjusted for expected price increases and larger attendance expectations. The baseball park and football stadium revenues should be expected to replace, and expand, the Metrodome revenues.
- No estimate is included for naming rights, personal seat licenses, and commemorative bricks.

LOCAL OPTIONS TAXES

- The estimates of the local restaurant, liquor, and entertainment taxes are based on Department of Revenue tax collections information for the individual cities. It is assumed that, if Hennepin County becomes the host community, the park will still be constructed in the city of Minneapolis.
- A ticket surcharge of at least \$2 per ticket at the baseball park (only) is proposed. 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.
- A parking tax of not less than \$2 per vehicle for game days at the baseball park and football stadium is proposed. An estimate is not included since the number of affected parking spaces is dependent on numerous undetermined factors, including site and size of primary parking facilities.
- The estimate for the automobile rental surcharge is based on collections information from the current 6.2% additional tax on rental cars (\$12,700,000 for fiscal year 2003). Auto Rental News advises that the average car rental rates in Mpls./St. Paul were \$58 for daily business rates and \$180 for weekly leisure rates. It is estimated that the weighted average is \$52 per day. Information from the Metropolitan Airports Commission regarding the distribution of rental cars between the airport, metropolitan area, and the state were applied to estimate city level expected collections. One-half of the receipts are deposited in the sports facilities account. The other half of the receipts would be deposited into the special revenue account for bonds related to housing.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will significant administrative or operational costs to DOR in administration of this bill. The department needs to develop a new tax type for the 13% Sports Memorabilia Wholesale Tax that is being proposed. DOR will incur costs in the areas of forms design, printing, postage, communications, systems design and implementation, and the processing and accounting of returns for this new tax type.

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<http://www.taxes.state.mn.us/polic.html#analyses>