

MINNESOTA · REVENUE

VARIOUS TAXES

Professional Sports Facilities

March 20, 2002

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

PRELIMINARY ANALYSIS

Department of Revenue

Analysis of S.F. 1857 (Johnson, Dean) / H.F. 2214 (Mares) – **Fifth Engrossment**

	<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)			
Construction Material Exemption	\$0	(\$1,600)	(\$4,800)	(\$4,300)
General Fund Total	\$0	(\$1,600)	(\$4,800)	(\$4,300)
13% Sports Memorabilia Wholesale Tax - Metro	\$0	\$8,500	\$8,700	\$8,900
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	\$15,900	\$16,100	\$16,300

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	<u>Undetermined</u>
Sports Facilities Acct., Spec. Rev. Fund	Undetermined

Local Option Taxes – Estimates for first full year:

	<u>St. Paul</u>	<u>Mpls.</u>	<u>Hennepin</u>
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 \$1.50 per day	\$150	\$225	\$1,400

* 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. This tax would be limited to the seven county metropolitan area.
- 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 for the baseball park only.
- Personal seat licenses for the baseball park only.
- The sale of commemorative bricks, plaques, or other items at the baseball park and the football stadium.

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 \$1.50 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-third of the receipts are deposited in the sports facilities account and two-thirds of the receipts are deposited in the special revenue account, with one-half (of the two-thirds) to be used by the host community to construct housing and the other half (of the two-thirds) to be used by the metropolitan airports commission for noise mitigation.

REVENUE ANALYSIS DETAIL

GENERAL FUND

- The estimate for the sales tax exemption for construction materials is for the baseball park. 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 fiscal year 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 \$280 million, refunds would increase by approximately \$270,000.

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. The metropolitan area produces approximately 58% of the statewide sales tax collections and a higher portion in some individual retail categories. It is assumed that 70% of statewide memorabilia sales occur in the seven county metropolitan area. 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.

REVENUE ANALYSIS DETAIL (cont.)

- The admissions tax is proposed to be 10% for events at the baseball park and football stadium. The first full year estimate is for the baseball park only. An average annual attendance of 2,000,000 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.
- 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.
- The SportsBusiness Journal has a comprehensive review of naming rights. For baseball only parks, they report that 11 existing stadiums have sold their naming rights for an average of \$2,000,000 (range - \$695,000 to \$3,300,000) and average estimated valuations for 7 existing ballparks is \$2,100,000 (range - \$1,000,000 to \$2,750,000). The market for naming rights is in a current downturn and the Twins are a “small market” team. It might be expected that a naming rights contract would generate \$1,000,000 to \$2,000,000 annually.
- No estimate is included for personal seat licenses and commemorative items.

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-third of the receipts are deposited in the sports facilities account. The other two-thirds of the receipts would be deposited into the special revenue account for housing and noise mitigation at the airport.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be 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.

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>