SALES TAX
PROPERTY TAX
Baseball Stadium Financing

May 16, 2001

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

Department of Revenue
Analysis of S.F. 1857 (Dean Johnson) / H.F. 2214 (Mares) **2nd Engrossment in the Senate**

	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 Total	$0	($1,240)	($3,725)	($5,295)
Special Revenue Fund / Baseball Park Revolving Loan Account				
Deposits from Assigned Risk Plan	$0	$100,000	$0	$0
Bond Debt Service	$0	$0	($1,250)	($1,250)
RiverCentre Arena Loan Repayments	$0	$0	$1,250	$1,250
Loan to the Local Government	$0	($100,000)	$0	$0
Special Revenue Fund / Youth Activities Account				
Lost RiverCentre Arena Loan Repayments	$0	$0	($1,250)	($1,250)
Special Revenue Fund Total	$0	$0	($1,250)	($1,250)
Special Compensation Fund / Assigned Risk Plan				
Transfer to Baseball Park Revolving Loan Fund	$0	($100,000)	$0	$0
Interest Loss (based on Dept. of Finance estimates)				
Assigned Risk Plan	$0	($2,051)	($2,830)	($3,150)

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. 177.42 defines the prevailing wage rate for state projects.

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.

Laws 1998, chapter 404, section 23, subdivision 6, paragraph (b) requires the repayments of the loan to construct a new arena at the former RiverCentre Arena site to be deposited in a youth activities account within the special revenue fund.

Proposed Law: The proposal provides a public role in the financing of a stadium for the Minnesota Twins. 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, therefore, is to support the construction of a baseball park to be substantially financed with private support.

Section 2 provides the purpose of the act, which is to assist the park with a tax-free zone and, **as amended**, a low-interest loan (3 percent interest rate) that amount to less than the increased revenues the state would receive from enhanced income taxes. A further 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 4A, Office of Strategic and Long-Range Planning. Section 3 provides a site selection process. A nine-member baseball site commission is created consisting of governor-appointees from each of the eight congressional districts and the director of the strategic and long-range planning office, whose office is directed to assist the commission in a process to provide for the construction of an open-air baseball park. The commission shall select a local unit of government through a bid selection process. The local unit of government must, **as amended**, be within the metropolitan area as defined in M.S. 473.121, subd. 2, and the bid must provide, at a maximum, land suitable for development and sufficient parking. **As amended**, bids may not include other subsidies and need not offer intent to operate the stadium. The commission shall consider public infrastructure costs and potential development advantages in selecting a site. The commission shall accept bids for three months after the proposal becomes effective and make the selection within five months after the effective date.

EXPLANATION OF THE BILL (CONTINUED)

As amended, 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 will jointly own the park and the team shall sign a lease of not less than 30 years. The total cost of the stadium shall not exceed $300 million. A loan of $100 million, bearing an interest rate 3 percent, is provided from a revolving stadium loan fund established in section 5. Repayments begin one year after the first game, or within two years of stadium completion. The loan must be backed by the full faith and credit of the team. If funds are insufficient to make the loan, a partial loan of available funds may be made. (However, the general fund loan in the original language, has been deleted.) The team is responsible for construction of the stadium and cost overruns. The local government may utilize another government body or a nonprofit corporation to act as the fiscal agent for this act.

Section 5 creates the revolving stadium loan fund with several sources contributing to the fund. First, the repayments of the RiverCentre loan are to be deposited in the stadium loan fund instead of the youth activities account. Second, upon completion of the new stadium and a new stadium for the Vikings, or upon the expiration of their leases, the Metrodome and the land under it shall be transferred to the state and sold by the commissioner of finance. The proceeds of the sale shall be deposited into the stadium revolving loan fund. Third, one week after the effective date, $100 million will be transferred to the fund from the assigned risk plan under M.S. 79.252. Fourth, the Metropolitan Council shall issue 20-year revenue bonds not exceeding $40 million to help pay the construction costs of the stadium. The debt service shall be made from the revolving stadium loan fund. Lastly, 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

As amended, 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, be responsible for cost overruns, and utilize steel produced in the United States. The team must also operate and maintain the stadium in excellent condition for the duration of the lease, as monitored by the local government. (This new provision would seem to contradict the naming rights provision that provides operating revenues to the local government.) The director of strategic and long-range planning must obtain a guarantee from major league baseball and the league of which the team is a member, that the franchise will continue in the metropolitan area for at least the term of the loan. (This last provision might be better included under section 7.)

Section 7 defines the responsibilities of the strategic and long-range planning office, which include the negotiation of a contract on behalf of the state that sets a schedule for loan repayment.

EXPLANATION OF THE BILL (CONTINUED)

As amended, Section 8 identifies expanded provisions as to 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 park. To make this determination, the panel must find: that revenue sharing results in the top quartile of teams having no more than 40 percent more revenues than the bottom quartile; or that the payrolls of the top quartile of teams relative to the bottom quartile will average 2:1 or less; or that four or more of the recommendations by the blue Ribbon Panel on Baseball Economics (excluding the movement of uneconomical teams) are implemented. The panel's determination shall be reviewed by the legislative commission on planning and fiscal policy and an advisory recommendation to the governor, who may then authorize the loan.

As amended, section 9 makes the new stadium, as long as it is used by a major league baseball team, exempt from property taxes under M.S. 272.02, and notwithstanding M.S. 272.01, subd. 2, and M.S. 273.19. However, the stadium may be subject to special assessments to the extent that such assessments do not exceed the benefits received as a baseball park. The exemption expires one month after the loan is repaid.

As amended, section 10 provides an exemption from state and local sales taxes for sales of 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 lease agreement must provide that an amount equal to seven percent of the sales price of items exempted must be used by the team for operation and maintenance costs of the stadium. 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 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 analysis 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.
July 8, 2002	$100 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	Private funding is made available, the team signs a lease and use agreement, the Metropolitan Council issues $40 million in bonds, and the $100 million loan is made.
March 2003	Construction of baseball park begins.
July 2003	First RiverCentre arena repayment of $1,250,000 is made, and first debt service payment of the Metropolitan Council bonds of a comparable amount is also made.
April 2005	Stadium construction is completed and the 2005 season is played in the new park.
April 2006	First payment made by team on the interest-free loan.

- The sale of the Metrodome land is assumed to occur several years into the future when the football stadium issue is addressed. Therefore, the proceeds will not register by F.Y. 2005.
- RiverCentre repayments will equal $1.25 million in the first three years of repayment and increases in subsequent years to total $48 million over 20 years. RiverCentre arena repayments will begin in 2003 and this estimate assumes payments will be made after July 1 in each year.
- This analysis assumes that the debt service for the bonds to be issued by the Metropolitan Council will match, at least for the first few years, the repayment schedule of the RiverCentre arena.
- The interest loss estimates were based on estimates by the Department of Finance of the original language 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 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 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.

REVENUE ANALYSIS DETAIL (CONTINUED)

- 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.
- 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

See fiscal note.

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

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