

MINNESOTA • REVENUE

LAWFUL GAMBLING TAXES Private Metropolitan Casino Reduce Tax Rates

May 5, 2004

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

Department of Revenue

Analysis of H.F. 1716 (Hackbarth) – As Proposed to be Amended (A04-1365) – **Preliminary Analysis**

	Revenue Gain or (Loss)			
	F.Y. 2004	F.Y. 2005	F.Y. 2006	F.Y. 2007
		(000's)		
General Fund – Lawful Gambling Taxes	\$0	(\$3,510)	(\$6,680)	(\$6,680)
Multi-stadium Revenue Bond Guaranty Fund*	\$0	\$450,000	\$0	\$0
Multi-stadium Revenue Bond Proceeds Fund**	\$0	\$0	Unknown	Unknown

* The bill provides for a 15% tax on gross gaming receipts (minimum of \$15 million) for each license year that is likely to impact fiscal years 2006 and 2007.

** The bill provides a total authorization of up to \$1.2 billion in revenue bonds with time of issuance undetermined.

Effective January 1, 2005, if the constitutional amendment is adopted.

EXPLANATION OF THE BILL

Current Law: There are limited and specific provisions regarding gambling venues.

For lawful gambling, the tax rates are 8.5% for bingo, raffles, and paddlewheels, and 1.7% on pulltabs and tipboards. The combined receipts tax is 0% for less than \$500,000, 1.7% for over \$500,000 but not over \$700,000, \$3,400 plus 3.4% for over \$700,000 but not over \$900,000, and \$10,200 plus 5.1% for over \$900,000.

Proposed Law: Article 1 of the bill provides for a constitutional amendment (submission to voters at the 2004 election) to allow the legislature to authorize the issuance of a single license for a privately owned casino.

Article 2 provides the terms by which the casino can be operated. The casino would be privately-owned and located in the seven-county metropolitan area. Certain proceeds from the casino licensing and ongoing tax at the casino would be dedicated to sports stadiums.

Article 3 provides for funding for three Minnesota sports stadiums (Twins, Gophers, and Vikings). Section 11 of article 3 of the bill provides for an exemption from property tax for the stadiums. Stadium property provided for by this act is exempt from taxation (including parking facilities and other land related to the stadiums) but is subject to special assessments.

EXPLANATION OF THE BILL (*continued*)

Article 4 proposes to change the lawful gambling rates. The tax rates would be reduced to 7.5% for lawful gambling and 1.5% on pulltabs and tipboards. The combined receipts tax would remain at 0% for less than \$500,000. The combined receipts tax would be reduced to 1.5% for over \$500,000 but not over \$700,000, \$3,000 plus 3.0% for over \$700,000 but not over \$900,000, and \$9,000 plus 4.5% for over \$900,000.

REVENUE ANALYSIS DETAIL

Article 2 – Revenue Impacts

- Section 9 of article 2 provides for a licensing fee of at least \$450,000,000 and is to be paid to the state upon issuance of the license. The fee is to be deposited into the multistadium revenue bond guaranty fund. The deadline for license applications is to be set for a day prior to January 15, 2005. Notice of the gambling license award is required by April 1, 2005. The awarding of the license is likely to occur prior to the end of fiscal year 2005.
- The games authorized at the casino are: 1) card games, including blackjack, 2) bingo, and 3) video gaming devices and slot machines.
- Section 18 of article 2 provides imposes a tax of 15 percent of gross gaming receipts (all revenue received by a casino as wagers less amounts paid out as prizes and winnings) but not less than \$15,000,000 in any license year. Of the 15%, the tax is allocated four percentage points to the general fund, 10.5 percentage points to the stadium fund, and 0.5 percentage points to compulsive gambling programs. The tax on gross gaming receipts would provide undetermined ongoing revenues.

Article 3 – Stadium Funding

- The bill provides for the Department of Finance to issue up to \$1.2 billion in revenue bonds to be deposited in a multi-stadium revenue bond proceeds fund and appropriate sufficient amounts from the fund to the commissioner to make grants and loans for the construction of stadiums.

Article 3 – Property Tax Exemption – University of Minnesota Football

- Section 11 of article 3 provides for a tax exemption for property provided for by this act. It is assumed that this exemption has no impact for the Gophers stadium, which is expected to be sited on tax exempt University property.

Article 3 – Property Tax Exemption – Minnesota Twins Baseball

- The bill requires that the construction of the Twins stadium must begin no later than January 1, 2006.

REVENUE ANALYSIS DETAIL *(continued)*

- The property tax exemption would begin to have an effect when the land is acquired for stadium development, assumed to be fiscal year 2006. The initial impact would be the property tax paid based on the prior use of the property. The additional property tax burden on homeowners caused by the exemption (relative to current law) will increase state-paid homeowner refunds by about \$6,000 to \$8,000 beginning in fiscal year 2008. However, these amounts will vary depending on site selection. During the building process, the impact will increase based on assessed values of the incomplete structure. The additional property tax burden on homeowners caused by the exemption will increase state-paid homeowner refunds marginally.
- Assuming a final baseball park valuation of \$500 million and a completion date of April 2008 (the start of the 2008 Major League Baseball season), the full effect on property taxes would start with payable year 2010. The additional property tax burden on homeowners caused by the exemption of the completed facility will increase state-paid homeowner refunds by about \$450,000 beginning in fiscal year 2011.
- The exemption from the state property tax levy would have no impact on state revenues because the tax rate would be adjusted to yield the amount of revenue required by statute. The tax reduction for the ballpark property would be shifted to the other properties subject to the state levy.

Article 3 – Property Tax Exemption – Vikings Football Stadium

- The bill requires that the construction of the Vikings stadium must begin no later than January 1, 2010.
- The property tax exemption would begin to have an effect when the land was acquired for stadium development, which is estimated to be fiscal year 2007. The additional property tax burden on homeowners caused by the exemption (relative to current law) will increase state-paid homeowner refunds by about \$6,000 to \$8,000 beginning in fiscal year 2009. However, these amounts will vary depending on site selection.
- During the building process, the impact will increase based on assessed values of the incomplete structure. The additional property tax burden on homeowners caused by the exemption will increase state-paid homeowner refunds marginally.
- Assuming a final football stadium valuation of \$645 million, a location in Anoka County, and a completion date of April 2012 (a three year construction time frame), the full effect on property taxes would start with payable year 2014. The additional property tax burden on homeowners caused by the exemption of the completed facility will increase state-paid homeowner refunds by about \$590,000 beginning in fiscal year 2015.
- The exemption from the state property tax levy would have no impact on state revenues because the tax rate would be adjusted to yield the amount of revenue required by statute. The tax reduction for the football stadium property would be shifted to the other properties subject to the state levy.

REVENUE ANALYSIS DETAIL *(continued)*

Article 4 – Gambling Tax Reduction

- The February 2004 forecast of lawful gambling revenue is used for this analysis. The tax bases derived from the current revenue estimates are multiplied by the proposed new tax rates. The difference between the resulting revenue and the current law revenue is the impact of this bill.
- Unsold pull tab and tipboard tickets account for 22.5% of the total ideal gross of pull tabs and tipboards.
- The fiscal year 2005 estimate was adjusted to reflect the impact of the effective date on collections.

NUMBER OF TAXPAYERS AFFECTED: There are 822 organizations that paid the combined receipts tax and 775 organizations that paid tax on bingo, paddlewheels and raffles. There are eighteen licensed distributors of pull-tabs and tipboards.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy