

MINNESOTA • REVENUE

INCOME AND SALES TAXES Professional Sports Facilities

April 28, 2004

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

Department of Revenue

Analysis of H.F. 3089 (Stang), As Amended (H3089DE2), Tax Provisions Only

	Revenue Gain or (Loss)			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
		(000's)		
Construction Materials Sales Tax Exemption*	\$0	\$0	(\$2,200)	(\$6,580)
Property Tax Exemption*	\$0	\$0	\$0	\$0
Dedication of a Portion of State Income & Sales Taxes*	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
General Fund Total	\$0	\$0	(\$2,200)	(\$6,580)

*Fiscal years beyond 2007 would be impacted by the provision.

Effective the day following final enactment.

EXPLANATION OF THE BILL

Current Law: Local units of government are prohibited from imposing a new tax, or increasing an existing tax, on sales or income.

All individual income tax and state sales tax revenues are deposited into the General Fund.

Proposed Law: Section 1 of the bill provides a sales tax exemption for materials, supplies used or consumed in, and equipment incorporated into the construction or improvement of the baseball stadium and the football stadium. This provision expires for each stadium one year after the first major league game is played in the stadium.

Section 4 of the bill provides for an exemption from property tax. Property held by the Minnesota Stadium Authority created in section 2 of the bill is exempt from ad valorem taxation by the state or any political subdivision of the state. Provisions are included that have the properties subject to special assessments.

Section 6 of the bill provides for the local government that is the host community to impose any of following taxes: a ticket tax, a parking tax, a tax on restaurants, a tax on places of amusement, a tax on alcoholic beverages, a tax on prepared food, or a tax on lodging. They may also impose a tax on sports memorabilia sold within the stadium facilities. Further, they may add to a general sales and use tax on goods and services within their jurisdiction, subject to the subsequent enactment of a law complying with the statutory provisions for a local sales tax in M.S. 297A.99.

EXPLANATION OF THE BILL *(continued)*

Section 8 authorizes the host community to use local property tax increment financing or the sale of development rights to fund the stadium project. Tax increment financing (TIF) provides a means of financing municipal improvement projects. A TIF district will allow the stadium authority to retain the property tax dollars generated by the “retained captured net tax capacity”. The captured net tax capacity equals the difference between the current year net property tax capacity and the original net property tax capacity of all properties within the TIF district.

Section 9 provides for certified stadium tax revenues (both football and baseball) in excess of a baseline amount to be deposited in a debt service account in the state treasury and appropriated to the Metropolitan Council to pay principal and interest on stadium revenue bonds. For baseball, stadium tax revenues are Minnesota income tax withholding remitted by all Major League Baseball teams, sales tax on ticket sales for admission to baseball-related events at the stadium, and sales tax remitted by vendors and concessionaires for baseball-related events at the stadium. The excess stadium revenue amounts relative to the average amounts generated at the previous stadium (Metrodome) in the last three calendar years prior to the opening of the new stadium are appropriated. The amount of the transfer is not to exceed the excess of certified revenues over the defined baseline amount. For football, similar provisions are specified for National Football League teams and sales tax on football-related events.

REVENUE ANALYSIS DETAIL

The bill creates the Minnesota Stadium Authority to determine most of the operational terms by which the stadiums would be constructed. The following review applies to the tax provisions only.

Section 1 – Sales Tax Exemption for Stadium Construction

- The estimate for the sales tax exemption is for the baseball stadium. The fiscal impact of the football stadium would be similar but proportionally larger based on the expected larger cost of the football stadium and would occur further in the future.
- Preliminary information related to the Twins ballpark indicates that the total stadium price might be approximately \$500 million. Section 4 of the bill provides that the construction manager may guarantee a maximum cost of construction.
- It is assumed that 10% of the \$500 million cost would be for site acquisition and preparation costs.
- Of the \$450 million remaining costs, 50% is the estimated portion for materials, supplies, and incorporated equipment.
- Fiscal year impacts are estimated based on expected construction time lines.
- Section 4 of the bill requires that the authority designate a final site selection by December 31, 2004. It is assumed that construction would occur in fiscal years 2006 to 2008.
- In addition to the amounts for fiscal years 2006 and 2007, it is estimated that there would be a revenue loss of \$5,850,000 in fiscal year 2008.

REVENUE ANALYSIS DETAIL *(continued)*

Section 4 – Property Taxes

- Again, assuming a baseball park costing approximately \$500 million and a completion date of April 2008 (the start of the 2008 Major League Baseball season), the effect on property taxes would start with payable year 2010. The property tax exemption will reduce the local tax base relative to the base under current law and cause a property tax shift to all other property.
- The additional property tax burden on homeowners caused by the exemption (relative to current law) 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.
- A similar impact would occur for the proposed football stadium.

Section 6 – Local Taxes

- The local taxes authorized to be implemented by the host community or local government in Section 6 would not affect the General Fund or any other state fund. The amount of local taxes raised would depend on which community is the host community and which set of local taxes is imposed.

Section 8 – Local Tax Increment Financing

- The provision to use local tax increment financing could have an impact on the local property tax base and the property tax rate in the future and result in an increase in property tax refunds paid by the state. Because the stadium is exempted from the property tax in Section 4, the stadium would not be included in the tax increment financing district.

Section 9 - Baseball

- Section 9 of the bill provides for using the excess of stadium taxes, above a baseline tax amount, attributable to the new baseball facility to supplement the funding of the facility. The bill provides for a negotiated amount (unspecified), no greater than the excess stadium tax revenue, to be deposited in a debt service account in the state treasury and appropriated annually to the Metropolitan Council for stadium bond payments.
- The stadium authority is given the option of using the excess stadium tax funding provision.
- Total baseball stadium taxes are defined as Minnesota withholding taxes paid by major league baseball teams plus sales taxes collected at the stadium on tickets and concessions. The baseline tax amounts for the baseball venue is the average annual stadium taxes collected for the three years prior to the opening of the new stadium.
- There is a provision that if the excess stadium tax revenue is less than the negotiated amount (unspecified), the team(s) will make up the difference.

REVENUE ANALYSIS DETAIL *(continued)*

- The calculation of the excess stadium taxes (i.e. the difference between stadium tax revenues at the new stadium and the defined baseline stadium tax revenues prior to the new stadium) is uncertain. The total annual withholding from all major league baseball teams is approximately \$4 million. Preliminary information from the Twins indicates that the sales tax collected at the stadium is approximately \$2.5 million per year. The bill provides for annual reviews of the excess stadium tax revenues.
- If the first year in the stadium is calendar year 2008, the transfer from the general fund to the debt service account would start in fiscal year 2009.
- The authority to negotiate and enter into an agreement with the team and host community for the baseball park expires December 31, 2004 (Section 11).
- Currently, there are 81 regular season major league baseball games played in Minneapolis and an average attendance of 24,000 (1.95 million annually) at a facility that seats approximately 48,500. The Twins payroll was \$55.5 million for the 2003 season and ranked 18th out of 30 teams in the major league.

Section 9 – Football

- Section 9 of the bill also provides a similar funding mechanism for a football stadium whereby a negotiated amount (unspecified), no greater than the excess stadium tax revenue, is to be deposited in a debt service account in the state treasury and appropriated annually to the Metropolitan Council for stadium bond payments.
- The stadium taxes for the football provisions specify that the stadium taxes (income and sales) are the taxes collected at the designated football stadium district (versus the baseball provision that specifies events at the new baseball stadium), although subsequent provisions limit the withholding taxes to NFL teams and sales taxes to football-related events at the football stadium.
- Currently, there are 8 regular season National Football League games played in Minneapolis. The Vikings payroll was approximately \$43.5 million for the 2002 season and ranked 30th out of 30 teams in the NFL. Games are regularly sold out at a stadium with seating for over 60,000.
- The authority to negotiate and enter into an agreement with the team and host community for the football stadium expires July 1, 2005 (Section 11).

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