INCOME, SALES, & PROPERTY TAXES
Professional Sports Facilities

May 4, 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 (H3089DE5), Tax Provisions Only

	Revenue Gain or (Loss)			
	F.Y. 2004	F.Y. 2005	F.Y. 2006	F.Y. 2007
	(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*	$0	$0	$0	$0
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 4 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 7 of the bill provides for an exemption from property tax. Property held by the Minnesota Stadium Authority created in section 3 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 9 of the bill provides for the local government that is the host community to impose any of following taxes: 1) an admissions tax, 2) a parking tax, 3) a tax on restaurants, places of amusement, alcoholic beverages, or prepared food, 4) a tax on lodging, 5) a tax on sports memorabilia sold within the stadium facilities or football stadium district, or 6) a local general sales and use tax on goods and services within their jurisdiction, subject to voter approval at a general election.

EXPLANATION OF THE BILL (*continued*)

Section 11 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 12 provides a mechanism for the state support of the stadium facilities. The teams will provide additional rent payments (i.e. the team rents are in addition to the annual lease payments that may be made by the team in section 8 to fulfill their 1/3 of the stadium project costs). Subsequently, a refund to the teams will be made that compares income tax as a percentage of baseline payroll and sales tax amounts generated at the Metrodome to estimated tax amounts at the new stadium.

For baseball, the refund to the Twins is the addition of: 1) player payroll minus the baseline player payroll multiplied by a payroll percentage for baseball determined by actual 2003 income taxes paid by players of both the Twins and visiting teams, and 2) sales tax on ticket sales for baseball related admissions plus sales tax on concessions at baseball related events minus the baseline sales tax. The maximum amount of the refund may not exceed the rent paid, however, there is a provision for carry forwards when the refund amount exceeds the rent paid amount. For football, the refund to the Vikings is similarly constructed.

The baseline amounts are adjusted for inflation. The effect is to decrease future incremental amounts.

REVENUE ANALYSIS DETAIL

The Legislative Commission on Metropolitan Government is given oversight responsibility for the newly created Minnesota Stadium Authority. 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.

<u>*Section 4 – Sales Tax Exemption for Baseball Stadium Construction*</u>

- Preliminary information related to the Twins ballpark indicates that the total stadium price might be approximately $500 million. A limit of $550 million is set by the bill. Section 7 of the bill provides that the construction manager must 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.

REVENUE ANALYSIS DETAIL (*continued*)

- Section 7 of the bill requires that the authority designate a final site selection by December 31, 2004 (the midpoint of fiscal year 2005). 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 $8,850,000 in fiscal year 2008.
- The sales tax exemption for construction materials has a sunset date of one year after the first major league game is played in the stadium.

Section 4 – Sales Tax Exemption for Football Stadium Construction
- Preliminary information related to a Vikings stadium indicates that the total stadium price might be approximately $645 million, including site costs. A limit of $650 million is set by the bill. Section 7 of the bill provides that the construction manager must guarantee a maximum cost of construction.
- The total project costs are reduced by 10% for site acquisition and related costs. Of the remaining $580 million in project costs, 50% is the estimated portion for materials, supplies, and incorporated equipment.
- Fiscal year impacts are distributed based on construction timelines similar to those estimated for the baseball stadium.
- Section 7 of the bill requires that the authority designate a final site selection by July 31, 2005. It is assumed that construction would occur in fiscal years 2010 to 2012.
- It is estimated that there would be a revenue loss of $2,400,000 in fiscal year 2010, $7,100,000 in fiscal year 2011, and $9,400,000 in fiscal year 2012.
- The sales tax exemption for construction materials has a sunset date of one year after the first major league game is played in the stadium.

The property tax exemptions will reduce the local tax base relative to the base under current law and cause a property tax shift to all other property.

Section 7 – Property Tax Exemption - Baseball Stadium
- 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.

REVENUE ANALYSIS DETAIL (*continued*)

- Again, 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.

Section 7 – Property Tax Exemption – Football Stadium

- The property tax exemption would begin to have an effect when the land was acquired for stadium development, which based on a final site selection date might of July 31, 2005, might 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 would 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.
- Again, 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.

Section 9 – Local Taxes

- The local taxes authorized to be implemented by the host community or local government in Section 9 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 11 – 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 7, the stadium would not be included in the tax increment financing district.

REVENUE ANALYSIS DETAIL (*continued*)

Section 12 - Baseball

- Section 12 of the bill provides a mechanism for the state support of the stadium facilities. There are two aspects to the mechanism: 1) the teams will provide additional rent payments, and 2) there will be a refund to the teams.
- There are several definitions provided in the bill language including the following. The baseline baseball payroll is the amount of wages paid to the players of the major league baseball team for calendar year 2003. The baseline baseball sales tax is based on calendar year 2003 Metrodome information and includes the sales tax on ticket sales for admission to professional baseball-related events and sales tax remitted by vendors and concessionaires for sales at professional baseball-related events at the Metrodome in 2003. Payroll percentage is computed based on all income taxes paid by the Twins and visiting teams for calendar year 2003 divided by the Twin's players' wages for 2003. Wages are those specifically defined by a referenced Internal Revenue standard.
- The Minnesota Stadium Authority is directed to set the amount of the rent obligation, which is not specified in the bill but it cannot be less than the estimated tax refunds. The amount of the rent obligation is expected to be an amount that will pay off 1/3 of the cost of the stadium over a 30-year time frame. For example, it may be that the bonds supported by this mechanism would be $180 million in total and require annual bond payments of approximately $8 million. The bill language indicates that the team would make a negotiated additional rent payment prior to the end of the first year of operation (expected to be, for the given example, $8 million). The rent payments are required to be at least annually and the the refund payments to the teams are due April 1 or 90 days after filing of the refund.
- The refund request is to be initiated by the team. The refund is calculated and refunded by the Commissioner of Revenue. There is an open appropriation from the General Fund to the Commissioner of Revenue to pay the refunds.
- The amount of the refund will be determined based on a formula that reflects the amount of growth in the player income taxes paid relative to the 2003 Metrodome amount plus the in sales tax revenues at the new facility relative to the 2003 amount at the Metrodome. A provision is included to adjust the 2003 baseline amounts for inflation.
- The calculation of the refund is the addition of: 1) player payroll minus the baseline player payroll multiplied by a payroll percentage for baseball determined by actual 2003 income taxes paid by players, and 2) sales tax on ticket sales for baseball related admissions plus sales tax on concessions at baseball related events minus the baseline sales tax.
- Given the expected $8 million required to support the bonds referenced above, it is expected that the amount of the refund would approach $8 million annually.
- If the amount of the refund is greater than the rent amount, there is a provision to carry forward the overage into subsequent years.
- The authority to negotiate and enter into an agreement with the team and host community for the baseball park expires December 31, 2004 (Section 14).

REVENUE ANALYSIS DETAIL (*continued*)

- 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. Preliminary information from the Twins indicates that the sales tax collected at the stadium is approximately $2.5 million per year.

Section 12 – Football

- Section 12 of the bill also provides a similar rent/tax refund mechanism for a football stadium.
- There are some minor differences including a three-year averaging feature and a stadium district designation.
- The authority to negotiate and enter into an agreement with the team and host community for the football stadium expires July 1, 2005 (Section 14).
- 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.

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

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