

MINNESOTA • REVENUE

SALES AND PROPERTY TAXES Minnesota Twins Ballpark

May 1, 2006

Preliminary Estimates

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of H.F. 2480 (Finstad), Fifth Engrossment, Tax Provisions Only

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
	(000's)			
Ballpark Construction Materials Sales Exemption ¹	\$0	(\$1,300)	(\$5,100)	(\$4,400)
Ballpark Property Tax Exemption ²	\$0	\$0	\$0	\$0
Local Government Construction Projects Exemption ³	\$0	\$0	\$0	\$0
High School League Exemption ⁴	<u>\$0</u>	<u>(\$530)</u>	<u>(\$530)</u>	<u>(\$530)</u>
General Fund Total	\$0	(\$1,830)	(\$5,630)	(\$4,930)

¹ An estimated additional impact of \$3.2 million would occur in FY 2010 and beyond.

² Impact begins in FY 2013.

³ Effective July 1, 2009. The preliminary estimate for fiscal year 2010 is a loss of \$87.2 million.

⁴ Effective for sales after June 30, 2006.

The local sales tax provision, which has no state impact, is effective the day after the governing body of Hennepin County and their chief clerical officer file the required documents with the Secretary of State.

All other provisions are effective the day following final enactment.

EXPLANATION OF THE BILL

This analysis applies to the tax provisions only. Section 2 of the bill extends the current sales tax exemption for regular season events to State High School League sectional and state tournaments.

Section 3 provides a sales tax exemption for materials and supplies used or consumed in, and incorporated into, the construction or improvement of the ballpark and public infrastructure. The sales tax exemption extends to the total costs of the ballpark. The exemption for the portion of the materials, supplies and equipment used in the ballpark expires one year after the date of the first major league baseball game is played in the ballpark. Five years after the issuance of the first referenced bond issuance, the exemption for the portion of the materials, supplies and equipment related to the infrastructure expires.

EXPLANATION OF THE BILL (cont.)

Section 4 provides a sales and use tax exemption for construction materials and supplies, and equipment incorporated into, the construction or improvement of a building or other capital project by a local government when the building or project will be for public purposes.

Section 6, Subdivision 4, provides for an exemption from property tax. Property held by the Minnesota Ballpark Authority created in section 4 of the bill is exempt from ad valorem taxation by the state or any political subdivision of the state.

Section 7 of the bill creates the Minnesota Ballpark Authority to determine most of the operational terms by which the stadium in Minneapolis would be constructed.

Section 9, Subdivision 3, provides authorization to the Hennepin County Board to impose a sales and use tax at the rate of 0.15%. The local sales tax is exempt from the requirements for local resolutions and voter approval.

Section 14 specifies the application of local taxes at the ballpark site. Generally, no new or additional local sales or use taxes are allowed on items sold at the ballpark site unless the new or additional tax applies throughout the taxing jurisdiction. Similarly, no new or additional local sales or use taxes are allowed on admissions charges to baseball events at the ballpark unless the new or additional tax applies throughout the taxing jurisdiction. Current local general sales and use taxes, local "downtown" taxes, and the current Minneapolis admissions and amusements tax will apply.

REVENUE ANALYSIS DETAIL

Section 2 – High School League Sectionals Sales Tax Exemption

- Attendance information was received from the State High School League.
- The analysis was based on estimated paid admissions to sectional and state tournaments in fiscal years 2003, 2004, and 2005.
- Ticket prices were last increased in fiscal year 2004. The analysis used the average paid admission for fiscal years 2004 and 2005 as the estimating base.
- The estimating base was multiplied by the 6.5% state sales tax rate.
- Because attendance can vary by year, the revenue estimate was held flat through fiscal year 2009.

Section 3 – Ballpark Construction Materials Sales and Use Tax Exemption

- Hennepin County provided information regarding expected costs and proposed construction timelines.

REVENUE ANALYSIS DETAIL (cont.)

- A ballpark cost limit of \$390 million, excluding site improvements and public infrastructure, is provided in the bill. The team is required to contribute \$130 million and assumes responsibility for cost overruns. Hennepin County is limited to expending the balance of \$260 million.
- The infrastructure costs are limited in the bill to \$90 million. Hennepin County has proposed that they will pay for these items – land, surface parking, site improvements and infrastructure. The ballpark and infrastructure costs then total \$480 million.
- It is assumed that construction timeline runs from fiscal years 2007 through fiscal year 2010. Land acquisition, site prep, design, and permit approvals are expected to occur in fiscal year 2007. The construction start date is expected to be early to mid-2007. The ballpark is to be completed for the start of the 2010 baseball season.
- It is estimated that \$21 million of \$90 million public infrastructure costs would normally be subject to sales tax (i.e. excluding right of way, land acquisition, and labor costs and including materials and supplies for items such as parking lots and pedestrian bridges). It is expected that most of the infrastructure costs that have a sales tax impact will occur in fiscal year 2010.
- It is assumed that 50% of the \$390 million ballpark cost would be for materials, supplies, and incorporated equipment that would have otherwise been subject to sales tax (i.e. excluding design and labor type costs that would have not been subject to sales tax).
- Fiscal year impacts are estimated based on expected construction time lines. The total cost of the sales tax exemption, for all fiscal years, is estimated to be \$14,000,000. The ballpark costs of \$12,700,000 are expected to occur 10% in fiscal year 2007 (with some construction costs in the first half of calendar year 2007), 40% in fiscal year 2008, 35% in fiscal year 2009, and 15% in fiscal year 2010.

Section 4 – Local Government Projects Sales and Use Tax Exemption – Preliminary Estimate

- The estimate was based on Minnesota data from the 2002 Census of Governments.
- Total capital outlay for construction by local governments in Minnesota in 2001-2002 (assumed equivalent to state FY 2002) was approximately \$2.261 billion.
- It was estimated that 45% of this figure represented normally taxable construction materials, supplies, and installed equipment. (The remaining portion is for expenses such as construction labor, architectural and engineering fees, soil analysis and permitting fees.)
- The FY 2002 estimating base was increased through FY 2010 by annual state and local government gross investment in construction according to Global Insight, Inc.

REVENUE ANALYSIS DETAIL (cont.)

Section 6 – Subdivision 4 – Property Tax Exemption

- Assuming a final baseball park valuation of \$480 million and a completion date of April 2010 (the start of the 2010 Major League Baseball season), the full effect on property taxes would start with payable year 2012. The additional property tax burden on homesteads caused by the exemption of the completed facility will increase state-paid homeowner refunds by about \$490,000 beginning in fiscal year 2013.
- 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 9 – Subdivision 3 – Hennepin County Local Tax

- The local sales tax of 0.15% authorized to be implemented by the county would not affect the General Fund or any other state fund.

Section 14 – Local Taxes

- Generally, all current local sales and use taxes will apply at the ballpark site and on admissions to ballpark events.
- The current Minneapolis 0.5% general sales and 3.0% admissions tax, the 3.0% Minneapolis “downtown” restaurant and liquor taxes, and the proposed Hennepin County 0.15% local general sales tax would be expected to apply to sales at the ballpark.
- The effect of the expected local sales taxes that would apply to admissions can be estimated by considering current and expected gross ticket revenues. For the 2005 baseball season, there were approximately 2 million fans in attendance and average ticket prices were about \$17. At a new ballpark, the admissions are expected to approach or exceed 3 million in the first year (and trending slightly downward over the next several years) with average ticket prices in the \$25-\$35 range.
- On other sales at the ballpark, estimates would consider current sales prices and volumes at the Metrodome for the 2005 season. Food sales were approximately \$9 million and liquor sales about \$4 million for Minnesota Twins games. Both volumes and prices would be expected to increase marginally at the new ballpark.

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