

MINNESOTA • REVENUE

SALES AND USE TAX U of M Football Stadium

May 9, 2006

Preliminary Estimates

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of S.F. 2460 (Pogemiller) Unofficial Engrossment (UE2460)

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
			(000's)	
13% Sports Memorabilia Wholesale Tax	\$0	\$3,000	\$12,400	\$12,800
Appropriation to U of M Board of Regents	\$0	\$0	(\$12,900)	(\$12,900)
Stadium Construction Sales Tax Exemption	<u>\$0</u>	<u>\$0</u>	<u>(\$2,000)</u>	<u>(\$3,000)</u>
General Fund Total	\$0	\$3,000	(\$2,500)	(\$3,100)

Effective date for the wholesale tax on sports memorabilia is January 1, 2007.

EXPLANATION OF THE BILL

The bill imposes a wholesale tax of 13% on sales of sports memorabilia. Sports memorabilia is defined as items available for sale to the public that are sold under a license granted by a professional sports league, a professional sports association, a professional sports team, the National Collegiate Athletic Association (NCAA), NCAA Division 1 colleges and universities, NCAA affiliated and corresponding members, or by an individual athlete. Taxed items include trading cards, photographs, clothing, sports event licensed items, sports equipment, and similar items.

The bill provides an annual appropriation to the Board of Regents of the University of Minnesota. The \$12,900,000 appropriation is to support payment of bonds, not to exceed \$172,700,000, for a \$248,000,000 University of Minnesota football stadium. The appropriation starts after the Commissioner of Finance certifies that the board has received at least \$75,300,000 in pledges, gifts, sponsorships, and other nonstate general fund revenue support for the construction of the stadium, but no earlier than July 1, 2007.

In meeting the requirement for the amount of commitments of non-state general revenue support, the bill prohibits use of money received for naming rights from a nonpublic entity and prohibits increased fees or charges on U of M students. Additionally, provision must be made for affordable student access to University sporting events at the stadium.

EXPLANATION OF THE BILL (continued)

Sales of building materials and supplies incorporated into a construction project are normally considered taxable retail sales and subject to sales or use tax. The bill provides an exemption from sales or use tax for materials, supplies, or equipment used or consumed in connection with the construction, equipping, or improvement of a football stadium constructed for use by the University of Minnesota.

There is a provision for early termination of the Metrodome lease between the Regents of the University of Minnesota and the Metropolitan Sports Facilities Commission. The lease was entered into in May 1982 and extends to July 2012.

REVENUE ANALYSIS DETAIL

13% Tax on Sports Memorabilia

- The sports memorabilia tax of 13% was estimated based on information from the Sporting Goods Manufacturers Association (SGMA).
- The tax is assumed to apply to licensed products for the Vikings, Twins, Saints, Timberwolves, Lynx, and Wild Minnesota professional sports teams. Also, all NCAA and all U of M licensed products (including non-sports related merchandise) sold in Minnesota would be subject to the tax.
- The tax is assumed to exclude NASCAR, WCHA, PGA, PBA, and all Minnesota colleges and universities except the University of Minnesota.
- Licensed merchandise, as reported by SGMA, includes the following licensed categories: apparel (31%), accessories (14%), sporting goods (8%), publishing (8%), gifts/novelties (7%), video games/software (7%), toys/games (7%) and other (18%).
- Minnesota has about 3% of national attendance for professional sports teams. It has about 1.7% of the national population and 1.9% of the national income. For this analysis, it is assumed that Minnesota has 2.3% of the national portion of licensed sales. Some national purchasing behavior is linked to the existence of pro sports teams while some purchasing is more closely related to income and general buying patterns.
- Information regarding the sale of University of Minnesota licensed merchandise was received from the Trademark and Licensing Office at the University.
- The bill provides for quarterly estimated payments and an annual reconciliation. The fiscal year 2007 estimate is for one quarterly payment.

Appropriation to the University of Minnesota Board of Regents

- It is assumed that the Commissioner of Finance will certify that the Board of Regents has received \$75,300,000 of nonstate general fund revenue support for the stadium construction prior to July 1, 2007.

REVENUE ANALYSIS DETAIL (continued)

Sales and Use Tax Exemption

- Preliminary cost projections were received from a University Budget and Finance representative and the stadium feasibility study located on the University of Minnesota website.
- The total cost of the project is estimated to be \$248 million.
- Based on information from the stadium feasibility study (updated in 2006), the construction costs for the stadium project will be \$186 million. It is estimated that 41% of the \$186 million would be for materials, supplies, and equipment incorporated into the stadium that would normally be subject to sales or use tax.
- The construction project is estimated to be a two-year project with a construction start date of April 2007 and an estimated project completion date of August 2009.
- Fiscal year impacts are distributed based on the construction timelines in the stadium feasibility study. Taxable purchases prior to July 2007 are expected to be minimal. It is estimated that 40% of the exempted purchases will occur in fiscal year 2008 and 60% in fiscal year 2009.
- The sales and use tax exemption on construction materials expires one year after substantial completion of the project.

Note: The estimates assume that the sales tax exemption is limited to materials, supplies, and equipment that are incorporated into the football stadium project. As drafted, the exemption could be interpreted to include equipment that is used for the project, such as construction equipment.

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