Vikings' Stadium

April 21, 2011

Preliminary Analysis

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 1441 (Lanning) As Proposed to be Amended (H1441A1)

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
	(000's)			
Sports Memorabilia Tax (10%)	$15,500	$17,200	$17,400	$17,600
Sales Tax on Suite Rentals (6.5%)	$0	$0	$650	$650
Sales Tax on Direct Satellite Services (6.5%)	$1,070	$1,240	$1,310	$1,390
Income Tax Surcharge (5%)	$0	$0	$7,800	$7,800
Special Lottery Game	($1,400)	($2,100)	($2,100)	($2,100)
Appropriated to Minnesota Stadium Authority	($16,570)	($18,440)	($27,160)	($27,440)
General Fund Total[1, 2]	($1,400)	($2,100)	($2,100)	($2,100)
Sales Tax on Suite Rentals (0.375%)	$0	$0	$40	$40
Sales Tax on Direct Satellite Services (0.375%)	$60	$70	$75	$80
Natural Resources and Arts Funds[1]	$60	$70	$115	$120
Appropriated from General Fund	$16,570	$18,440	$27,160	$27,440
Special Lottery Game	$1,400	$2,100	$2,100	$2,100
Minnesota Stadium Authority Total[3]	$17,970	$20,540	$29,260	$29,540

[1] Does not include the sales tax exemption for materials, supplies, and equipment used in the construction of the stadium. The revenue loss could range from $18 to $29 million for the General Fund and exceed $1 million for the Natural Resources and Arts Funds. (See page 5 of analysis.)

[2] The property tax exemption would increase state-paid homeowner property tax refunds. The cost to the General Fund would occur after fiscal year 2015.

[3] Does not include any revenue from the proposed local taxes.

Effective for taxable purchases and memorabilia purchases made after June 30, 2011.
As proposed to be amended, the income tax surcharge would be effective for taxable years beginning during or after the calendar year in which the first National Football League game is played in the stadium.

EXPLANATION OF THE BILL

The bill creates the Minnesota Stadium Authority to provide for the construction, financing, and long-term use of a football stadium, with the location of the stadium and municipal partner to be determined. The Metropolitan Sports Facilities Commission would be eliminated.

EXPLANATION OF THE BILL (Cont.)

Sports Memorabilia Tax: Section 4 of article 1 creates a 10% tax on the gross receipts from the wholesale sales of sports memorabilia. Sports memorabilia are items available for sale to the public that are sold under a license granted by any professional sports league or a team that is a franchise of a professional sports league, or an affiliate or subsidiary of a league or team. If the gross receipts tax is not paid at the wholesale level, a use tax is owed by the possessor of the sports memorabilia.

Sales Tax on Suite Rentals: Section 5 of article 1, **as proposed to be amended,** expands the definition of taxable admissions to include rental of box seats, suites, and sky boxes at the new stadium.

Sales Tax on Direct Satellite Services: Section 6 of article 1 would expand taxable direct satellite services to include digital video recording (DVR) services. Minnesota statutes already provide for the taxation of DVR services when they are provided by a cable television company.

Construction Materials Sales Tax Exemption: Section 7 of article 1 exempts from the sales and use tax materials and supplies used or consumed in and equipment incorporated into the construction or improvement of the stadium and related public infrastructure. This subdivision expires one year after the date that the first NFL game is played in the stadium for materials, supplies, and equipment used in the stadium, and five years after the issuance of the first bonds for materials, supplies, and equipment used in the public infrastructure.

Income Tax Surcharge: Section 17 of article 1 imposes a 5% tax on the taxable net income for the taxable year on qualified employees of a sports organization. A “qualified employee” is an employee who derives wages, salaries, or other compensation for the performance of personal services of at least $250,000 from a sports organization for the taxable year and has one or more duty days consisting of services performed in the stadium. A “sports organization” includes the team or any other franchise of the National Football League that plays a game in the stadium during the taxable year.

Local Taxes: Section 18 of article 1 would authorize the municipal partner (city or county or both) to impose several types of local taxes.

1. A general sales tax of up to 0.5%.
2. A lodging tax in the municipality not to exceed 3%.
3. A gross receipts tax on the retail sales of liquor, not to exceed 3%.
4. A gross receipts tax not to exceed 3% on one or more of the following:
    a. Use of amusement devices or games.
    b. Admissions to events and places where entertainment is provided, up to $1 per ticket.
    c. Food, drinks, and merchandise sold during live performances.

5. A tax of up to 3% on food and beverages sold at locations in the municipality.

EXPLANATION OF THE BILL (Cont.)

Property Tax Exemption: Section 19 of article 1 provides for an exemption from property tax. Any properties held by the authority are exempt from ad valorem taxation by the state or any political subdivision of the state. The exemption includes property leased for stadium related purposes, including the operation of the stadium and related parking facilities.

Special Lottery Game: Section 24 of article 1 requires the Minnesota Lottery to conduct an annual game based on stadium or professional football themes. Revenue from the game would be deposited in the stadium account. The minimum amount of money available would be $2.1 million per year.

Section 25 of article 1 appropriates funds deposited to the general fund under this act to the Minnesota Stadium Authority for use in the stadium provisions allowed in this act. If a stadium bid is not accepted by February 15, 2012, and a stadium lease is not signed, these funds may be used by the authority for expenses associated with the operation of the Metrodome.

REVENUE ANALYSIS DETAIL

Digital Video Recording for Direct Satellite Services

- Based on industry information, it is estimated that for fiscal year 2010 there were 33.1 million subscribers to television satellite services in the U.S. About 40% of these satellite subscribers receive DVR services.
- The subscriber numbers are apportioned to Minnesota based on 2009 population – 1.72%. It is estimated that there are 227,100 satellite subscribers in Minnesota with DVR services.
- The estimates are reduced by 10% for bundled transactions in which the DVR service is already taxed.
- It is estimated that the average DVR fees are $78 annually.
- Annual growth rates of 4% service usage and 2% price increases are assumed.
- The fiscal year 2012 estimate is adjusted for eleven months of collections.

Sports Memorabilia Wholesale Tax

- This estimate is based on national 2007 licensed merchandise sales for the Top 100 licensed merchandisers according to License Global.
- The February 2011 Global Insight forecast of growth in consumer spending on non-durable goods is used for annual growth.
- National sales of licensed merchandise are apportioned to Minnesota in two stages. In the first stage, 70% of national sales are apportioned to Minnesota based on Minnesota's share of the U.S. population, approximately 1.72%. In the second stage, the remaining 30% of national sales are divided evenly among all professional teams in each league, approximately 3.13% per team. Professional sports with no teams in Minnesota are apportioned to Minnesota at 0.14%.

REVENUE ANALYSIS DETAIL (Cont.)

- The following sports are included in the estimate: Major League Baseball, National Football League, National Hockey League, National Basketball Association, National Association of Stock Car Auto Racing, International Federation of Association Football, Major League Soccer, The Football Association and World Wrestling Entertainment.
- To determine wholesale sales, the retail markup is assumed to be 75%.
- Fiscal year 2012 is adjusted for eleven months of collections.

Special Lottery Game
- The Minnesota Lottery estimates that a sports-themed game would not result in new revenues but would take the place of existing lottery games.
- The Minnesota Lottery estimates that there could be $21 million in annual total sales from sports themed lottery scratch games.
- After payment of prizes, commissions, and operating expenses, 17.3% of sales, or $3.6 million, remain as net proceeds.
- The Minnesota Constitution requires that 40% of net proceeds are dedicated to the Environmental and Natural Resources Trust Fund, leaving approximately $2.1 million available for stadium funding.
- The estimate for fiscal year 2012 assumes two thirds of the normal revenue.

Income Tax Surcharge
- The preliminary estimate is based on 2010 withholding data from the Department of Revenue. Wages subject to Minnesota withholding are used as a proxy for taxable net income.
- Wages are held at 2010 levels because of the uncertainty of the current NFL labor talks.

Sales Tax on Suite Rental
- This estimate is based on data from the Minnesota Vikings.
- The Vikings estimate that the new stadium would generate between $10 and $12.5 million per year in suite rentals. This estimate uses the $10 million revenue forecast.
- This estimate assumes that the Vikings would begin play in the stadium in 2013.

Property Tax
- Assuming a completion date of August 2013 (the start of the 2013 National Football League season), the full effect on property taxes would start with payable year 2015. The additional property tax burden on homesteads caused by the exemption of the completed facility will increase state-paid homeowner refunds beginning in fiscal year 2016.
- The exemption from the state property tax levy would have no impact on state revenues because the tax rates would be adjusted to yield the amount of revenue required by statute.

The tax reduction for the stadium property would be shifted to the other properties subject to the state levy.

REVENUE ANALYSIS DETAIL (Cont.)

Construction Materials Sales Tax Exemption

- The new Vikings' Stadium has been reported to have construction costs between $700 and $900 million.
- Materials typically make up between 40% and 50% of the construction costs of these types of projects.
- Based on these assumptions, the construction materials exemption would cost the General Fund between $18.2 and $29.3 million. The revenue loss for Natural Resources and Arts Funds would be between $1.1 and $1.7 million.
- The construction timeline would determine what portion of the revenue loss occurred in each fiscal year.

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

sf1164(hf1441)_1/pja