

MINNESOTA • REVENUE

Vikings' Stadium

April 12, 2012

	Yes	No
DOR Administrative Costs/Savings	x	

Department of Revenue
Analysis of H.F. 2810 (Lanning) First Engrossment

	Fund Impact			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
	(000's)			
Lawful Gambling Taxes				
Tax Rate & Gambling Activity Changes ¹	\$0	\$36,200	\$52,200	\$52,200
Sales Tax Exemption for Construction Materials	\$0	(\$180)	(\$4,700)	(\$8,900)
Appropriation to Com. of Human Services	\$0	(\$180)	(\$260)	(\$260)
Appropriation to Gambling Control Board	<u>\$0</u>	<u>(\$180)</u>	<u>(\$260)</u>	<u>(\$260)</u>
General Fund Total²	\$0	\$35,660	\$46,980	\$42,780
Sales Tax Exemption for Construction Materials	<u>\$0</u>	<u>(\$10)</u>	<u>(\$270)</u>	<u>(\$510)</u>
Natural Resources and Arts Funds	\$0	(\$10)	(\$270)	(\$510)
Appropriation to Gambling Control Board from Special Revenue Fund, Lawful Gambling Regulation Account	<u>\$0</u>	<u>(\$779)</u>	<u>(\$779)</u>	<u>(\$779)</u>
Total – All Funds³	\$0	\$34,871	\$45,931	\$41,491

¹ According to the Gambling Control Board, the new forms of gambling authorized in the bill are expected to increase charitable gambling activity, and the estimates reflect this increased activity.

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 The total does not include reductions for sales tax refunds for capital projects or income tax reductions from the sales of commemorative bricks. The total also does not include any revenues from the blink-on contingency funding sources.

Effective the day after enactment for authorization of new forms of gambling, except sports themed tipboards. This estimate assumes that the date of enactment would be prior to May 1, 2012.

Sports themed tipboards are effective August 1, 2012.

All changes in gambling tax structure and rates are effective July 1, 2012.

Effective the day after enactment for stadium construction materials and commemorative brick sales.

Effective for sales and purchases made after June 30, 2012, for building materials for capital projects.

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. The Metropolitan Sports Facilities Commission would be eliminated.

Sales and Use Tax

The bill creates a sales and use tax exemption for materials and supplies used or consumed in, and equipment incorporated into, the construction or improvement of the football stadium and stadium infrastructure as defined in section 473J.03, subdivisions 7 and 9. This exemption expires one year after the date that the first National League Football League game is played in the stadium for materials and supplies, and equipment used in the construction and equipping of the stadium. This exemption expires five years after the issuance of the first bonds for materials, supplies, and equipment used in the stadium infrastructure.

The bill also creates an exemption for sales and use taxes for materials and supplies used or consumed in and equipment incorporated into the construction or improvements of a capital project funded partially or wholly under section 297A.9905. Section 297A.9905 provides that, if the revenues from any local tax imposed on retail sales under a special law by a city of the first class exceed the amount needed to fund the uses authorized in the special law, the city may expend the excess revenue to fund other capital projects of regional significance. The project must have a total construction cost of at least \$40 million within a 24-month period. The tax on purchases exempt under this provision must be imposed and collected as if the rate in 297A.62, sub. 1, applied and then refunded in the manner provided in section 297A.75.

Lawful Gambling Taxes

The bill would allow for two new types of electronic charitable gambling in Minnesota: electronic linked bingo games and electronic pull-tabs. The bill would expand the availability of electronic linked bingo compared to bingo under current law. The bill would allow sports-themed tipboards for professional sports. Each tipboard may not have a maximum prize payout greater than 85% and a chance or ticket may not be sold for more than \$10.

The Gambling Control Board notes that there is a question about the legality of sports-themed tipboards (wagering based on the outcome of a professional sporting event) under federal law. The Board references the Professional & Amateur Sports Protection Act and Title 28, Part VI, Chapter 178 of the U.S. Code.

The bill would eliminate the distributor tax. The combined receipts tax would be eliminated and replaced with a tax on net receipts by organization. Electronic linked bingo, all pull-tabs and all tipboards would be subject to this new tax on net receipts. The new net receipts tax will have four brackets, with an initial rate of 6.89%. Each bracket adds an additional 6.89% to the tax rate and the maximum rate is 27.56% in the fourth bracket.

EXPLANATION OF THE BILL (Cont.)

The bill would change the tax structure and rates to the following:

Net Receipts Tax on Existing Bingo, Raffles, Paddlewheels	8.5%
Distributor Tax on Pull-tabs and Tipboards	eliminated
Combined Receipts Tax	eliminated
New Net Receipts Tax on All Pull-tabs, All Tipboards, and Electronic Linked Bingo (organization basis)	
Not over \$87,500	6.89%
Over \$87,500, but not over \$122,500	13.78%
Over \$122,500, but not over \$157,500	20.67%
Over \$157,500	27.56%

The bill also makes several changes to charitable gambling regulations.

The bill appropriates \$779,000 in fiscal year 2013 and in fiscal years 2014 and 2015 from the Lawful Gambling Regulation Account in the Special Revenue Fund to the Gambling Control Board for operating expenses related to the oversight of lawful gambling.

The bill creates two new appropriations. One-half of one percent of the revenue deposited in the General Fund from the lawful gambling taxes would be appropriated to the Commissioner of Human Services for the compulsive gambling treatment program. Secondly, an equal amount would be appropriated to the Gambling Control Board for a grant to the state affiliate recognized by the National Council on Problem Gambling for the purposes specified.

Note: These two appropriations are intended to be 0.5% of the increase in charitable gambling tax revenues over the February 2012 forecast. The language may need to be clarified to ensure that this provision works as intended.

Stadium Contingency Funding

The bill has several funding sources that will blink-on if the increases in the revenues from lawful gambling taxes are not sufficient to meet the funding needs. The first funding source is a 10% tax on the gross receipts received for the rental of box seats, suites, skyboxes, and similar in the NFL stadium. The second funding source is a sports-themed lottery game. The third funding source is excess sales tax revenue from Hennepin County. The fourth funding source is a 10% tax on admissions to professional sporting events at the NFL stadium.

Property Tax

The bill 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.

EXPLANATION OF THE BILL (Cont.)

Commemorative Bricks

The authority shall sell commemorative bricks to be displayed at a prominent location in the new stadium. The authority shall work with the commissioner to ensure that the purchase of a brick is a tax deductible donation on the part of the donating person or organization.

REVENUE ANALYSIS DETAIL

Stadium Sales Tax Exemption

- This estimate is based on detailed construction cost estimates for a stadium at the Metrodome site provided by Mortenson Construction, dated March 2, 2012. Projected costs are based on site work commencing in the second quarter of 2013 and construction in the third quarter of 2013.
- This estimate assumes that materials make up 45% of the cost of construction.
- The total revenue loss for all years from the sales tax exemption is estimated at \$22.5 million

Sales Tax Refund for Capital Projects

- This refund would apply to projects in Minneapolis, St. Paul, Rochester, and Duluth.
- There are three projects currently in the planning stages that could qualify for this refund: renovations to Target Center (\$150 million estimated total cost), St. Paul Saints Stadium (\$52 million estimated total cost), and Mayo Civic Center expansion (\$50 million estimated total cost).
- It is unknown if any of these projects could qualify for the refund before the end of fiscal year 2015.

Lawful Gambling Taxes

The following assumptions were provided by the Gambling Control Board:

- Electronic linked bingo will be available at 1,500 sites in Minnesota. Sites with two hundred seats or less would on average have three machines and sites with more than two hundred seats would have nine machines. On average, each machine will have \$90 of gross receipts and \$13.50 of net receipts per day.
- Electronic pull-tabs will be available at 2,500 sites in Minnesota. Sites with two hundred seats or less would on average have four machines and sites with more than two hundred seats would have twelve machines. On average, each machine will have \$225 of gross receipts and \$33.75 of net receipts per day.
- Approximately 85% of the new electronic gaming would be electronic pull-tabs and 15% would be electronic linked bingo.
- The estimates of daily machine receipts assume that the new forms of electronic gambling would allow for the replay of winning credits.

REVENUE ANALYSIS DETAIL (Cont.)

- The introduction of electronic pull-tabs and electronic linked bingo will reduce the amount of paper pull-tabs sold by 20%.
- Sports-themed tipboards will be available at 3,500 sites in Minnesota, an increase of 700 sites from current operations. Each site will conduct an average of 5 games per week, each grossing \$500. On average, each location will have gross receipts of \$130,000 per year.
- Sports-themed tipboards will have a negligible impact on existing charitable gambling receipts and the proposed electronic forms of charitable gambling.
- The Gambling Control Board estimates that it will take four to six months to write regulations and to have the electronic machines installed at the sites.

The Department of Revenue used the following data and assumptions to complete this estimate:

- Baseline revenues are from the February 2012 forecast.
- Baseline gross receipts and organizational receipts data is from the Department's fiscal year 2011 filing records.
- Department of Revenue data on gross receipts by organization for fiscal year 2011 was scaled to match the projected gross receipts from the new electronic games under this proposal.
- Gross receipts from sports-themed tipboards are allocated to each organization based on the number of sites the organization currently operates. The new sites are proportionally allocated to existing charities.
- Gross receipts from sports-themed tipboards are added to the scaled gross receipts and then the new net receipts tax is calculated.
- This estimate assumes that the new electronic games and sports-themed tipboards will have net receipts that are 15% of gross receipts.
- Fiscal year 2013 receipts are reduced to reflect nine months of collections.
- Due to the estimated four to six months needed to implement the new forms of gambling, the date of enactment will have a significant impact on collections in fiscal year 2013. For each month of delay after May 1, 2012, the estimate for fiscal year 2013 would be reduced by about \$4 million.

Stadium Contingency Funding

- The Vikings provided data to the Department that estimates that the sales of box seats and suites would be in the \$10 - \$12 million range. A 10% tax would probably generate about \$1 million per year.
- The Minnesota Lottery has stated previously that a sports themed lottery game would not generate any new funds.
- Hennepin County budget projects show the possibility of several million dollars that might be available for the Vikings Stadium.

REVENUE ANALYSIS DETAIL (Cont.)

- The Team Marketing Report estimates that the average ticket to a Vikings' game cost \$75.69 in 2010. If attendance is 65,000 per game and the Vikings' have 10 home games per year, then a 10% tax would generate about \$5 million per year.

Property Tax Exemption

- Assuming a final stadium valuation of \$715 million and a completion date of August 2016 (the start of the 2016 National Football League season), the full effect on property taxes would start with payable year 2018. The additional property tax burden on homesteads caused by the exemption of the completed facility will increase state-paid homeowner refunds by about \$1.1 million beginning in fiscal year 2019.
- 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.

Sales of Commemorative Bricks

- The amount of commemorative bricks to be sold and their price is not known at this time.
- If this provision increases charitable giving in Minnesota, then corporate and individual income tax receipts will be reduced by an unknown amount as the deductions for charitable giving increase.

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