

# MINNESOTA • REVENUE

## Vikings' Stadium

May 10, 2012

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 2958 Conference Committee Report (Lanning/Rosen) **Updated Analysis**

	<b>Fund Impact</b>			
	<b><u>F.Y. 2012</u></b>	<b><u>F.Y. 2013</u></b>	<b><u>F.Y. 2014</u></b>	<b><u>F.Y. 2015</u></b>
	(000's)			
Lawful Gambling Taxes				
Tax Rate & Gambling Activity Changes <sup>1</sup>	\$0	\$35,200	\$57,900	\$57,900
Sales Tax Exemption for Construction Materials	\$0	(\$180)	(\$4,700)	(\$8,900)
Appropriation to Com. of Human Services	\$0	(\$360)	(\$470)	(\$470)
Appropriation for Grant by Human Services	\$0	(\$360)	(\$470)	(\$470)
Appropriation to the City of St. Paul for Sports Facilities	<u>\$0</u>	<u>\$0</u>	<u>(\$2,700)</u>	<u>(\$2,700)</u>
<b>General Fund Total</b>	<b>\$0</b>	<b>\$34,300</b>	<b>\$49,560</b>	<b>\$45,360</b>
Sales Tax Exemption for Construction Materials	<u>\$0</u>	<u>(\$10)</u>	<u>(\$270)</u>	<u>(\$510)</u>
<b>Natural Resources and Arts Funds</b>	<b>\$0</b>	<b>(\$10)</b>	<b>(\$270)</b>	<b>(\$510)</b>
Appropriation to Gambling Control Board from Special Revenue Fund, Lawful Gambling Regulation Account	\$0	(\$1,219)	(\$1,219)	(\$1,219)
Appropriation to Department of Public Safety	<u>\$0</u>	<u>(\$250)</u>	<u>(\$250)</u>	<u>(\$250)</u>
<b>Special Revenue Fund</b>	<b>\$0</b>	<b>(\$1,469)</b>	<b>(\$1,469)</b>	<b>(\$1,469)</b>
<b>Total – All Funds</b>	<b>\$0</b>	<b>\$32,821</b>	<b>\$47,821</b>	<b>\$43,381</b>

<sup>1</sup> 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.

Effective the day after enactment for authorization of new forms of gambling. All changes in gambling tax structure and rates are effective July 1, 2012.

Effective the day after enactment for commemorative brick sales.

### EXPLANATION OF THE BILL

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

## **EXPLANATION OF THE BILL (Cont.)**

### *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 8 and 10. The exemption expires one year after the date that the first National Football League game is played in the stadium for materials and supplies, and equipment used in the construction and equipping of the stadium. The 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 a sales and use tax exemption 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.

### *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.

### *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 also authorize sports-themed tipboards (wagers based on the outcome of a professional sporting event).

There are currently three taxes on lawful gambling:

Net Receipts Tax on Bingo, Raffles, Paddlewheels	8.5%
Distributor Tax on Pull-tabs and Tipboards	1.7%
Combined Receipts Tax on Pull-tabs and Tipboards (organization basis)	
Not over \$500,000	0%
Over \$500,000, but not over \$700,000	1.7%
Over \$700,000, but not over \$900,000	3.4%
Over \$900,000	5.1%

### **EXPLANATION OF THE BILL (Cont.)**

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 except sports-themed 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 9.0%. Each bracket adds an additional 9.0% to the tax rate and the maximum rate is 36% in the fourth bracket.

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 Except Sports Tipboards, and Electronic Linked Bingo (taxed on an organization basis)	
Not over \$87,500	9.0%
Over \$87,500, but not over \$122,500	18.0%
Over \$122,500, but not over \$157,500	27.0%
Over \$157,500	36.0%
Sports-themed Tipboards	exempt

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 estimates presented here assume sports-themed tipboards are legal.

The bill also makes several changes to charitable gambling regulations.

#### *Contingent Tax Rate Reduction*

If lawful gambling tax revenue reaches a target level in FY 2016, the new net receipts tax rates will be reduced to 8.5%, 17.0%, 25.5%, and 34.0% starting in FY 2017. The target level is the forecast lawful gambling revenue under current law (\$36.9 million net of refunds) plus the estimated increase in annual tax revenue (\$57.9 million), for a total of \$94.8 million.-

#### *Appropriations to the Gambling Control Board and Department of Public Safety*

The bill appropriates \$1.219 million per year to the Gambling Control Board and \$250,000 per year to the Department of Public Safety. The appropriations are 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. (Gambling fee revenue is deposited in that fund, and that fee revenue will grow with the increase in gambling activity, though the increased fee revenue is not shown on this revenue analysis.)

## **EXPLANATION OF THE BILL (Cont.)**

### *Appropriations for Treatment of Compulsive Gambling*

The bill creates two new appropriations related to gambling. 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. An equal amount would be appropriated to the Commissioner of Human Services for a grant to the state affiliate recognized by the National Council on Problem Gambling.

### *Commemorative Bricks*

The authority shall sell commemorative bricks to be displayed at a prominent location in the new stadium. Proceeds from the sale of bricks fund a grant to the Minnesota Sports Facilities Authority.

### *Blink-On Revenues*

The bill specifies two blink-on sources of revenue, which will be used only if revenue from other sources is insufficient: (1) a sports-themed lottery game; and (2) a 10% gross receipts tax on the rental of suites, sky boxes, and similar at the new stadium.

### *Appropriation to the City of St. Paul*

The City of St. Paul is annually appropriated \$2.7 million from the General Fund for fiscal years 2014 to 2033. This appropriation is a grant for the operating or capital costs of existing or new sports facilities.

## **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 starting in the second quarter of 2013 and construction starting 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.

## **REVENUE ANALYSIS DETAIL (Cont.)**

### *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.

### *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.
- 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 lawful 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 the 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.

### **REVENUE ANALYSIS DETAIL (Cont.)**

- 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.
- This estimate assumes that the new electronic games will pay out 85% of gross receipts in prizes, so net receipts will equal 15% of gross receipts.
- Fiscal year 2013 receipts are reduced to reflect eight months of collections. Fiscal year 2013 has also been adjusted to reflect three months of existing activity at the new tax rates.

#### *Sales of Commemorative Bricks*

- The amount of commemorative bricks to be sold and their price is not known at this time.

#### *Blink-On Revenues*

- The Lottery has stated that it offers a selection of games designed to maximize its revenue and that adding a similar game with a sports theme would generate no additional new revenue.
- The tax on suites and sky-boxes would apply (if needed) at “the NFL stadium.” The Vikings’ first season in the new stadium will be the 2016 season, so if the tax would apply only at the new stadium then it could not produce revenue until fiscal year 2016 at the earliest.
- The Vikings provided estimates of the rental of suites at the new stadium. They estimate that the amount will be in the \$10 - \$12 million range per season. A 10% fee would probably generate about \$1 million per year.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.revenue.state.mn.us/research\\_stats](http://www.revenue.state.mn.us/research_stats)