

MINNESOTA • REVENUE

Vikings' Stadium

May 8, 2012

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of S.F. 2391 (Rosen) as Proposed to be Amended (SCS2391A214) *Revised for Corrected Appropriation*

	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	\$35,900	\$59,000	\$59,000
Solicitor Nexus	\$0	\$3,700	\$4,700	\$5,400
Sales Tax Exemption for Construction Materials	\$0	(\$180)	(\$4,700)	(\$8,900)
Appropriation to Com. of Human Services	\$0	(\$370)	(\$480)	(\$480)
Appropriation for Grant by Human Services	\$0	(\$370)	(\$480)	(\$480)
Appropriation to the City of St. Paul for Sports Facilities	<u>\$0</u>	<u>\$0</u>	<u>(\$2,700)</u>	<u>(\$2,700)</u>
General Fund Total²	\$0	\$38,680	\$55,340	\$51,840
Sales Tax Exemption for Construction Materials	\$0	(\$10)	(\$270)	(\$510)
Solicitor Nexus	<u>\$0</u>	<u>\$200</u>	<u>\$270</u>	<u>\$310</u>
Natural Resources and Arts Funds	\$0	\$190	\$0	(\$200)
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	\$38,091	\$54,561	\$50,861

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 total does not include income tax reductions from the sales of commemorative bricks.

³ The stadium fees will not produce revenue until FY 2016.

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

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 7 and 9. 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 taxes 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.

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.

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%

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 9.1%. Each bracket adds an additional 9.1% to the tax rate and the maximum rate is 36.4% 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	9.1%
Over \$87,500, but not over \$122,500	18.2%
Over \$122,500, but not over \$157,500	27.3%
Over \$157,500	36.4%

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 related to gambling. One-half of one percent of the increase in 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 for the purposes specified.

User Fees at Stadium

The bill creates three user fees at the new stadium. The first fee is a 10% fee on the sale or rental of suites for NFL team games and NFL events at the stadium. The second fee is a 10% fee on all charges for parking within one-half mile of the stadium on days that the NFL team plays at the stadium and on the days of any NFL team event. The third fee is a 6.875% memorabilia fee on NFL team memorabilia sold at the stadium. Memorabilia means items available for sale in the stadium to members of the public that are sold under a license granted by the NFL team or the NFL. Memorabilia includes, but is not limited to, trading cards, photographs, one-of-a-kind items, clothing, sports events licensed items, and sports equipment.

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. Proceeds from the sale of bricks fund a grant to the Minnesota Sports Facilities Authority.

Sports Themed Lottery Game

The bill directs the Minnesota Lottery to conduct a game based on stadium or professional sports. The Lottery has stated that this game would not generate any additional new revenue.

Plaza Naming Rights

The bill retains the naming rights to the stadium plaza for the State. The amount generated through the naming rights must be deposited in the special revenue fund. These funds are to be used for grants for amateur sports facilities.

Solicitor Nexus for Sales Tax

Under current law, a retailer is required to collect and remit Minnesota sales tax if the retailer has an affiliated entity or solicitor in the state. The bill modifies the definition of solicitor, increasing the number of retailers who will be subject to Minnesota sales tax. A retailer would have a solicitor in Minnesota if it has an agreement with a Minnesota resident or Minnesota business who, for a consideration, refers potential customers, whether by a link on an Internet web site or otherwise, to the retailer. These provisions would apply only if the retailer had at least \$10,000 in gross receipts from Minnesota customers who were referred by solicitors, as defined.

Mall of American and Bloomington TIF

The bill allows the city of Bloomington and its port authority to extend the duration limits of tax increment financing (TIF) district No.1-G, which contains the former Met Center property, including Lindau Lane and part of No. 1-C. The TIF district would be extended through December 31, 2038.

The bill allows the city of Bloomington and its port authority to extend the duration limits of tax increment financing (TIF) district No.1-I, which contains the Bloomington Central Station property. The TIF district would be extended through December 31, 2038.

Appropriation to the City of St. Paul

The City of St. Paul is annually appropriated \$2.7 million for fiscal years 2014 to 2034. 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.

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%.
- 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.

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 have net receipts that are 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.
- 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 June 1, 2012, the estimate for fiscal year 2013 would be reduced by about \$5 million.

User Fees

- The Vikings' first season in the new stadium will be the 2016 season, so the user fees will not produce revenue until fiscal year 2016 at the earliest.
- The Vikings provided estimates of the sales of suites at the new stadium. They estimate that the sales will be in the \$10 - \$12 million range per season. A 10% fee would probably generate about \$1 million per year.
- There are approximately 5000 parking spaces within a half mile of the stadium site. If these parking spaces average \$30 per home game, the total parking fees per season would be about \$1.5 million. A 10% fee would generate about \$150 thousand dollars per fiscal year.
- Merchandise sales at the stadium are unknown at this time. Sales will depend greatly on the Vikings' marketing plans and how successful a Vikings' store is at the stadium site.

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.

Solicitor Nexus for Sales Tax

- The revenue estimate was based on first-quarter tax collections from Illinois, which has a law similar to this bill. The Illinois law became effective July 1, 2011.
- The first-quarter collections were increased by 50% to account for an early lag in return filing and conforming to the new provision. The estimate was adjusted for the difference in sales tax rates in the two states and for the difference in the Illinois and Minnesota shares of U.S. personal income.
- Census Bureau data show that from 2002 to 2007 the annual growth of electronic retail sales was about 23%. After leveling off in 2008, growth has been about 15% from 2009 to early 2010. A 15% annual growth rate was assumed through fiscal year 2015.
- The FY 2013 estimate was adjusted for the effective date of July 1, 2012.

REVENUE ANALYSIS DETAIL (Cont.)

- In Illinois, many of the prominent national “e-tailers” have dropped their solicitor arrangements. The estimates assume that a similar business response would also occur here.

Mall of American and Bloomington TIF

- The proposed changes to the general TIF provisions may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Plaza Naming Rights

- The amount of revenue that would be generated from the sale of the plaza naming rights is unknown at this time.

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