

# Fiscal Analysis Department

## Minnesota House of Representatives

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### ISSUE BRIEF

#### Stadium Finance Update October 2013

*The Minnesota Vikings Stadium Act was modified in the 2013 tax bill (Chapter 143). This document discusses these changes relative to the 2012 Stadium Act.*

#### **Additional Stadium Tax Revenue Sources from the General Fund**

The 2012 Legislature authorized the growth in lawful gambling tax revenues to pay for stadium related expenses from the general fund. The 2013 Legislature modified the 2012 Stadium Act in Chapter 143 and also designated up to \$20 million each year from corporate tax revenue in the general fund to pay for stadium related expenses as needed. If the growth in lawful gambling tax receipts falls short of projections, the corporate tax revenue from the general fund is added to the stadium reserve before any authorized back-up sources (sports-themed lottery games and a tax on suites at the new stadium) for stadium revenues can be triggered.

On a one-time basis only in FY 2014, Chapter 143 also directs the commissioner of revenue to deposit \$26.5 million of the revenues from the cigarette floor stocks tax to the stadium reserve fund. The deposit of \$26.5 million authorized in the 2013 tax bill with the designated amount of up to \$20 million from corporate taxes will increase the available stadium revenue to offset stadium expenses.

#### **Existing Stadium Revenue Sources**

The modifications described above are added to the existing state and local revenue sources in the 2012 Vikings Stadium Act. These existing sources include:

For the state's contribution to the stadium, Minnesota Management & Budget (MMB) is required to determine each year the amount of general fund revenues from lawful charitable gambling taxes that are in excess of those projected in the February 2012 economic forecast (in excess of \$36.9 million general fund base amount). The lawful gambling tax rates were restructured in 2012 and electronic linked bingo and electronic pull tabs were added to the definition of gross receipts for tax purposes. The expectation is that with these law changes that there would be a

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growth in lawful gambling above the base tax revenues projected in the 2012 February Forecast of \$36.9 million. If lawful gambling tax revenues exceed stadium related costs, the excess tax revenue is to be deposited into a stadium reserve account.

Background: Since the 2012 session, there have been two MMB forecasts projecting revenue from general fund lawful gambling taxes to be significantly below end of session estimates from 2012. In response to these forecasts projecting shortfalls in the growth of lawful gambling tax revenues, the 2013 Legislature has designated that up to \$20 million each year from corporate tax revenue may be used to pay for stadium related costs from the general fund.

The City of Minneapolis provides the second major source of public funding for the stadium related costs. The City will provide tax revenue after FY 2020 from these existing local taxes: sales, liquor, lodging, and restaurant taxes generated in Minneapolis. For Minneapolis and other political jurisdictions, the Minnesota Department of Revenue currently collects local sales taxes and remits these local tax revenues back to local entities after making some deductions for administration. The commissioner of revenue will continue to collect these taxes from the city of Minneapolis; however, a portion of these taxes will be deposited into the state general fund for stadium related costs. The state will retain four allocations from city tax revenues with one allocation starting in calendar year 2014 and the other allocations starting in calendar year 2021.

Starting in calendar year 2014 (FY 2014), the state will retain for the benefit of the stadium authority any increases in local taxes from calendar year 2013. The calculation to measure growth in local taxes is based on a formula of growth over calendar year 2011 local tax revenue.

Starting in FY 2021, the amount retained by the state from these city local tax revenue sources is estimated to be about \$19 million and increasing by an adjustment factor each year thereafter. The breakdown of the estimated \$19 million that will be retained by the state from FY 2021 to FY 2047 is the sum of these three allocations : (1) the portion of the local taxes that represent repayment for \$150 million (city share) in stadium construction costs or state bond debt service support; (2) the payment of \$7.5 million in annual operating and capital reserve payments; and (3) for the recapture of state advances for operating and capital expenses for calendar years 2016 to 2020.

### **Existing Stadium Expenditures**

The 2013 tax bill did not make any modifications to the authorization of four statutory appropriations from the General Fund for stadium related expenses enacted in 2012. These statutory appropriations are listed in Table 1. A statutory appropriation refers to the authority to spend resources that is codified in statute, rather than session laws. Such an appropriation is ongoing. Two of the four stadium statutory appropriations are open because there is an authority to spend an unspecified amount of resources. These open statutory appropriations are:

1. For an annual debt service payment of principal and interest on the appropriation bonds for the stadium in the amount of \$498 million, net of issuance costs from the general fund. The first open appropriation from the general fund is scheduled to take place in FY 2014. The revenues from the general fund (not specifically from lawful gambling tax receipts or corporate tax receipts) are security for paying the appropriation bonds. This appropriation is on-going until the term of the stadium bonds are fully repaid.
2. For grants for problem gambling, up to one percent of lawful gambling tax revenues each year is designated for this purpose. The statutory appropriation from the general fund was effective FY 2013 and is ongoing.

There are also two statutory appropriations from the general fund related to stadium expenses with a pre-determined dollar amount. These pre-determined statutory appropriations are:

3. For grants to the city of St. Paul for sports facilities, there is a statutory appropriation of \$2.7 million from the general fund starting in FY 2014 to FY 2033.
4. For payments by the state and transferred to the MN Sports Facilities Commission for stadium operations and contributions to the capital reserve fund. These payments are scheduled to take place in FY 2016 to FY 2020 and the estimated cost is \$7.5 million from the general fund in the first year.

Finally, there are also non general fund direct appropriations in the stadium act for the regulatory oversight of gambling paid to the Gambling Control Board and the Minnesota Department of Public Safety. Unlike the statutory appropriations for debt service and the city of St. Paul that are on-going, the direct appropriations for regulatory oversight of gambling are for a limited amount of time. In other words, the direct appropriations for regulatory gambling and oversight are not automatic and must be renewed in a budget bill for the appropriation to continue.

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**Table 1: Stadium Expenditures**

Description	Type of Appropriation /Legal Citation	Amount of Appropriation	Fund	Duration
Payment of principal and interest on the appropriation bonds for the Stadium	Open Statutory appropriation ~ 16A.965, Subd. 8	Annual debt service on appropriation bonds in the amount of \$498,000,000 net of issuance costs.	General Fund	The term of the series of appropriation bonds may not exceed 30 years
Grants for problem gambling	Open Statutory appropriation ~ 297E.02, Subd. 3	<p>One-half of one percent of the revenue deposited for lawful gambling is appropriated to the commissioner of human services for compulsive gambling treatment.</p> <p>One-half of one percent of the revenue deposited for lawful gambling is appropriated to the commissioner of human services for a grant to the state affiliate recognized by the National Council on problem gambling.</p>	General Fund	On-going
City of St. Paul sports facilities grants	Statutory appropriation ~ 16A.726, paragraph [c]	\$2.7 million each year starting in FY 2014	General Fund	20 years from FY 2014 to FY 2033.
State payments to city for operating costs and debt	Statutory Appropriation ~ 473J.13, subd. 2, paragraph (b) and subd. 4, paragraph (c).	State payment of \$6 million per year to the Stadium Authority for operating expenses and \$1.5 million to the capital reserve fund.	General Fund	5 years from FY 2016 to FY 2020.
Regulatory oversight of lawful gambling	Direct Appropriation ~ Chapter 199, article 4, section 65, paragraph (a)	\$1.219 million is appropriated to the Gambling Control Board for operating expenses related to regulatory oversight of lawful gambling for electronic pull tabs and electronic linked bingo	Special Revenue Fund	FY 2013 and on-going
Oversight of lawful gambling	Direct Appropriation ~ Chapter 199, article 4, section 65, paragraph (b)	\$250,000 million is appropriated to the Dept. of Public Safety for expenses related to regulatory oversight of lawful gambling for electronic pull tabs and electronic linked bingo	Special Revenue Fund	FY 2013 and on-going