



Minnesota Management and Budget

US Bank Stadium Reserve Account

November 2019

Financial Audit Division

OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA

Financial Audit Division

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OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

November 7, 2019

Members
Legislative Audit Commission

Myron Frans, Commissioner
Minnesota Management and Budget

This report presents the results of our compliance audit of the US Bank Stadium Reserve Account for the period July 1, 2012, through June 30, 2018. The objectives of this audit were to determine if Minnesota Management and Budget complied with significant finance-related legal requirements related to the account.

This audit was conducted by Chris Buse, CPA (Deputy Legislative Auditor), and Ryan Baker, CFE (Audit Coordinator).

We received the full cooperation of the Minnesota Management and Budget's staff while performing this audit.

Sincerely,

A handwritten signature in cursive script that reads "Chris Buse".

Christopher Buse
Deputy Legislative Auditor



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Report Summary

The 2012 legislation that authorized financing for a new Vikings stadium (now called the US Bank Stadium) provided for a reserve account and how the account could be used.

Minnesota Management and Budget (MMB) is the agency primarily responsible for the US Bank Stadium Reserve Account. MMB tracks the available revenues, stadium-related expenditures, and the reserve balance. If revenues fall short of amounts needed to pay expenditures, state law requires MMB to consult with the Legislative Commission on Planning and Fiscal Policy (LCPFP) before using any portion of the reserve.

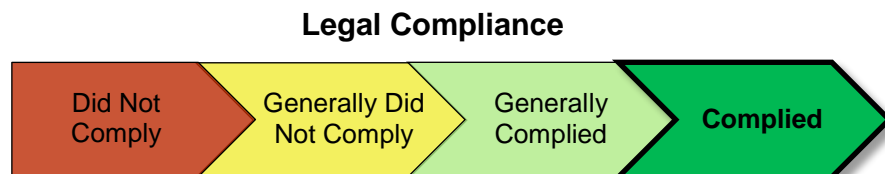
The Office of the Legislative Auditor (OLA) conducted this selected scope audit to determine whether MMB complied with significant finance-related legal requirements over the account. The audit scope included MMB's ongoing computation of the stadium reserve account balance. OLA also examined use of the reserve account to pay down US Bank Stadium debt and make other required expenditures. The period under examination went from July 1, 2012, through June 30, 2018.

OLA initiated this audit in response to a complaint made to a legislator about the US Bank Stadium Reserve Account. Specifically, the complaint alleged that MMB improperly transferred \$20 million from the stadium reserve account. OLA found no basis to substantiate that allegation.

Conclusion

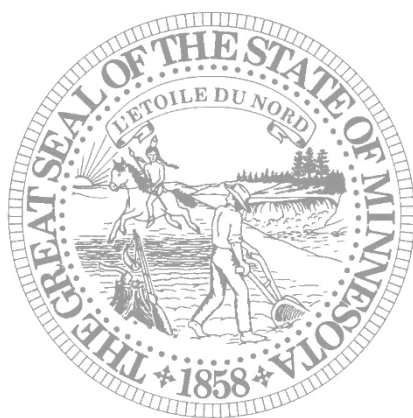
Legal Compliance

MMB complied with significant finance-related legal requirements over the US Bank Stadium Reserve Account. MMB complied with finance-related legal requirements that outline the sources and amounts of revenue that must go into the US Bank Stadium Reserve Account. MMB also complied with legal provisions that govern debt service payments and other uses of stadium-related funds.



Though MMB complied with significant finance-related legal requirements, OLA recommends that the Legislature take a more active oversight role in this extremely complex area, which is expected to grow by \$149 million over the next five years.

Finding: Complex US Bank Stadium Reserve Account funding and spending decisions merit more legislative attention. (p. 16)



Audit Overview

Financing for US Bank Stadium was enacted in law in 2012. Minnesota law provided that the state would be responsible for no more than \$348 million in stadium costs, the City of Minneapolis would be responsible for no more than \$150 million in stadium costs, and the Minnesota Vikings would be responsible for at least \$477 million in stadium costs.¹

Minnesota law also provided for the establishment of a reserve account to use as necessary for shortfalls in amounts deposited in the General Fund or for paying down the state's stadium-related debt and expenses.² In one budget document, MMB described the stadium reserve as a "bookkeeping account that simply reflects the balance of forecast revenue from the expanded gambling revenue matched against forecast expenditures for stadium-related costs."³



MMB treats the "US Bank Stadium Reserve Account" as a virtual bookkeeping account. There is no account in the state's accounting system that contains the stadium reserve cash balance. Instead, MMB computes and keeps track of the US Bank Stadium reserve on a spreadsheet, and the balance is part of the state's General Fund balance.

The US Bank Stadium Reserve exists within the state's General Fund. Exhibit 1 illustrates the revenues and expenditures that MMB uses to compile the account balance on an ongoing basis.

Stadium Reserve Financial Activity

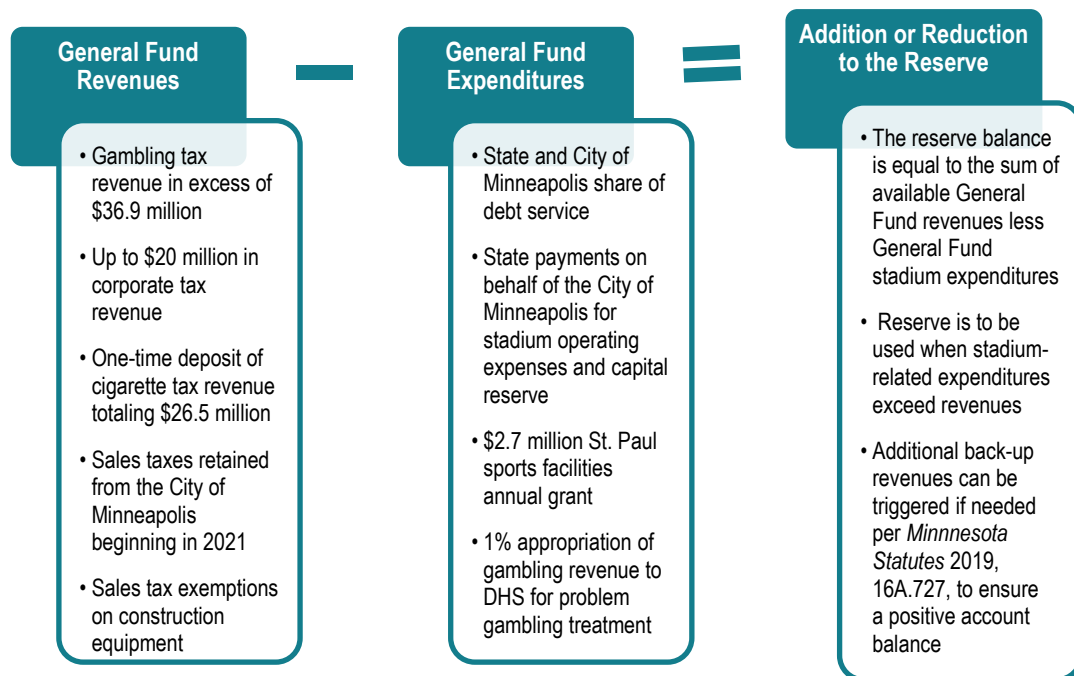
MMB computes the stadium reserve account balance using revenue and expenditure sources that are outlined in state law. Exhibit 1 illustrates the specific revenue and expenditure sources, which OLA discusses more thoroughly in subsequent chapters of this report.

¹ *Laws of Minnesota* 2012, chapter 299, art. 1, sec. 15, subd. 4(b); and sec. 19, subd. 2.

² *Laws of Minnesota* 2012, chapter 299, art. 4, sec. 11, subd. 4.

³ Minnesota Management and Budget, *November 2012 Forecast*, https://mn.gov/mmb/assets/Budget-Economic-Forecast-Nov2012_tcm1059-228704.pdf, p. 15, accessed August 27, 2019.

Exhibit 1: US Bank Stadium Reserve Account Balance Calculation

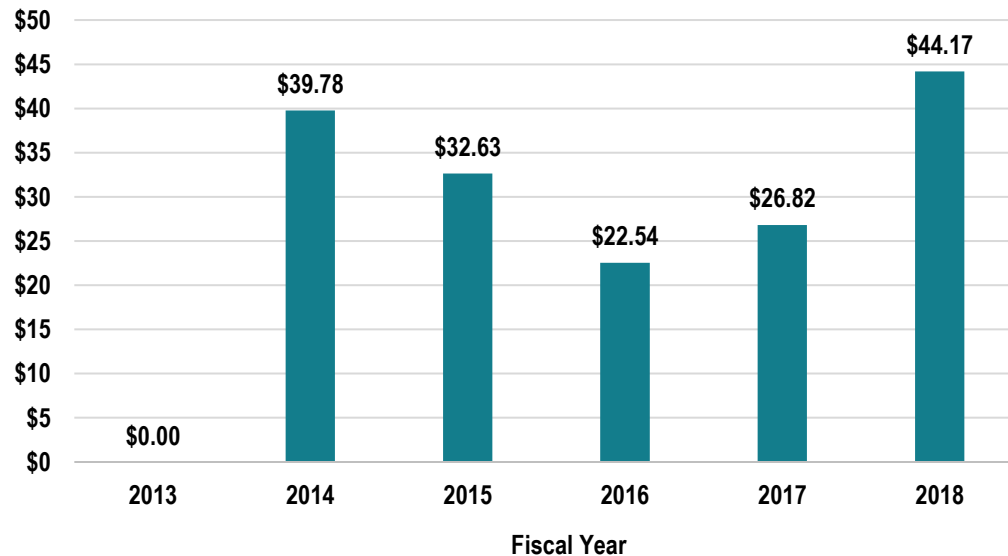


SOURCE: Office of the Legislative Auditor.

At the close of Fiscal Year 2018, the stadium reserve account had a balance of over \$44 million, driven primarily by an increase in gambling tax revenues over the past two years. However, in fiscal years 2015 and 2016, lower than expected gambling tax revenues forced MMB to use a portion of the stadium reserve to make debt service payments and other required expenditures. Exhibit 2 illustrates the history of the stadium reserve account from its inception through Fiscal Year 2018.

Exhibit 2: Changes in the US Bank Stadium Reserve Account Balance Since its Inception

(in millions)



SOURCE: Office of the Legislative Auditor.

Audit Scope, Objectives, Methodology, and Criteria

This audit assessed whether MMB complied with revenue and expenditure-related legal provisions when calculating the stadium reserve account balance. OLA designed its work to address the following questions:

- Did MMB comply with legal provisions that outline the sources and amounts of revenue that must go into the US Bank Stadium Reserve Account?
- Did MMB comply with legal provisions that govern the use of US Bank Stadium Reserve Account funds?

To answer these questions, we recalculated the revenues and expenditures used by MMB in its stadium reserve worksheet. We also verified that revenues and expenditures used in the calculations agreed with amounts authorized in state law. Finally, we traced reported amounts to balances in the state's accounting system.

We conducted this audit in accordance with generally accepted *Government Auditing Standards*.⁴ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained

⁴ Comptroller General of the United States, Government Accountability Office, *Government Auditing Standards* (Washington, DC, December 2011).

provides a reasonable basis for our finding and conclusions based on our audit objectives.

To identify legal compliance criteria for the activity we reviewed, we typically examine state and federal laws, state administrative rules, state contracts, and policies and procedures established by the departments of Management and Budget and Administration.

Revenues

Revenues incorporated by MMB into the US Bank Stadium Reserve Account balance include gambling tax revenue, corporate tax revenue, and a one-time cigarette floor stocks tax.⁵ State law requires MMB to adjust downward these revenues for sales tax exemptions on equipment used in the construction of the stadium.

The 2012 legislation assumed that gambling tax revenues would be sufficient to cover the state's debt service and other stadium-related expenditures. However, initial gambling tax revenues fell short of the original forecasts. To address the deficiency, the Legislature provided additional sources of revenue, which included up to \$20 million in corporate tax revenue annually and a one-time tax of \$26.5 million on cigarette floor stocks.

Exhibit 3 shows the revenues used by MMB to calculate the stadium reserve account balance from its inception through Fiscal Year 2018.

Exhibit 3: US Bank Stadium Reserve Account Revenues (in millions)

	Fiscal Year					
	2013	2014	2015	2016	2017	2018
Revenues						
Gambling Tax Revenue	\$89	\$ 6,359	\$12,107	\$ 19,389	\$26,989	\$38,675
Sales Tax Exemptions	(4)	(2,600)	(9,100)	(11,834)	(1,583)	0
Corporate Tax Revenue	0	20,000	20,000	20,000	20,000	20,000
Cigarette Floor Stocks Tax	0	26,500	0	0	0	0
Total Stadium Reserve Revenues	\$85	\$50,259	\$23,007	\$ 27,555	\$45,406	\$58,675

NOTES: Sales Tax Exemptions are estimates of foregone tax revenue on construction equipment used to build the stadium. The Cigarette Floor Stocks Tax was a one-time tax on cigarette distributors.

SOURCE: State of Minnesota's accounting system.

OLA reviewed each revenue source in Exhibit 3 to determine whether the amounts were accurate, supported by appropriate documentation, and accounted for properly in the state's accounting system. The following sections discuss OLA's work on reserve account revenues in more detail.

⁵ *Laws of Minnesota* 2013, chapter 143, art. 5, sec. 25, imposed the cigarette floor stocks tax. This is a one-time tax on all stamped cigarettes or unaffixed stamps in the possession of any distributor, retailer, subjobber, manufacturer, or manufacturer's representative doing business in the state. The Legislature imposed this tax on floor stocks in the possession of these organizations on July 1, 2013.

Gambling Tax Revenue

The Legislature made significant changes to gambling laws to help pay for stadium-related costs. The Legislature expanded lawful gambling to include new games, such as electronic linked bingo and electronic pull-tabs. The Legislature also increased some tax rates paid by organizations that offer lawful gambling in Minnesota, as illustrated in Exhibit 4.

Exhibit 4: Gambling Tax Rate Changes Made by the Legislature in 2012

Previous Gambling Tax Rates		Current Gambling Tax Rates (through 2018)	
<u>Annual Net Receipts</u>	<u>Tax Rate</u>	<u>Annual Net Receipts</u>	<u>Tax Rate</u>
< \$500,000	0%	< \$87,500	9%
\$500,001-\$700,000	1.7% of receipts over \$500,000 but not over \$700,001	\$87,501-\$122,500	\$7,875 + 18% of receipts between \$87,500 and \$122,501
\$700,001-\$900,000	\$3,400 + 3.4% of receipts between \$700,000 and \$900,001	\$122,501-\$157,500	\$14,175 + 27% of receipts between \$122,500 and \$157,501
> \$900,000	\$10,200 + 5.1% of receipts > \$900,000	> \$157,500	\$23,625 + 36% of receipts over \$157,500

SOURCE: *Laws of Minnesota 2012*, chapter 299, art. 4, sec. 6, subd. 6.

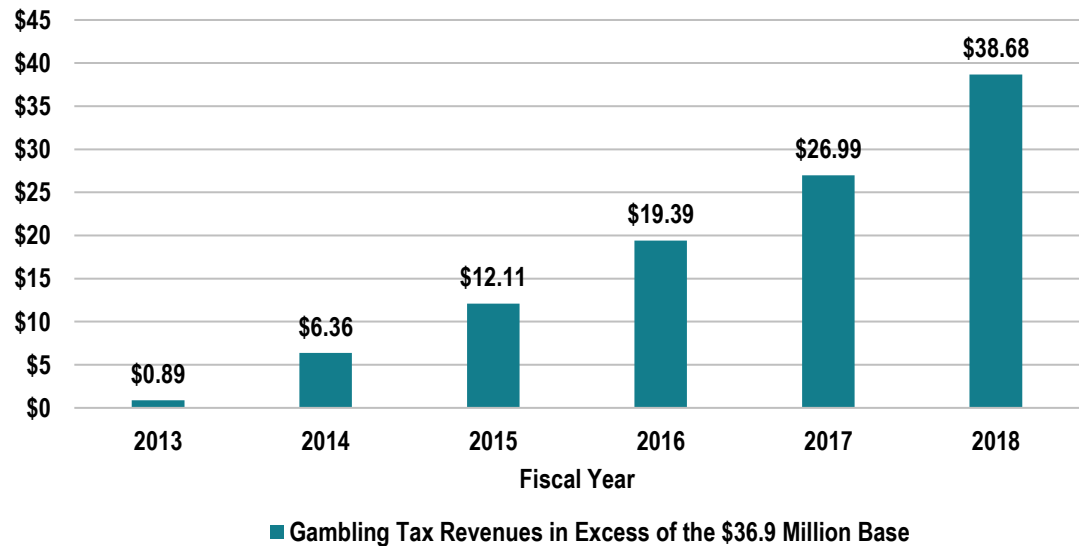
By March 15 of each fiscal year, the commissioner of MMB, in consultation with the commissioner of the Department of Revenue, must determine the estimated increase in gambling tax revenues over a \$36.9 million base amount, outlined in the February 2012 state budget forecast.⁶ State law authorizes MMB to use the additional gambling tax revenues for debt service and other stadium-related expenditures.

OLA reviewed MMB's stadium reserve account spreadsheet and concluded that the agencies properly calculated the estimated increase in gambling tax revenues from the inception of the account through Fiscal Year 2018. OLA also validated that the total gambling revenues for those years matched totals in the state's accounting system. Exhibit 5 shows the amount of excess gambling tax revenues collected during the period covered by our audit scope.

⁶ *Minnesota Statutes 2019*, 297E.021, subd. 2.

Exhibit 5: Gambling Tax Revenues in Excess of the 2012 Gambling Tax Revenue Base Forecast (July 2012 through June 2018)

In millions



NOTE: The gambling revenue in this exhibit is the actual excess revenue above the forecasted base of \$36.9 million, designated in law to help cover stadium-related expenditures.

SOURCES: MMB's February 2012 Economic Forecast and the State of Minnesota's accounting system.

Corporate Tax Revenue

In 2013, the Legislature helped address projected gambling tax revenue shortfalls by authorizing corporate tax revenue transfers to the reserve account, up to \$20 million annually.⁷ In its stadium reserve account worksheet, MMB allocated a total of \$100 million between fiscal years 2014 and 2018 to offset gambling tax revenue shortages. OLA reviewed the five annual allocations and concluded that they complied with provisions in state law.



For Fiscal Year 2019, the commissioner of MMB decided to forgo future corporate tax revenue contributions to the US Bank Stadium Reserve Account. Given the increase in gambling tax revenue during the prior two years, corporate tax revenue was no longer needed to offset debt service and other stadium-related expenditures.

⁷ *Minnesota Statutes* 2019, 297E.021, subd. 3.

Cigarette Floor Stocks Tax

The 2013 Legislature also helped address gambling tax revenue shortfalls by imposing a one-time tax on cigarettes. Called the cigarette floor stocks tax, the Legislature imposed this tax on stamped cigarettes and unaffixed stamps in the possession of any Minnesota distributor, retailer, subjobber, vendor, manufacturer, or manufacturer's representative. The tax included 80 mills on each cigarette plus an additional cigarette sales tax adjustment factor.⁸

The legislation mandated that the commissioner of Revenue deposit \$26.5 million of the tax revenues from the one-time cigarette floor stocks tax into the stadium reserve account.⁹ OLA verified that MMB included the cigarette floor stocks tax in its stadium reserve account worksheet, at the amount specified in law.

Sales Tax Exemptions

The 2012 legislation that established the original financing for the stadium provided that the materials, supplies, and equipment used, consumed, or incorporated into the construction or improvement of the US Bank Stadium and stadium infrastructure are exempt from sales tax.¹⁰ This construction exemption expired one year after the first National Football League (NFL) game for materials, supplies, and equipment used in the construction and equipping of the stadium. The construction exemption expired five years after the issuance of the bonds for stadium infrastructure materials, supplies, and equipment.¹¹ MMB issued the stadium bonds on January 31, 2014, and the NFL played its first game in US Bank Stadium on August 28, 2016.

OLA verified the accuracy of sales tax exemptions in MMB's stadium reserve account spreadsheet. OLA also verified that MMB did not include any sales tax exemptions after the expiration dates in law.

⁸ *Laws of Minnesota* 2013, chapter 143, art. 5, sec. 25, subd. 1(a). A mill is equal to 1/1000th of a dollar.

⁹ *Laws of Minnesota* 2013, chapter 143, art. 5, sec. 25, subd. 3(a).

¹⁰ *Laws of Minnesota* 2012, chapter 299, art. 4, sec. 11, subd. 3.

¹¹ *Minnesota Statutes* 2019, 297A.71, subd. 43.

Expenditures

Expenditures incorporated by MMB into the US Bank Stadium Reserve Account balance include debt services on the stadium bonds and several other stadium-related items. Specifically, the Legislature directed MMB to pay the Minnesota Sports Facilities Authority (MSFA) annual amounts for operating expenses and the establishment of a capital reserve. MMB also must pay the City of St. Paul an annual amount for its sports facilities. And finally, the 2012 legislation provided funds to the Department of Human Services (DHS) for problem gambling treatment programs. After all required payments are made, MMB must add any residual revenue to the reserve account balance. If revenues are insufficient, *Minnesota Statutes* appropriate amounts in the stadium reserve as necessary to offset the revenue deficiency.¹²

Exhibit 6 outlines the expenditures that MMB used as part of the stadium reserve from the inception of the account through Fiscal Year 2018.

Exhibit 6: US Bank Stadium Reserve Expenditures (in millions)

	Fiscal Year					
	2013	2014	2015	2016	2017	2018
Expenditures						
State Debt Service	\$ 0	\$ 5,134	\$21,070	\$21,072	\$21,074	\$20,910
City of Minneapolis Debt Service	0	2,213	9,082	9,083	9,084	9,013
MSFA Operating Expense	0	0	0	6,000	6,174	6,281
MSFA Capital Reserve	0	0	0	1,500	1,449	1,664
City of St. Paul Sports Facilities	0	2,700	2,700	2,700	2,700	2,700
DHS Problem Gambling Appropriations	370	432	490	563	639	756
Total Stadium Reserve Expenditures	\$370	\$10,479	\$33,342	\$40,918	\$41,120	\$41,324

SOURCE: State of Minnesota's accounting system.

OLA reviewed each expenditure source in Exhibit 6 to determine whether the amounts were accurate, supported by appropriate documentation, and accounted for properly in the state's accounting system. The following sections discuss OLA's work on reserve account expenditures in more detail.

Debt Service

Minnesota law authorized the construction of US Bank Stadium at a cost of no more than \$975 million, excluding cost overruns to be paid by the Minnesota Vikings.¹³ The Legislature authorized the commissioner of MMB to issue up to \$498 million in appropriation bonds, with the State of Minnesota responsible for \$348 million and the

¹² *Minnesota Statutes* 2019, 297E.021, subd. 4.

¹³ *Laws of Minnesota* 2012, chapter 299, art. 1, sec. 15, subd. 4(b); and sec. 19, subd. 2.

City of Minneapolis responsible for \$150 million. The Minnesota Vikings' required share of stadium costs was a minimum of \$477 million.

MMB issued the stadium bonds in Fiscal Year 2014 with debt service payments beginning that same year. Total debt service on the stadium bonds is about \$30.2 million annually. The state currently pays the City of Minneapolis's share of the annual debt service payments. However, state law requires MMB to recapture these amounts from the City of Minneapolis beginning in Fiscal Year 2021.

OLA verified that the debt service expenditures in MMB's stadium reserve account spreadsheet were accurate and agreed with debt service payments in the state's accounting system.

Stadium Operating Expenses and Capital Reserve

Operating Expenses

MSFA is responsible for paying the operating expenses for US Bank Stadium, but a portion of those expenses are offset by a \$6 million annual contribution from the State of Minnesota and an \$8.5 million annual contribution from the Minnesota Vikings. The state's payment is subject to an annual adjustment factor, and the Minnesota Vikings' contribution is increased by a 3 percent annual inflation rate.¹⁴

OLA reviewed MMB's calculation of the operating expenses (which include the adjustment factor) and determined that the payments made to MSFA were accurate. OLA also verified that MMB's stadium reserve account spreadsheet included these operating expenditures at the amounts prescribed in law.

Capital Reserve

State law requires MSFA to establish a Capital Reserve Fund for making capital repairs, replacements, and improvements to the stadium and stadium infrastructure. State law also requires the State of Minnesota and the Minnesota Vikings to make annual \$1.5 million contributions to this fund. The state's \$1.5 million payment is subject to an annual adjustment factor, and the Minnesota Vikings' \$1.5 million payment is increased by a 3 percent annual inflation rate.¹⁵

OLA reviewed MMB's calculation of the capital reserve contributions (which include the adjustment factor) and determined that the payments made to MSFA were accurate. OLA also verified that MMB's stadium reserve account spreadsheet included these expenditures at the amounts mandated in law.

City of Minneapolis Cost Recoveries

Though the State of Minnesota makes annual payments to MSFA, the City of Minneapolis is liable for the operating expense and capital reserve contributions.

¹⁴ *Minnesota Statutes* 2019, 473J.13, subd. 2.

¹⁵ *Minnesota Statutes* 2019, 473J.13, subd. 4.

Beginning in Fiscal Year 2021, state law requires MMB to start recapturing amounts paid to MSFA on behalf of the City of Minneapolis.

For Fiscal Year 2021, MMB's stadium reserve account spreadsheet includes projected revenue from the City of Minneapolis of about \$17.5 million. This total includes the city's share of the debt service, operating costs, and capital reserve contributions. However, it also includes a prorated portion of debt service, operating costs, and capital reserve contributions made by the state on behalf of the city through Fiscal Year 2020.

City of St. Paul Sports Facilities

State law requires MMB to pay \$2.7 million annually to the City of St. Paul for the operating or capital costs of new or existing sports facilities.¹⁶ OLA verified that MMB made the payments to the City of St. Paul at the amounts authorized in law. OLA also verified that MMB's stadium reserve account spreadsheet included these expenditures at the amounts mandated in state law.

Problem Gambling

State law provides annual payments to DHS equal to 1 percent of the lawful gambling taxes collected. The Legislature directs DHS to use half of this money for compulsive gambling treatment programs, and the remainder goes to grants to organizations recognized by the National Council on Problem Gambling.¹⁷

OLA verified the accuracy of amounts transferred to DHS. OLA also verified that MMB's stadium reserve account spreadsheet included these expenditures at the amounts mandated in law.

¹⁶ *Laws of Minnesota* 2012, chapter 299, art. 1, sec. 5(c).

¹⁷ *Minnesota Statutes* 2019, 297E.02, subd. 3(c).



Governance

The Legislature gave MMB broad authority to manage the stadium reserve account. MMB makes debt service and other stadium-related payments required in law, using authorized revenue sources. MMB also keeps track of the ongoing balance in the reserve.

State law gives MMB the authority to tap into the balance in the reserve when authorized revenue sources are insufficient. To exercise this authority, MMB must consult with the Legislative Commission on Planning and Fiscal Policy (LCPFP).¹⁸ The LCPFP also can authorize the use of the reserve balance for other payments deemed fiscally prudent by MMB. Examples cited in law include reimbursements of stadium capital and operating costs, refundings, and prepayment of debt.



In fiscal years 2015 and 2016, the commissioner of MMB sent letters to the LCPFP indicating the need to tap into the reserve balance. These required consultations went unanswered. The LCPFP has not met since December 18, 2013.

The 2012 Legislature also created the Minnesota Sports Facilities Authority (MSFA), making it responsible for construction of the US Bank Stadium and ongoing operation of the facility.¹⁹ Currently, MSFA plays no role in the management or oversight of the stadium reserve account.

Finally, the 2012 Legislature created the Legislative Commission on Minnesota Sports Facilities.²⁰ The enabling legislation makes the commission responsible for oversight of MSFA's operating and capital budgets, along with other statutory duties. The commission met frequently during the construction of the US Bank Stadium, but has not held a meeting since June 30, 2016.

¹⁸ *Minnesota Statutes* 2019, 297E.021, subd. 4. The Legislative Commission on Planning and Fiscal Policy consists of 18 members. Nine members of the senate are appointed by the Subcommittee on Committees of the Committee on Rules and Administration, and nine members of the House of Representatives are appointed by the Speaker of the House.

¹⁹ *Laws of Minnesota* 2012, chapter 299, art. 1, sec. 11. The Minnesota Sports Facilities Authority consists of five members. The chair and two members are appointed by the Governor. The Mayor of the City of Minneapolis appoints the other two members.

²⁰ *Laws of Minnesota* 2012, chapter 299, art. 1, sec. 1. The Legislative Commission on Minnesota Sports Facilities consists of 12 members. Three senators are appointed by the Senate Majority Leader, three senators are appointed by the Senate Minority Leader, three state representatives are appointed by the Speaker of the House, and three state representatives are appointed by the House Minority Leader.

FINDING

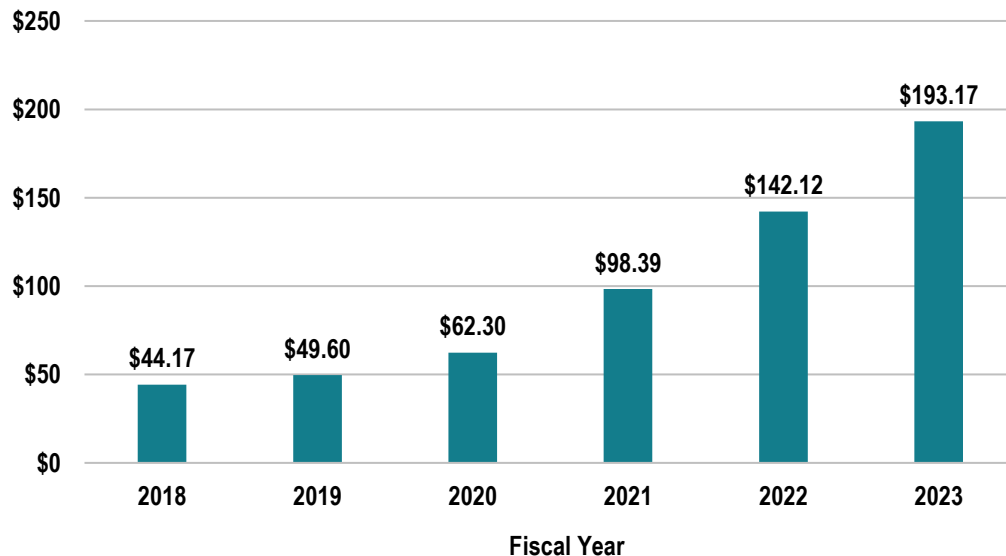
Complex US Bank Stadium Reserve Account funding and spending decisions merit more legislative attention.

MMB told us that some legislative staff periodically request copies of its stadium reserve account spreadsheet. MMB also explained that it regularly communicates the stadium reserve balance to policymakers in budget forecasts. However, outside these statewide budget hearings, OLA found no instances where the Legislature discussed the stadium reserve account as a standalone topic.²¹

The 2013 Legislature provided additional revenue sources to make debt service and other stadium-related payments, after gambling tax revenues fell short of initial forecasts. However, in recent years, gambling tax revenues have steadily increased, resulting in a Fiscal Year 2018 reserve balance that now exceeds \$44 million. MMB expects the US Bank Stadium Reserve balance to increase even more to \$193 million over the next five years, as illustrated in Exhibit 7.

Exhibit 7: Projected Five-Year Growth in the US Bank Stadium Reserve Account

In millions



SOURCE: MMB Stadium Reserve Account Spreadsheet.

²¹ The 2017-2018 Legislature discussed using part of the stadium reserve as a potential funding source for new state veterans homes. Specifically, HF4404, the Omnibus Capital Investment Bill, sought a total of \$41 million from the stadium reserve to help fund new homes. This provision did not become law. A hearing to discuss the use of the stadium reserve to fund veterans homes took place in the House of Representatives State Government Finance Committee on May 9, 2018.

The projected growth in the account merits a strategic conversation about future uses of the account. Options to consider include revisiting the original laws enacted by the Legislature to generate stadium revenues. Alternatively, the Legislature could work with stakeholders to explore other uses of the account balance, such as paying off the debt early or helping MSFA with facility improvements. Though inactive in recent years, the Legislative Commission on Minnesota Sports Facilities or the Legislative Commission on Planning and Fiscal Policy may be suitable forums for such hearings.

The 2012 Legislature put a provision in law to provide a check and balance on the use of the reserve. Specifically, state law requires the commissioner of MMB to consult with the Legislative Commission on Planning and Fiscal Policy before tapping into the reserve. On two occasions, the commissioner of MMB sent a letter to members of the commission to communicate his intention to tap into the reserve. In these letters, the commissioner stated, “I will presume you are in concurrence, unless I hear otherwise in the next 10 days.” In both cases, MMB got no response from the commission and proceeded to use funds in the stadium reserve. MMB’s requests were in fiscal years 2015 and 2016, but the Legislative Commission on Planning and Fiscal Policy had not met since December 2013. OLA concluded that the uses of the reserve in fiscal years 2015 and 2016 were appropriate. However, OLA questions whether getting negative assurance aligned with the intent of the law, which requires consultation with the committee.

The spreadsheet-based accounting approach makes it difficult for parties outside MMB to track the reserve and provide meaningful oversight. The 2012 legislation instructed MMB to create a general reserve account.²² The legislation also instructed MMB to “deposit” available revenues in that account. Based on this language, OLA believes that the Legislature expected MMB to create a real account in the state’s accounting system, not track revenues, expenditures, and the account balance on a spreadsheet. However, MMB directed us to its enabling legislation, which gives the agency broad discretion to manage funds and accounts as it sees fit. *Minnesota Statutes* 2019, 16A.53, subd. 1, states:

When a law creates a fund or account in the treasury into which are deposited certain revenues and out of which certain expenditures are appropriated, the commissioner may consider the creation of the fund or account as the creation of a bookkeeping account in the state’s accounting system so as to reflect the revenues deposited in the treasury and credited to the bookkeeping account and the expenditures appropriated from the treasury and charged to the bookkeeping account. The commissioner must organize these bookkeeping accounts into funds in accordance with generally accepted accounting principles.

MMB acknowledges that this statute refers to actual funds and accounts in the state’s accounting system. However, because the statute uses the term “may,” MMB contends that the Legislature gave the agency the legal authority to track the US Bank Stadium Reserve on a spreadsheet. When discussing future uses of the reserve, OLA encourages the Legislature to also assess whether the current accounting approach provides the

²² *Laws of Minnesota* 2012, chapter 299, art. 4, sec. 11, subd. 4.

necessary transparency to oversee an account that is expected to grow by \$149 million over the next five years.

RECOMMENDATIONS

- **The Legislature should hold hearings to discuss future uses of the US Bank Stadium Reserve Account.**
 - **The Legislature should assess whether the spreadsheet-based accounting approach provides the necessary transparency to oversee the US Bank Stadium Reserve Account.**
 - **The Legislative Commission on Planning and Fiscal Policy should provide consultation to MMB before MMB uses the reserve balance.**
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November 5, 2019

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
140 Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to review and respond to the findings and recommendations included in the US Bank Stadium Reserve Account Compliance Audit conducted by your office. We appreciate the comprehensive review your office conducted of this complex area of the state budget and are pleased that your review affirms Minnesota Management and Budget (MMB) complied with the law. As I expressed during the entrance conference, the complaint giving rise to your review did not require a comprehensive audit of the fund to resolve. Nonetheless, we welcome your conclusion that the complaint was unfounded.

Since the passage of the legislation authorizing public financing of US Bank Stadium in 2012, MMB has prioritized managing the complex financial structure of the revenues, appropriations, and reserve account in a transparent manner. The current and forecast balance of the stadium reserve account is clearly itemized in the general fund budgetary statements issued with each *Budget and Economic Forecast* and at the end of each legislative session. MMB has also highlighted changes to the stadium reserve account in the November and February *Budget and Economic Forecast* document with each release since November 2012.

As your report notes, MMB has complied with the law by consulting with the Legislative Commission on Planning and Fiscal Policy with both instances of reserve usage in 2015 and 2016. Additionally, your report notes full legal compliance when the allocation of corporate revenue to the stadium reserve was changed for FY 2019. Your report indicates that as a result of the growth in gambling tax revenue, corporate tax revenue was “no longer needed to offset debt service and other stadium related expenditures” from the general fund. MMB proactively communicated this change in treatment with legislative leadership and staff prior to the release of the November 2018 *Budget and Economic Forecast*.

The report concludes that MMB complied with the law and properly accounted for the multiple general fund revenue sources and appropriations that are identified in law as part of the calculation of the stadium reserve account.

The report also recommends further legislative deliberation as to whether alternative approaches to accounting for the balance of the stadium reserve account could better facilitate oversight of the account. As always, MMB is available to work with legislators and staff to explain and refine our implementation of complex finance law

such as the public financing of US Bank Stadium to ensure that the collection of tax revenue and expenditure of those funds is accounted for and the proper financial controls are in place.

We look forward to working in partnership with the legislators and staff to continue to ensure mutual understanding of the complexity of the US Bank Stadium Reserve Account and its possible uses in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Myron Frans". The signature is fluid and cursive, with a prominent loop at the end.

Myron Frans
Commissioner

Equal Opportunity Employer

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