ISSUE BRIEF – Stadium Finance Update

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Stadium Tax Policy, Finance and Reserve Changes

Chapter 64 authorizes Commissioner of Minnesota Management and Budget to prepay the appropriation bonds used to finance the construction of a professional football stadium using the cash balance in the "stadium reserve" account and a general fund appropriation. This summary will provide a brief background of the 2012 stadium finance agreement and a fiscal overview of the stadium finance and related tax policy changes in Chapter 64. A review of the remaining fiscal provisions from the 2012 agreement that were not modified in Chapter 64 are also covered in this summary.

Background

Laws of Minnesota 2012, Chapter 299 contained the framework for the public and private financing structure of a professional football stadium, with its authorization of the construction of a 65,000 seat, fixed roof stadium in the City of Minneapolis. In 2012, the total estimated project costs were $975.0 million with $828.0 million for stadium construction and $147.0 million for site and relocation costs. Of the $975 million in acquisition and construction costs for the stadium, the total public share was not to exceed $498.0 million or 51 percent of the total. The public share of the total consisted of $348 million (36 percent) from the state of Minnesota and $150 million (15 percent) from the city of Minneapolis.

The general reserve account was an important mechanism used for financing the public's share of the stadium construction costs. The general reserve account has been commonly referred to as the "stadium reserve" and functions like a residual account that tracks how much is leftover after revenue sources are tracked against expenditures.

Annual revenue considered in the stadium reserve calculation included these sources:

- After expanding the definition of combined net gambling tax receipts to include certain electronic games, total net tax receipts minus the 2012 base threshold amount of $36.9 million in a fiscal year was deposited into the stadium reserve. Revenue from this source was used in the calculation since FY 2013.

- Up to $20 million in corporate franchise tax revenue was deposited into the reserve. This revenue source was used in the calculation of the stadium reserve from FY 2014 to FY 2018.

- FY 2014 only, $26.5 million of taxes on cigarette floor stocks was deposited into the reserve. For more information about cigarette floor stocks tax and why it was used in the calculation, see 2013 Stadium Finance updated publication.

- A share of the proceeds from local sales and use tax, liquor, lodging, and restaurant taxes collected by the Minnesota Department of Revenue for the city of Minneapolis was deposited into the reserve as revenue. These local Minneapolis taxes were used to pay for the city's convention center. After the bonds for the city's convention center were paid off in the year 2020, a share of the local Minneapolis sales taxes would be re-directed to help pay for the city's share of the 2012 stadium obligations. Starting in calendar 2021 through calendar 2046, the revenue from the city's local sales taxes were included in the stadium reserve calculation as a revenue source. The 2012 agreement in Chapter 299 required these city's local taxes not be terminated before 2047.

Annual expenditures considered in the stadium reserve calculation include these provisions:

- Annual debt service paid on both the state and city's share of the stadium bonds. An open appropriation to pay for the bonds started in FY 2014 and was budgeted to continue until FY 2043.

- The City's share of annual stadium operating expenses and the capital reserve account expenses. These expenditures were scheduled to start in calendar 2021 and continue through calendar year 2046.

- An annual grant to the city of St. Paul for its sports facilities from FY 2014 to FY 2033.

- An annual appropriation to the Department of Human Services to provide compulsive gambling treatment services starting in FY 2021 and thereafter.

The annual balance in the stadium reserve was derived from the total amount of revenue and expenditures. A positive balance in the reserve could be applied against any shortfall of the local sales tax revenue deposited into the stadium reserve. The reserve could also be used to cover stadium capital and operating costs, refunding and prepayment of debt or other uses after consulting the Legislative Commission on Planning and Fiscal Policy.

Beginning in FY 2016, the 2012 agreement in Chapter 299 required the City of Minneapolis and the Vikings make annual expenditures to cover both the operations of the stadium and a capital reserve account for the stadium. For the city's share, the state of Minnesota provided a cash advance for operational and capital payments from FY 2016 to FY 2020. Starting in calendar year 2021 through calendar year 2046, the city committed to both making annual operating and capital payments to the Minnesota Sports Facility Authority (MSFA) and to reimbursing the state for the cash advances it received from FY 2016 to FY 2020.

Finally, the growth in the city's total local sales tax revenue is measured relative to calendar year 2011 with adjustments for inflation. Any excess growth in the city's local sales taxes is directed to the MSFA as discretionary funding.

Chapter 64: 2023 Stadium Payoff Agreement and Other Changes

Chapter 64, Article 13 authorizes the prepayment in FY 2023 of the entire amount of state of Minnesota appropriation bond debt issued for the professional football stadium. Two state sources are leveraged to redeem and prepay the outstanding balance of the debt that total $378.2 million. First, the positive stadium reserve balance of $366.179 million in FY 2023 is authorized as a source for this prepayment. Second, an open general fund appropriation is authorized for paying off the debt if the amount in the stadium reserve is not sufficient to pay the full amount. According to Minnesota Management and Budget, an appropriation of $12.1 million general fund is needed to fully pay the bonds in FY 2023. The sum of the two sources (stadium reserve balance and general fund appropriation) equal $378.2 million and must be used to retire outstanding bonds on the stadium.

With the defeasance of the bonds after FY 2023, Chapter 64 makes other noteworthy fiscal changes that directly affect the state, the city of Minneapolis (the city), the Minnesota Sports Facility Authority (MSFA), and the Vikings and other sports organizations. For fiscal detail, see table 7 for the estimated general fund impact of each change.

State

- The state will no longer have debt service support payments for the $498 million in appropriation bonds issued in 2014. This will provide annual general fund savings of $30.1 million from FY 2023 to FY 2043. (Article 13, section 2, subd. 4, paragraph 4)

- Chapter 64, Article 13, section 18 also authorizes the repeal of the stadium reserve account when the bonds are paid off. After a repeal of the stadium reserve account, the following revenue sources will no longer be included in the calculation of the stadium reserve fund balance and will now be deposited into the unrestricted general fund:

    - Total combined net tax receipt above $36.9 million in a fiscal year (beginning in FY 2024); and

    - Total amounts retained from the city's local taxes for its share of debt service support and for on-going capital and operating payments (beginning in FY 2024).

  The repeal of the stadium reserve is estimated to provide a revenue gain to the general fund of $312.136 million in the FY 2024-25 biennium and $342.302 million in the FY 2026-27 biennium.

- The tax rates in the combined net receipts tax are reduced in FY 2023 (Article 13, section 3). The combined net receipts tax is imposed on the net receipts of lawful gambling organizations for certain gaming activities. With the repeal of the stadium reserve, the fiscal impact of the rate change is estimated to reduce revenue to the general fund by $29. 2 million and $32.7 million in the FY 2024-25 and FY 2026-27 biennium respectively. A description of other regulatory changes to the combined net receipts can be found in the House Research summary for chapter 64.

City

- Chapter 64 does not statutorily modify the City's share of its $150 million commitment for construction costs of the stadium when the bonds are paid off. Rather, the City's annual debt service support payment is reduced from an annual payment amount of $12.8 million to $6.2 million with the reduction in its repayment discount rate of 4.246517 percent to zero percent (Article 13, section 2). This reduction in the rate will also be authorized in a revised certification agreement between the City and the State (MMB). With the change in the discount rate, the amount retained by the state from the city for this payment is reduced starting in FY 2024. This change is estimated to reduce revenue to the state general fund by $12.344 million each biennia.

- The cash advance provided by the state to the city for operational and capital payments from FY 2016 to FY 2020 is forgiven in Chapter 64. Starting in FY 2024, this change is also estimated to eliminate the amount retained from the city's local sales tax as a reimbursement to the state. This provision has an estimated state general fund revenue reduction of $5.084 million each biennia. (Article 13, section 2).

- The "excess growth" in local sales tax revenue allocated to the MSFA limits the growth in local sales taxes to no more than three percent of the amount of net annual taxes in the preceding year. This change has no fiscal impact to the general fund relative to the current law forecasted amount transferred to MSFA. (Article 13, section 2, paragraph 4).

MSFA

- In addition to the payoff of the appropriation bonds for the stadium, Chapter 64 contains a direct general fund appropriation of $15.7 million in FY 2023 to MMB to allocate to the MSFA for a secure perimeter around the stadium. (Article 13, section 16).

- Annual proceeds from the growth in local sales taxes from the City allocated to the MSFA was changed from discretionary funding to funding that must be used for capital improvement purposes. (Article 13, section 2, paragraph 4)

Vikings and Other Sports Organizations

- The suites license exemption originally enacted in 2017 is modified retroactive to FY 2023 to allow a retail sale to exclude suite licenses from the definition of a retail sale regarding bundled transactions. This exemption also applies to the right to purchase season tickets to collegiate events. Without this definition change to the exemption, food and beverages included in the sale of a suite license would be subject to sales tax. The estimated general fund revenue reduction of this provision is $2.040 million and $1.390 million in the FY 2024-25 and FY 2026-27 biennium respectively. (Article 5, sections 2-3).

- Retroactively effective from FY 2022 to FY 2030, Chapter 64 provides a sales tax exemption for the sale of amenities that are included in the sale price of admission sold by professional sports teams. Amenities include, but are not limited to, food and beverages, parking services, and other promotional items. This temporary exemption is estimated to reduce general fund tax revenue by $750,000 and $530,000 in the FY 2024 and FY 2026-27 biennium respectively. (Article 5, section 7)

Table 7: General Fund Fiscal Summary - Stadium Tax Policy, Finance and Reserve Changes

2023 LEGISLATIVE SESSION - CHAPTER 64 (CCR-HF1938A)				
Stadium Tax Policy, Finance and Reserve Changes				
Note: Positive numbers = revenue gains or expenditure savings, negative numbers = revenue reduction or expenditures				
		CHAPTER 64		**CHAPTER 64**
DOLLARS IN THOUSANDS	EFFECTIVE	**FY2023**	**FY2024-25**	**FY2026-27**
Total - Stadium Tax Policy, Finance and Reserve Changes (Revenue + Expenditures)		**(27,800)**	**323,021**	**350,563**
Revenue Change Items		**366,179**	**262,718**	**290,254**
Authorize Stadium Reserve Balance for Stadium Bond Payoff in FY23	DFE	366,179		
Repeal Stadium Reserve Account (after Stadium Bond Payoff), Deposits to Gen. Fund	DFE		312,136	342,302
Combined Net Tax Receipts, Rate Reduction	7/1/2023		(29,200)	(32,700)
Eliminate Discount Rate on Debt Service Payments, City of Minneapolis	7/1/2024		(12,344)	(12,344)
Repeal Advance Payment (FY16-20) Reimbursement Requirement, City of Minneapolis	7/1/2023		(5,084)	(5,084)
Sales Tax Exemption Modified, Suite Licenses	7/1/2022		(2,040)	(1,390)
Sales Tax Exemption Modified, Amenities Included in Admission to Athletic Events	7/1/2022		(750)	(530)
Limitation of Growth in Minneapolis Sales Tax Revenue to MSFA (limit to 3% annual growth) ***	7/1/2023		-	-
Expenditure Change Items		**(393,979)**	**60,303**	**60,309**
Payoff (Prepay) U.S. Bank Stadium Bonds	DFE	(378,279)	-	-
Onetime Appropriation, Secure Perimeter Around Stadium	DFE	(15,700)	-	-
U.S. Bank (State/Local) Debt Service Payment, Cessation, Savings to Gen. Fund	7/1/2023		60,303	60,309
Stadium Reserve - Reference Only (Current Law - Cumulative Stadium Reserve Changes)		-	-	-
Current Law Balance		366,179	678,315	1,020,617
Changes to the Stadium Reserve (FY 23 Debt Pay off)		(366,179)		
Changes to the Stadium Reserve (Deposits To Gen. Fund)				
Cumulative Stadium Reserve Changes (Debt Payoff and Deposits to General Fund)			(678,315)	(1,020,617)
***In Chapter 64, there is a limitation on the amount of retained Minneapolis' local sales tax revenue. The 3 percent limitation has no effect in FY24-FY27; forecasted retention increases by less than three percent for that time period. Revenue retained may be lower in FY 2028 relative to current law, with a corresponding reduction to the amount appropriated to the MSFA.				

Stadium Finance Provisions Not Changed in Chapter 64, Laws of 2023.

2023 Laws, Chapter 64 did not modify all fiscal components of the 2012, Chapter 299 agreement. The following revenue and expenditure provisions contained in the 2012 stadium agreement that were not changed or repealed in Chapter 64 include:

Revenue Raising Provisions:

- Stadium blink-on funding for backup revenue such as the Stadium Suites tax on the gross receipts received for rental of suites, sky boxes in the stadium (16A.727); and

- At the local level, the city's authority to continue levying local sales taxes and liquor, lodging and restaurant taxes was also not modified with authority to continue levying those local taxes until 2047. (Laws of 2012, chapter 299, Article 3, section 4).

Expenditure Provisions:

- Ongoing operational support and capital reserve payments from the City to the MSFA continue until FY 2046. (16A.726, paragraph b and 297A.994, subd.2-3)

- An annual grant of $2.7 million by the state to the city of St. Paul for its sports facilities continues until FY 2033. (16A.726, paragraph c)

- An annual appropriation from a one percent dedication of combined net tax receipts to the Department of Human Services to provide compulsive gambling treatment remains unchanged. Chapter 64, however, does include a combined net tax receipt rate reduction which will reduce the amount of total revenue available for the one percent dedication to problem gambling. (297E.02, subd. 3, paragraph c and d)

For more information, please contact House Fiscal Analysis.