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Twins Stadium Financing

Abstract: This article examines the cost of the proposed new stadium for the Minnesota Twins Major League Baseball franchise and possible sources of financing for the new stadium. The Twins' estimate of the cost of the new stadium, including land acquisition and one-time costs associated with debt financing, is $506.1 million. If $431.1 million of that cost were financed through the issuance of 30-year taxable bonds bearing 7.5 percent interest, the annual debt service obligation would be $36.5 million. Increasing "up front" funding or decreasing the cost of the stadium would decrease the annual debt service obligation. Possible sources of revenues to fund the annual debt service obligation include revenues that the team owners would receive from the new stadium, a ticket surcharge, lottery proceeds, new taxes, and net revenues from casino gaming.

Introduction

The Minnesota Twins Major League Baseball franchise moved from Metropolitan Stadium in Bloomington to the Metrodome in downtown Minneapolis for the start of the 1982 baseball season. The Metrodome, like the now-demolished Metropolitan Stadium and the Met Center hockey arena, is owned by the Metropolitan Sports Facilities Commission, a statutorily-created public organization. In addition to the Twins, the Minnesota Vikings National Football League ("NFL") franchise and the University of Minnesota also have leases for the Metrodome.

The Twins franchise now is owned by the Pohlad family. The Pohlads claim that they have been subsidizing the Twins' operating losses over the last several seasons. The Pohlads say they will move the franchise to another city if they are unable to negotiate an agreement for financing construction of a new, open-air, baseball-only park on terms acceptable to them.

The Twins' 30-year lease for the Metrodome runs through the 2011 season, but it contains a provision that permits the Twins to terminate the lease at the end of the 1998 season if certain attendance or financial conditions are met during the 1995, 1996 and 1997 seasons. It appears that the conditions necessary to allow the Twins to exercise the escape clause will occur.

Other cities want a Major League Baseball franchise but are not able to obtain one because the major leagues restrict the number of teams. The leagues are exempt from the federal antitrust laws that otherwise might prevent them from restricting the number of franchises. Because of the artificial restriction on the number of franchises, owners such as the Pohlads know they can obtain favorable financing arrangements for new stadiums in cities that are seeking to obtain franchises. It is possible, however, that none of cities seeking franchises are large enough to allow the Twins to generate sufficient revenues, no matter how favorable the stadium financing package.

The singular issue before the Pohlads is relatively straight forward: Is another city willing and able to put together a stadium financing plan that produces more revenues for the Pohlads than the best deal the Pohlads can obtain in Minnesota? For the state and local governments that the Pohlads have asked to finance the new stadium, the Pohlads' demand for public financing raises many issues:

- How credible is the Pohlads' threat to move the Twins?

- Is it appropriate for the state and local governments to provide substantial amounts of public funds to build a baseball stadium so that the private owners of the Twins will have greater revenues available to finance operation of the team?

- Should the state and local governments provide full amount of public funds that the Pohlads claim they need, or would that amount exceed the perceived benefit of keeping the Twins from moving (assuming a lesser level of public funding would create a substantial probability that the Twins could obtain a better deal elsewhere and move)?

- From which sources should the public funds, if any, be derived?

How Credible Is The Threat To Move The Twins?

To date, the debate regarding financing the proposed new stadium for the Twins has focused on whether it is appropriate for any public funds to be used for the financing and, if so, what combination of funding sources will provide the amount of funding that the Pohlads claim is needed to construct the stadium. One issue that has received little examination is the credibility of the Pohlads' threat to move the team. There are serious questions regarding whether the Pohlads could move the team without selling their controlling interest, something they have said they are not interested in doing.[1]

It has been decades since a Major League Baseball franchise was allowed to move, even though in the intervening years franchises have been sold to out-of-town investors. The last move of a Major League Baseball franchise occurred in 1972:

- 1953 Boston Braves moved to Milwaukee
- 1954 St. Louis Browns moved to Baltimore and became the Orioles
- 1955 Philadelphia A's moved to Kansas City
- 1958 New York Giants moved to San Francisco; Brooklyn Dodgers moved to Los Angeles
- 1961 Washington Senators moved to Minnesota and became the Twins
- 1965 Milwaukee Braves moved to Atlanta
- 1968 Kansas City A's moved to Oakland
- 1970 Seattle Pilots moved to Milwaukee and became the Brewers
- 1972 Second Washington Senators moved to Arlington, Texas and became the Rangers

The Pohlads may have difficulty finding a viable new location. Two of the likely markets to which the Twins might move, Sacramento, California, and Orlando, Florida, would face opposition from existing franchises in Oakland and San Francisco, California, and the expansion franchise in St. Petersburg, Florida.

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[1] Source: City Pages, Aug. 6, 1997, p. 25.

Nashville, Tennessee, has worked aggressively to attract professional sports franchises. But Nashville may not be able to afford to pay for a new baseball stadium, because it has obligated itself to pay for a new football stadium for the NFL Oilers franchise (which moved from Houston) and a new hockey arena for a National Hockey League ("NHL") expansion franchise.

For years, a group has been working to organize financing for a new baseball stadium in northern Virginia to be built in hopes of luring a Major League Baseball franchise. The Virginia legislature recently authorized a 9-month pilot of a lottery TV show to determine if it can generate $14 million per year to finance the state's $150 million share of the $300 million stadium cost. In 1996, the stadium authority opened the site-location competition to any community that would pledge $150 million toward financing a stadium. There were no applicants.[2] The effort to attract a franchise to northern Virginia also must overcome the metro Washington, D.C. area's record; twice in the past, Major League Baseball franchises have left Washington, D.C., because of financial problems. In addition, the Baltimore Orioles may object to locating a franchise in northern Virginia.

Other possible locations for Major League Baseball franchises include Charlotte, North Carolina; Las Vegas, Nevada; and Mexico City, Mexico. It is unclear whether those markets could support a Major League Baseball franchise at this time.

Even if one of those cities offered an attractive financing package for a new baseball stadium, the Twins might not be first in line to move there. The Pittsburgh Pirates and Montreal Expos franchises are struggling financially and may seek to relocate. In addition, it is anticipated that Major League Baseball will award additional expansion franchises in 1998. The United States and Canada may be running out of metropolitan areas that have sufficiently large markets to pay hundreds of millions of dollars to construct a stadium and to fill it with paying customers on a sustained basis,[3] and Mexico probably is not yet ready to support Major League Baseball franchises.

Finally, none of those cities have started building stadiums, and likely could not complete a stadium in time for the Twins to play there in 1999. If the Twins exercise their escape clause, they will play their last season in the Metrodome in 1998. If the Twins chose to move to northern Virginia, they might be able to play in vacant RFK Stadium in Washington, D.C. until the new stadium in northern Virginia could be completed. If they chose one of the other United States cities, they would have to play in a small, minor league ballpark until a new stadium could be completed. It is unclear where in Mexico City the Twins would play on an interim basis if they chose to move there.

Basic Stadium Cost and Financing Information

The following information is based on a draft, "for discussion purposes" spreadsheet provided by the Pohlads' financial consultants, dated May 2, 1997. The estimated cost of the new stadium with a retractable roof is $438.8 million, including $50.0 million for site acquisition costs, but excluding sales tax on construction materials. One-time costs associated with debt financing, including costs of issuing debt and capitalized interest during construction, add an estimated $67.3 million, bringing the estimated total cost to $506.1 million.

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[2] Source: Washington Business Journal, Apr. 14, 1997.

[3] Source: City Pages, Aug. 6, 1997, p. 23.

Assume that the following sources of funds, totaling $75.0 million, were available "up front" to reduce the principal amount of debt to be issued:

- $15.0 million from the Pohlads characterized as a "donation," but which might be characterized as a capital investment paid in exchange for the right to receive various streams of revenues from the new stadium;

- $35.0 million from the Pohlads as a loan; and

- $25.0 million from the sale of personal seat licenses.

The difference between $506.1 million and $75.0 million is $431.1 million, the amount that would need to be financed by bond proceeds.

It is not clear if any portion of the stadium may be financed with tax-exempt bonds. If legal requirements make tax-exempt bonds unavailable for the project, and if the interest rate on 30-year taxable bonds were 7.5 percent, the amount of the debt service on $431.1 million would be $36.5 million per year. In addition, the Pohlads' financial plan estimated that the need to fund a capital replacement reserve and the stadium commission's operating costs would add $2.0 million to the amount that must be covered by annual cash flow, bringing the base cash flow requirement to $38.5 million per year.

Annual cash flow would need to be significantly greater than $38.5 million to provide the "coverage ratio" necessary to obtain a bond rating sufficiently high to make the bonds saleable at a reasonable interest rate. The coverage ratio is computed by dividing the projected annual revenues by the projected annual debt service. The ratio must be significantly greater than 1.0, or else the bonds will be graded as "junk" bonds, requiring a high interest rate to make them saleable, or the bonds may not be saleable at all.

It may be possible to reduce the coverage ratio by providing additional security for payment of the bonds. For example, one proposal provided for a backup property tax levy and deduction from the seven-county metro region's fiscal disparities distribution levy in the event the streams of revenue pledged to pay debt service were not sufficient.

Paying for the Stadium: The Option Rejected

Could the Pohlads receive sufficient revenues from the Twins' playing in the new stadium to pay for construction of the stadium without any public assistance? According to the Pohlads' financial projections for the new stadium, the revenues from ticket sales alone, $44.4 million per year, would cover the base cash flow requirements of $38.5 million per year, although a greater stream of revenue probably would need to be pledged to provide an adequate coverage ratio.

The Pohlads, however, have rejected using revenues from the new stadium to finance its construction, because they argue they need essentially all of those revenues to finance the operations of the Twins and the stadium. The following table summarizes the Pohlads' projections of annual revenues and expenses in the new stadium in 2001 and 2004. Annual attendance is projected to stabilize at 2,754,000 (34,000 average per game) in 2004, down from 3,159,000 (39,000 average per game) in 2001, the first season in the new stadium.

Table 1. Pohlads' Projections of Twins' Revenues and Expenses in New Stadium($ in millions)

Revenue or Expense Item	2001	2004
Ticket Sales	$ 44.4	$ 43.6
Concessions and Novelties	10.1	10.3
Naming Rights, Advertising and Parking	8.7	9.5
Luxury Suites and Club Seats Income	5.1	5.8
Radio and Television	25.4	28.2
Other Team Revenues	5.5	6.1
Total Revenues	***$ 99.2***	***$ 103.5***
Players Salaries and Benefits	$ 46.8	$ 51.9
Baseball Operations	14.0	15.5
Team Debt Service	1.6	1.6
Other Team-Related Expenses	16.4	18.2
Game-Day Stadium Expenses	3.3	3.6
Non-Game Day Stadium Expenses	7.7	8.6
Property Taxes	0.0	0.0
Capital Reserve Account	0.7	0.7
Total Expenses	***$ 90.5***	***$ 100.1***
Net Revenue	***$ 8.7***	***$ 3.4***

The projected revenues and expenses above include a government subsidy in the form of an exemption from property taxes. The nature of that subsidy can be illustrated by examining the litigation and legislation regarding property taxes on the Metrodome.

The Minnesota tax court held that the portions of the Metrodome that were exclusively leased to the Twins and Vikings were subject to property tax, even though a statute appeared to exempt all property owned by the Metropolitan Sports Facilities Commission ("MSFC"), including the Metrodome, from all state and local taxes, including property taxes. That statute was amended in 1985 to clarify that the Legislature intended to exempt all MSFC property, including the parts leased to for-profit businesses like Twins and Vikings, from property taxes. The 1985 amendment provides a subsidy to the Pohlads, who otherwise would be paying property taxes on the Twins offices and locker rooms, and to the owners of the Vikings, who otherwise would be paying property taxes on the sky boxes[4] and Vikings locker rooms.

If the MSFC is designated to be the owner the new Twins stadium, then the Pohlads will receive a subsidy in the form of an exemption from property taxes for the parts of the stadium that they will exclusively lease. If the new Twins

4 The Twins receive no revenues from the Metrodome sky boxes other than from the sales of game tickets to the people who occupy them.

stadium is owned by a different entity, then a similar exemption of leased property will be needed to grant a similar subsidy to the Pohlads in the new stadium.[5]

Granting a property tax exemption, however, would reduce the property tax revenues collected by the city, county and school district, assuming some property taxes currently are collected from the site of the new stadium. The school district's loss in property tax revenues would, for the most part, be replaced by an automatic increase in state education aids, which would place additional demand on the resources of the state's General Fund. If there were not sufficient resources in the General Fund to provide the additional state education aids, the statewide general education levy rate would need to be increased, which would result in a property tax increase on all property throughout the state.

In addition, the cost of the new stadium has been reduced by the assumption that special legislation would exempt construction materials for the new stadium from the sales tax. Exempting construction materials for the new stadium from sales tax would cost the General Fund an estimated $4.0 million.

Even with the subsidies from property tax and sales tax exemptions, the Pohlads' projected net revenue is not sufficient to cover the annual debt service on the new stadium. By 2004, total revenues barely are sufficient to cover team and stadium expenses before debt service. To cover debt service on the new stadium, other costs, such as players salaries and benefits, would have to be reduced, or the Pohlads would have to contribute additional funds to the team each year to cover the loses. The Pohlads claim they have been covering loses for a number of years, and they want to receive more revenues for the team so that the loses no longer occur.

Consequently, the Pohlads were willing to commit only $1.5 million per year of the revenues that the new stadium will generate (the estimated annual payments for naming rights to the new stadium) to pay the debt service on the new stadium. The Pohlads want someone else to pay the remainder of the debt service so that they can receive all other revenues from the new stadium for the Twins.

If the state or local governments committed streams of revenues sufficient to cover the debt service on the new stadium, it would preserve all of the revenues from the stadium for the Pohlads to spend on the Twins. If, instead, the new stadium revenues were used to pay the debt service on the new stadium (or the Twins continued to play in the Metrodome) and the state or local governments paid an annual subsidy to the Twins, the economic impact would be the same. The only difference would be that under the first scenario the state or local governments would own the new stadium.

The new stadium, however, would have little value to the government that owned it as long as the Twins played in it, because the Pohlads would receive essentially all of the revenue from it. And if the Twins ceased to play in the new stadium, it would have little value to the government that owned it, because a substitute tenant is not readily available.

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[5] Even if such an exemption were granted for the parts of the stadium exclusively leased to the Twins (including the luxury suites, which the Twins would sublease to generate revenue), it probably would be prudent not to extend the exemption to any restaurants or bars located within the stadium. Granting a property tax exemption for the restaurants and bars would subsidize the lessees who operate those establishments, to the detriment of their nearby competitors located outside the new stadium.

Paying for the Stadium: Alternative Sources of Financing

Potential Sources of Additional "Up Front" Funds

The availability of additional sources of "up front" funds would dramatically reduce the annual cash flow requirements for debt service. The following chart shows annual debt service costs with various amounts of "up front" funding available, assuming that all bonds for the project would be taxable, bear a 7.5 percent annual interest rate, and mature in 30 years.

Table 2. Annual Debt Service Given Various Amounts of "Up Front" Funding ($ in millions; 7.5% interest)

Stadium Cost	"Up Front" Funds	Amount Financed	Annual Debt Service
$ 506.1	$ 75.0	$ 431.1	$ 36.5
506.1	100.0	406.1	34.4
506.1	125.0	381.1	32.3
506.1	150.0	356.1	30.2
506.1	175.0	331.1	28.0
506.1	200.0	306.1	25.9
506.1	225.0	281.1	23.8

Contribution of Land for Stadium Site

Minneapolis Mayor Sharon Sayles Belton has proposed a plan to assemble and donate a site for the stadium along the riverfront in Minneapolis. Some of the parcels that make up the site are owned by the city, the Minneapolis Community Development Agency ("MCDA"), the Minneapolis Park and Recreation Board ("Park Board"), or Hennepin County. Those parcels would be contributed by the respective local governments. The other parcels that make up the site are privately owned.

Under the Pohlads' projections, the donation of the land would be the equivalent of a $50.0 million increase in up-front funds, because those projections estimated the land acquisition costs to be that amount. Consequently, the land donation would reduce annual debt service obligations by approximately $4.2 million.

Mayor Sayles Belton, however, projects that it would cost the city and Hennepin County far less than $50.0 million to acquire the site. Under her plan, acquisition and preparation of the "core" site would cost $16.4 million and be financed as follows:

- Land donated by the city, MCDA and Hennepin County, valued by the city at $4.2 million.

- Privately-owned land to be purchased for less than $12.2 million, with the remainder of the of the $12.2 million being spent on site preparation; funding for the $12.2 million would come from private sector investments ($3.6 million) and city resources ($8.6 million), including the parking fund, local sales tax, and tax increment financing.

Also under her plan, the city would spend $22.0 million to construct a parking ramp adjacent to the stadium and $16.0 million for off-site steetscape improvements.

If the site were enlarged, the site acquisition and preparation costs would increase to $20.3 million, including an additional city/MCDA land donation of $400,000 and a donation of $1.5 million in Park Board land. Private sector investment would need to increase from $3.6 million to $5.6 million to cover the remainder of the additional cost.

Up Front Concessionaire Payments

The Pohlads' consultants projected that the sale of naming rights and payments from concessionaires will generate only $35.0 million up front, which the Pohlads believe they would be entitled to receive. At one time, the Pohlads had offered to lend that $35.0 million for part of the up-front payments on the new stadium. In addition, the Pohlads projected that they would receive annual net concessions revenues starting at $9.5 million in 2001 and increasing each year.

It is possible that payments from concessionaires could generate significantly more revenues than the Pohlads' consultants have projected. Edward Villaume, an account executive for a financial planning company, has been attempting to organize support for a new, roof-less stadium to be financed without debt or public funds. He has testified, based on tentative offers he has received, that a new stadium would generate $95.0 million in up-front payments from the concessionaire, soft-drink company and beer company chosen to be the exclusive or "official" vendor, soft drink or beer of the new stadium. In addition, Mr. Villaume projected that the concessionaire would make annual payments starting at $11.5 million and increasing each year, compared to the Pohlads' projections starting at $9.5 million.

Mr. Villaume projected approximately $60.0 million more in up-front funds from concessionaires than the Pohlads' financial consultants projected. If Mr. Villaume's projection were accurate, that would reduce the annual debt service obligation by approximately $5.0 million.

Revenues from Community Ownership or Selling Bricks

If Major League Baseball's bylaws regarding franchise ownership were changed, the Pohlads could sell part of their ownership interest in the Twins to the general public to generate additional up-front revenues for stadium construction and thereby reduce the annual debt service obligation. Or the Twins could sell honorary, non-voting, non-revenue "shares" of the Twins to generate up-front revenues. Carl Pohlad and the owners of other franchises discussed changing Major League Baseball's policy against public ownership of its franchises at a recent meeting of the leagues' executive council. Mr. Pohlad stated that he would be eager to sell Twins stock to the public if the rule were changed.[6]

The Pohlads insist that the proceeds from any sale of stock will not be made available for up front stadium construction financing. They suggest that the proceeds might be used to recover the advances they claim they have made in the past to cover the Twins' operating losses.[7] In past negotiations, however, the Pohlads have insisted that the distribution of revenues from the new stadium allow them to recover those past losses. If those losses instead were recovered from

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[6] Source: Pioneer Press, Aug. 8, 1997, p. 1A.

[7] Source: Pioneer Press, Aug. 11, 1997, p. 1B.

the stock sale proceeds, then the Pohlads might be willing to allow more stadium revenues to be used for stadium debt service.

As an alternative or in addition to the sale of Twins stock, the owner of the new Twins stadium could "sell" bricks in the stadium to the general public. Twins fans who contributed funds to building the new stadium would be entitled to have their names or the names of loved ones appear on bricks in the stadium. Sales of such mementos have been used to generate revenues for numerous public building projects. For example, sales of bricks raised $1.0 million for construction of the Texas Rangers' Ballpark at Arlington, which opened in 1994.

Reduce Stadium Costs

Reducing the cost of the stadium would have the same impact as finding additional sources of up-front funds. Eliminating the retractable roof would reduce the cost of the stadium by $90.1 million, which in turn would reduce annual debt service by approximately $7.5 million.

Eliminating the retractable roof, however, also would reduce attendance, which in turn would reduce revenues from ticket sales, any ticket surcharge, concessions and novelties. According to the Pohlads' projections, in 2004, revenues from ticket sales, a ticket surcharge, concessions and novelties will total $58.7 million. If eliminating the retractable roof would cause a 13 percent decrease in those revenues, that revenue loss would completely offset the $7.5 million in annual debt service savings from eliminating the retractable roof.

In addition, the stadium could be down-sized to eliminate the space and infrastructure for restaurants and bars within the stadium itself. Of course, if that space and infrastructure were eliminated, the revenues from leasing the space to the private owners of the restaurants and bars also would be eliminated. The Pohlads' financial projections, however, do not appear to include any revenues from those leases.

Potential Sources of Revenues to Pay Annual Debt Service

Ticket Surcharge Revenues

An obvious and commonly used means of generating additional revenue for debt service would be to impose a $1.00 surcharge on all tickets to attend baseball games and other events at the new stadium. Based on the Pohlads' attendance projections, the surcharge would generate revenues of $3.2 million in 2001 and $2.8 million in 2004. Some of those revenues would be sacrificed, however, if low-price seats were made exempt from the surcharge as provided in some proposals.

A larger surcharge would generate more revenue for debt service on the new stadium, but the Twins probably would have to reduce ticket prices by the amount of the surcharge increase. Based on the Pohlads' financial projections above, it would take only a relatively small decrease in ticket revenues to cause the Pohlads to start losing money on the Twins. Consequently, a larger surcharge would defeat the purpose of the new stadium, which is to increase the revenues that the Pohlads receive to finance the Twins' operations.

Naming Rights Revenues

The Pohlads projected that they would receive annual naming rights payments starting at $1.5 million in 2001 and increasing each year. Based on naming rights agreements for other new stadiums, it is possible that the naming rights to the new Twins stadium could generate significantly more than $1.5 million per year. A new stadium will soon be

built in San Francisco for the Giants franchise. That stadium will have essentially the same seating capacity as the proposed Twins stadium, and the attendance projections for that stadium (2.7 million per year) are only slightly higher than the Pohlads' projections for the proposed Twins stadium (2.4 million per year). Acting Commissioner of Major League Baseball Bud Selig testified that the Twins should be able to draw attendance in their new stadium at least as well as the Giants will in their new stadium, because the fact that the Bay Area is a larger market than the Twin Cities is offset by the fact that there is another team in the Bay Area, the Oakland A's. Pacific Bell has agreed to pay the Giants $2.1 million per year for 24 years for the naming rights to the new San Francisco stadium. BankOne has agreed to pay $2.2 million per year for 30 years for the naming rights to the new stadium where the Arizona Diamond Backs will play. Phoenix is the nation's 17th largest media market, whereas the Twin Cities are ranked 14th largest.[8]

The table below demonstrates the increase in net cash flow available for debt service in 2004 if naming rights generated $0.5 million per year more and net concessions revenues generated $2.0 million more than the Pohlads' consultants projected, and if a ticket surcharge generated $2.8 million per year.

Table 3. Alternative Projections of Twins' Revenues and Expenses in New Stadium in 2004 ($ in millions)

Revenue Item	Amount	Expense Item	Amount
Ticket Sales	$ 43.6	Players Salaries and Benefits	$ 51.9
Ticket Surcharge	2.8	Baseball Operations	15.5
Concessions and Novelties	12.3	Team Debt Service	1.6
Naming Rights, Advertising and Parking	10.0	Other Team-Related Expenses	18.2
Luxury Suite and Club Seats Income	5.8	Game-Day Stadium Expenses	3.6
Radio and Television	28.2	Non-Game-Day Stadium Expenses	8.6
Other Team Revenues	6.1	Property Taxes	0.0
Total Revenues	***$ 108.8***	Capital Reserve Account	0.7
		Total Expenses	***$ 100.1***
Net Revenue	***$ 8.7***		

Restaurant and Bar Lease Revenues

The preliminary design of the new stadium includes restaurants and bars located within the stadium itself. Those establishments would be privately owned and pay rent for the space in the stadium they leased. The revenues from those leases do not appear to be included in the projections prepared by the Pohlads' financial consultants. Those revenues, however, probably would be modest and not reliable, since restaurants and bars frequently experience financial problems.

[8] Source: Twin Cities Reader, Mar. 5-11, 1997, p. 16.

New Lottery Games and Taxes

The following table describes a proposed new lottery game and a number of new taxes, and reports the estimated revenues they would contribute toward paying the annual debt service on the new stadium. In addition, each of those revenue sources could begin generating revenues for a number of years before debt service payments would begin. During those years, the revenues could be retained and used as up-front funds. The table below also shows the reduction in annual debt service costs from the additional up-front funds those revenue sources would provide over a three-year period. The table does not show the net impact of those items on state or local treasuries; some of the items would take existing revenues that support the state's General Fund or local governments and dedicate those revenues to paying annual debt service on the new stadium.

Table 4. Proposed Sources of Funding ($ in millions)

Description of Revenue Source	Annual Revenues	Debt Service Reduction	Total Impact on Debt Service
New scratch-off lottery game featuring Twins logo, sold at new stadium and other outlets that request it (net of portion dedicated to Environmental Trust Fund) (Source: Rep. Dan McElroy)	$ 2.0 to 3.0	$ 0.5 to 0.8	$ 2.5 to 3.8
Special sales tax on sales in stadium (including rental of luxury suites) in lieu of state and local sales taxes, 9.0% of retail price (Source: Rep. Dan McElroy)	2.3	0.6	2.9
Tax on wholesale sales in Minnesota of licensed sports products and sports memorabilia, 10.0% of wholesale price (products licensed by educational institutions would be exempt) (Source: Dept. of Revenue)	11.2	2.8	14.0
Tax on wholesale sales in Minnesota of baseball-related, licensed sports products and sports memorabilia, 10.0% of wholesale price (products licensed by educational institutions would be exempt) (Source: Dept. of Revenue)	1.4	0.4	1.8
Income tax surcharge on salaries of players and other baseball employees with annual salaries in excess of $200,000, 4.0 percent of taxable net income over $100,000 (Source: Rep. Dan McElroy)	3.3	0.8	4.1
City surcharge on parking, $1.00 per vehicle parked within "special economic development district" surrounding new stadium or other areas that provide special event parking (Source: Rep. Dan McElroy)	1.0	0.3	1.3

Description of Revenue Source	Annual Revenues	Debt Service Reduction	Total Impact on Debt Service
Additional city liquor, entertainment, parking or lodging tax or fee within "special economic development district"	depends on district size and tax base and rate	unknown	unknown
Transfer revenues from fiscal disparities distribution levy equal to C/I tax capacity within "special economic development district" times city's share of fiscal disparities pool times area-wide rate	depends on district size and value of C/I property within	unknown	unknown
Stadium bond backup levy, limited to maximum equal to C/I tax capacity within "special economic development district" times modified area-wide rate, deducted from fiscal disparities distribution levy	depends on district size and value of C/I property within	unknown	unknown
Dedicate net proceeds of existing state sales tax on sports and health club membership dues (Source: Dept. of Revenue)	9.5	2.4	11.9
Increase state cigarette tax by 10 cents per pack (annual revenues assumes no decrease in consumption due to increase in tax) (Source: Rep. Ann H. Rest)	34.7	8.8	36.5
Seven-county metro area sales tax, 0.5% of retail sales price (revenues used for new stadium debt service, transit, and expansion of Minneapolis Convention Center) (Source: Star Tribune, June 26, 1997, p. A1)	130.0	unknown	unknown

The new scratch-off lottery game, special sales tax on sales in the stadium, the transfer of revenues from the fiscal disparities distribution levy, the stadium bond backup levy (if it became necessary to impose it), and transfer of revenues from the existing sales tax on sports and health club membership dues all would have negative impacts on the state's General Fund:

- The new Twins scratch-off game likely will reduce sales of other scratch-off games, which will reduce the revenues those other scratch-off games generate for the General Fund.

- The special sales tax is in lieu of the state and local sales taxes, so the General Fund will lose the revenues from the 6.5 percent state sales tax on sales in the new stadium; the amount of revenue that the General Fund will lose has not been estimated by the Department of Revenue.

- Transferring or deducting revenues from the fiscal disparities distribution levy will reduce the distributions to school districts in the seven-county metropolitan region, which will result in an automatic increase in state education aids to those school districts. State education aids are appropriated from the General Fund. If there were not sufficient resources in the General Fund to provide the additional state education aids, the statewide

general education levy rate would need to be increased, which would result in a property tax increase on all property throughout the state.

- Revenues from the existing sales tax on sports and health club membership dues currently are deposited in the General Fund, so dedicating those revenues to stadium debt service will reduce the General Fund by $9.5 million each year.

Any increase in Minnesota's cigarette tax to finance a new baseball stadium would be on top of the increase in the federal cigarette tax. Under one of the federal budget bills recently signed by President Clinton, the federal cigarette tax will increase by ten cents per pack in 2000 and by another five cents per pack in 2002.[9]

Casino Gambling Revenues

Several proposals have been developed to use casino gambling revenues to pay for the new stadium and possibly other projects. For example, permitting video slot machines to be operated at Canterbury Park in Shakopee might generate over $30 million in net revenues per year to pay debt service on the new stadium. Opening a state-operated casino in downtown St. Paul or next to the Mall of America in Bloomington might generate considerably more net revenues.

Tax Increment Financing

If the new stadium generated substantial additional property taxes, tax increment financing ("TIF") could be used to finance part of the cost of the new stadium. For example, if the location of the new stadium met the criteria for creating a redevelopment district (or the new stadium were located in a pre-existing TIF district), any increase in tax capacity from the new stadium could be captured and the property taxes from the captured tax capacity could be used to finance site acquisition and preparation (*e.g.*, demolishing the existing structures on the site).

The Target Center basketball and hockey arena in Minneapolis is located in a TIF district, and therefore part of the property taxes paid by the owners or tenants of the Target Center are captured by the TIF district. The arena and the health club located within it initially were privately owned, and the owners paid property taxes on those facilities. Even after the arena and health club space were acquired by the City of Minneapolis, both facilities have continued to be subject to property taxes. The property taxes now are paid by the lessees, the owners of the National Basketball Association Timberwolves franchise and the operators of the health club.[10]

According to the Pohlads' assumptions, however, legislation will make all parts of the new baseball stadium, like the Metrodome, exempt from property taxes.[11] Therefore, placing the new baseball stadium in a TIF district would generate no TIF revenue.

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9 Source: Star Tribune, July 29, 1997, p. A6, and Aug. 6, 1997, p. A1.

10 The Target Center arena itself (excluding the luxury boxes, restaurant and health club) might be exempt from property taxes under the same general law that exempted most of the Metrodome prior to the 1985 clarification of the special law that exempted all property owned by the Metropolitan Sports Facilities Commission. The owner of the Timberwolves franchise has continued to pay property taxes on the arena, even though it might be exempt, apparently because of an agreement with the City of Minneapolis not to apply for the exemption.

11 The financial plans for the NHL expansion franchise in St. Paul assume that special legislation will make all parts of the new hockey arena exempt from property taxes.

Conclusion

Given that the Pohlads are demanding construction of retractable-roof stadium costing hundreds of millions of dollars and demanding to receive essentially all of the revenue from that stadium, complying with the Pohlads demands means that the state or local governments will need to pledge public revenues amounting to tens of millions of dollars of each year to finance the new stadium. The only potential revenue sources proposed to date that can generate that level of revenue are increasing the cigarette tax and using revenues from expanded casino gambling.

If it is deemed appropriate to contribute public funds to financing a new stadium for the Twins, perhaps the total amount of public financial support should be addressed before examining possible sources of that public financial support. What the Legislature decides to contribute to financing the new stadium and what the Pohlads claim they need from the public sector need not be the same amounts. The Legislature could decide that it is willing to contribute only a fixed sum toward the financing, regardless of the sources. Then it would be up to the Pohlads to decide how expensive a stadium they could afford to build with the fixed amount of public resources provided and whatever other resources they could gather.

For more information on financing a new Twins stadium, contact Bill Connors, House Fiscal Analyst, at 296-5813.