FINAL REPORT OF THE MINNESOTA STADIUMS TASK FORCE

January 25, 2002
St. Paul, Minnesota

The Task Force and Its Mission

The Stadium Task Force was created by the Governor and the Legislature to study and make recommendations regarding the asserted needs of the Minnesota Twins, the Minnesota Vikings and the University of Minnesota football team for new stadiums.

Although the issue of a new baseball stadium previously had been studied a number of times by the Legislature, the Metropolitan Sports Facilities Commission ("MSFC") and private groups, the needs of baseball and football had not been considered together. In addition, despite the fact that the Vikings began raising the issue of a new stadium for football several years ago, there had not been a sustained legislative discussion of what to do, if anything, for professional football.

The Task Force had eighteen members: six appointed by the Governor, six by the House and six by the Senate. Our membership included elected and appointed public officials and individuals from the private sector. Some of us had extensive experience with previous stadium discussions and some were newcomers.

During our hearings, we listened to representatives of the sports teams, legislators, the MSFC, local governments, architects, contractors, financiers, present and former players, other Minnesotans who wanted their voices heard and from fans who have always shown their loyalties to teams and athletes with the word "Minnesota" on their uniforms. We had the opportunity to learn from and build on the work of many others, such as the MSFC, New Ballpark, Inc. and Minnesotans for Major League Baseball.

Though our recommendations are not unanimous, we worked toward a consensus on the disputed issues and avoided relying on narrow majorities of task force members to reach conclusions.

Recommendations and Rationale

1. **We recommend that the Governor and the Legislature should take action during the 2002 legislative session on proposals for a new stadium for professional baseball and a stadium to be shared by the Minnesota Vikings and the University of Minnesota Gophers football team.**

We recognize that the 2002 Legislature and the Governor have several critical responsibilities, including balancing the operating budget, passing a capital budget, and redistricting.

Nonetheless, the Task Force recommends that action in 2002 is important for the Twins and the future of professional baseball in Minnesota because there is a real possibility that the Twins could be eliminated through the contraction of the number of major league baseball teams. We note that the lease for the Minnesota Twins has expired and is currently on a one year extension for the 2002 season.

Like Minnesotans generally, none of the Task Force members were pleased with the pressure tactics and crisis atmosphere caused by Major League Baseball. Regretfully, we have had to conclude realistically that the 2002 baseball season could be the last one for the Minnesota Twins unless Minnesota acts to facilitate the construction of a new stadium this year.

The situation for the Vikings and the Gophers is just as important, though to some it may appear less urgent. Some witnesses noted that the Vikings' lease at the Metrodome extends until 2011. Nonetheless, the Task Force recommends that Minnesota act this year on football too. The National Football League has a program for assisting in the financing of new stadiums and the program is scheduled to end this year. The Task Force sees a significant funding opportunity that may not be available in the future. The Vikings also assert that without a new stadium, they will need new revenue streams to remain competitive in Minnesota. We also learned about the revenue shortfalls being incurred by the Gopher athletic programs. A facility shared by the Gophers and the Vikings would produce revenue increases for both organizations.

Metrodome Renovation or A New Football Stadium

The MSFC has suggested that renovating the Metrodome would be more cost effective than building a new stadium. This approach has advantages. The MSFC described a plan for such a renovation which it estimated would cost substantially less than building a new stadium. In addition, there is already an infrastructure supporting Metrodome operations.

On balance, the Task Force concluded that a new football stadium was a superior solution. There was doubt that a renovation could be completed without disrupting at least one football season. We do not have an alternative venue for football if renovation did conflict with a season. The Vikings also raised reasonable concerns that cost estimates for renovation were too low. A renovated Metrodome would still lack many of the fan amenities characteristic of newer stadiums. Perhaps most important to the Task Force was the fact that the Vikings are strongly opposed to renovating the Metrodome as an alternative to a new stadium. The MSFC could not finance its major renovation plan without substantial Vikings participation and a new, longer term lease. The Vikings made it clear they would not contribute to a renovation and would not extend their lease at the Metrodome. For these reasons, the Task Force concluded that renovation of the Metrodome was not feasible and that a new stadium shared by the Vikings and the Gophers football team was a superior solution.

2. The Governor and the Legislature should adopt legislation providing for state participation in financing, but not funding, new stadiums. This financing should occur only if financing from other sources such as private investors and local governments is inadequate.

As we discuss below, the Task Force prefers that financing for new stadiums come from team owners or other private investors or from local governments if private investment is insufficient. If these other sources of financing are inadequate, only then should the state participate in the financing, provided that there is a substantial contribution made by the team owners. We recognize that full private financing of stadiums is rare. In Minnesota, local governments have been essential participants in previous stadium financing arrangements. Only after an appropriate financial commitment from the team owners and other private sources, and from the local unit(s) of government should there be any expectation of a possible financial commitment from the state. Furthermore, any participation by the state should be financed through user fees, taxes imposed on professional sports related activities and/or items, or through other sources that demonstrate a relationship between the source of state funding and those that economically benefit from, or participate in the operations of professional sports teams in the state.

In recognition of how controversial the issue of government, particularly state government, involvement in stadium funding has been, we have these observations to support our recommendation:

a. Some of the economic benefits claimed for sports stadiums are hard to justify. We were persuaded that the income taxes the state receives from visiting players was one economic benefit that could be quantified. As player salaries have increased, the direct benefit to the state of having our own professional teams has increased. In addition, the revenue spent in Minnesota by teams who benefit from revenue sharing is derived in part from economic activity in other states such as media payments and, therefore, is likely a net economic benefit to Minnesota. The Task Force was impressed, too, by the benefits many of the State's communities received from the charitable giving of the teams and the players.

b. The facilities run by the Amateur Sports Facilities Commission and financed with public funds have provided opportunities for Minnesota athletes to excel, and brought outstanding athletes here from all over the world.

c. The Mighty Ducks and Mighty Kicks programs have provided state funds to help build hockey rinks and soccer fields throughout Minnesota.

d. Over the years, Minnesotans have spent millions of dollars to provide facilities for collegiate athletics on the campuses of the University of Minnesota system and the Minnesota State Colleges and Universities (MnSCU) system.

e. Public financing helped build Metropolitan Stadium, the Met Sports Center and the Metrodome for professional and amateur football, baseball, basketball, soccer, hockey and other events and activities.

f. Public financing from state and local sources was crucial to the continued viability of Target Center and the construction of the Xcel Energy Center. Portions of the public financing were premised on the use of the facilities by amateur sports teams.

Finally, there are intangible benefits to having professional teams in Minnesota that cannot be overlooked. The Task Force has found that professional and college sports are part of the identity of many Minnesotans. In addition, the Task Force has found that these teams add something that is impossible to accurately measure, but that is important to countless Minnesotans. The Task Force has found that, to a considerable degree, pro and college sports play a part in the cultural vitality of Minnesota for many, not only in the Twin Cities but across the state and throughout the region.

The Task Force has determined that in teams such as the Minnesota Twins and Minnesota Vikings, and in the generations of Minnesotans to whom a love of and a loyalty to the home team has been handed down, the state has something worth saving.

3. We recommend that state participation in financing stadiums be drawn from limited revenue sources, not from the general fund.

The Task Force spent considerable time discussing revenue streams that may meet the parameters mentioned above, which could be widely considered as paid by those most directly benefitting from the use of the facility. The Task Force believes that the following revenue streams deserve closer examination by state policymakers and are potential revenue sources to finance state participation.

a. Sports Memorabilia. Imposing a statewide sports memorabilia tax applied to all professional and collegiate sports, including clothing. This memorabilia tax would be in addition to the existing sales tax on memorabilia and would include a new statewide tax on clothing items with sports insignia.

b. Player Income Tax. Estimate the ongoing revenues from income taxes paid by the visiting players of professional sports teams that use the facility and use those revenues to support the state's investment in the construction of a new facility or facilities.

c. Media Access Charge. Businesses and individuals who use the sports facilities to broadcast or report on games and events that take place within the facility should be charged for access to the facility or facilities.

d. Sales Tax on Facility Food and Beverages. Impose an additional tax on the sale of food and beverages at the sports facility, this would be in addition to the state sales tax of 6.5% and any local option sales tax that may be in place.

e. Ticket Tax. Impose an admission tax on the tickets sold to attendees at all events at the facility, both game and non-game events. This is in addition to the state sales tax of 6.5% and any local option sales tax that may be in place.

f. Naming Rights. The Task Force believes that the value associated with naming rights of the facility should be considered as a potential source for public financing, but that the landlord may want to reserve the right to contract with the team to negotiate with interested parties on the landlord's behalf, recognizing that the value of the naming rights may be greater if negotiated as part of a more comprehensive sponsorship package. If naming rights are utilized for stadium construction, the franchise ownership and the landlord should negotiate an agreement on naming rights revenues.

g. Personal Seat Licensing. The sale of personal seat licenses (PSLs) have been used as a financing source in other facilities and result from the sale of the right to buy a season ticket. If PSLs are utilized, the amount directed to stadium construction should be negotiated between the franchise ownership and the landlord.

h. State Loans to Local Units of Government. The Task Force recommends consideration of low- or zero-interest loans to local units of government.

i. Gaming Revenues. The Task Force urges the Legislature and the Governor to consider gaming related revenue streams as an option to support public financing of new professional sports facility.

j. Metrodome Assets. Should the Metrodome be left with no principal tenants, it is expected that the facility would be sold or demolished and the land redeveloped. The revenue from the sale of the Metrodome land and other assets of the Metropolitan Sports Facility Commission could be considered for a state contribution to the costs of a new facility.

k. Sales Tax Exemption. The Task Force also recommends consideration of a sales tax exemption on any materials used in the construction of the new facility or facilities. While these proceeds would otherwise be deposited in the general fund, they are receipts that would not be available to the state but for the project. To the extent that public funds are used to finance some portion of the construction, imposing a sales tax could lead to the state paying more interest to finance the sales tax.

l. Car Rental Charge. The Task Force recommends that the state impose a charge on car rentals in the metropolitan area. We recognize this charge does not fit neatly into the user or beneficiary category. Nonetheless, it has been used to finance stadiums in others states and is a reasonable option.

4. Our recommendations include several other financial considerations that should be addressed by the legislature and the Governor.

The state should consider granting a local unit(s) of government the authority to establish local option taxes to finance the local government contribution. To the extent a community already has local tax authority, the State should consider expanding the existing authority to allow proceeds to be used for facility financing.

The Task Force also recognizes there is a state interest in using these sports facilities for either collegiate or amateur athletics. The Task Force recommends consideration of some state funding should the lease for any facility include provisions for collegiate or amateur athletic use.

The Task Force also recommends that any state financing be done in the least costly way possible, without sacrificing the goal of limiting the impact to the direct beneficiaries of the facilities. For example, if the state intends to issue debt to finance its share of the project cost, the state should explore strategies to ensure that as much of the state participation as possible can be done through the issuance of tax-exempt bonds.

However, the Task Force also recognizes that several of the revenue streams identified will be problematic as the primary source of revenues for debt service payments, primarily because there will not be a history of collections prior to issuing the debt. This may result in a reduced amount of debt that can be issued using these revenue sources as the payment for the debt service, given the requirement to have sufficient coverage on the debt, or a "cushion" of having expected revenues exceed debt service payments by some margin. The Task Force recommends that these limitations not be "fixed" by issuing general obligation bonds that could pose risk to the general taxpayers of the state.

The Task Force also recognizes the efforts of the state on the Streamlined Sales Tax Project, which is aimed at addressing sellers' concerns about the multiplicity of tax laws and the burden created in trying to comply with tax laws across states that are not uniform. Recognizing that increasing uniformity may ultimately allow the state to capture tax revenues lost on Internet sales, currently estimated at hundreds of millions of dollars annually, the Task Force urges careful consideration of the recommendation put forward in this report. It may be advisable to impose a gross receipts tax on the facility revenues, for example, rather than relying on specific extensions of the sales tax. The Task Force recommends that the Minnesota Department of Revenue be asked to comment more specifically on the revenue options identified in this report and recommend strategies for implementation to minimize any adverse impact on the Streamlined Sales Tax Project.

The Task Force also supports the further consideration of citizen ownership of the professional baseball franchise through the issuance of equity stock. While accomplishing a slightly different goal, the Task Force also believes the sense of public support accomplished through the issuance of commemorative stock, not defined as ownership under Minnesota law or the Securities and Exchange Commission Rules, would justify some consideration for a limited portion of the financing for either or both of the baseball or football facilities.

The Task Force also expressed concern that the state not be considered as a party responsible for financing any cost overruns in the project budget. The Task Force recommends that the responsibility for cost overruns and construction management be clearly delineated in the lease between the franchise and the facility landlord, but under no circumstances should the state be considered as a financing source for cost overruns. A construction management team should be in place prior to the letting of any bids for the facilities.

5. The Task Force does not recommend a particular site for either a baseball or football stadium.

The Task Force recommendations are site neutral. The Task Force anticipates that the state will identify parameters for determining state participation and the location of the facility or facilities will be determined through a negotiated agreement between the franchise (tenant) and the local unit(s) of government (landlord).

6. The Task Force recommends that any state financing not be released until the team has negotiated a lease with a landlord, which may be a local unit of government. State financing, if any, would be released only if the lease between the team and the landlord includes:

a. a listing of all revenue streams generated from use of the building with a specification of what revenues are available to cover team operations, which accrue to the building landlord and which are available to the state (such as naming rights);

b. clarification of the operations and management responsibilities between the team and the landlord;

c. delineation of the responsibility for repair and replacement in the facility, including an annual inspection by the landlord and a representative of the state;

d. provisions within the lease that some portion of the tickets for professional sports games are accessible and affordable;

e. protection of the public interest in the event of a default by the team or a disruption in the season due to a player strike;

f. a lease term that is at least as long as the term of any public financing that may be in place at the state or local level, not to exceed 30 years;

g. terms specifying responsibilities for construction management and cost overruns between the landlord and the team;

h. statement of public ownership of the facility, and clarification of ownership of the furnishing and equipment within the facility;

i. terms which outline the security offered by the team and the respective league on the lease;

j. binding commitments of financing sufficient, when taken in conjunction with the state financing, to ensure that the project is fully funded prior to the release of the state funds;

k. documentation on the final design and construction specifications; and,

l. in the event of state financing, terms that outline the use of the facility for amateur and collegiate athletics.

7. We recognize that Major League Baseball's business structure needs to be reformed.

Many studies have shown that Major League Baseball teams in markets with relatively little revenue from local media will continue to struggle financially. The Twins will continue to have few resources for building a competitive team even with a new stadium unless Major League Baseball implements significant reforms. The major necessary reforms are more equal revenue sharing, particularly from local media revenue, and some form of payroll equalization formula to reduce the disparity between high payroll and low payroll teams. The National Football League's salary cap and revenue sharing have helped to create teams whose success does not depend on the size of the local media market or the owner's bankroll.

The Task Force supports the further consideration of a shared appreciation agreement between the owners of the professional baseball franchise and the public entity owning the facility. Upon the sale of the professional baseball franchise, or its relocation out of the State of Minnesota, during the term of the lease agreement, the franchise would pay a percentage of the appreciated value of the franchise to the public entity.

8. We recommend that public participation in financing facilities for professional sports be designed to ensure that professional sports events are accessible to and beneficial for a broad community of Minnesotans.

Any professional sports facilities with public financing should include specific provisions for maintaining the accessibility and affordability of some portion of tickets to professional sports events held in the facilities. The potential for use of the facilities by high school and other amateur sports teams should also be protected. In addition, facilities that benefit from public financing participation should be designed to be integrated into the host city and its neighborhood. An architecturally significant design could become an attraction in itself, as well as enhancing the physical environment of a community and economic development opportunities.