Research Report
Senate Counsel & Research

Senate
State of Minnesota

STADIUM DISCUSSION POINTS

The following information was presented to the joint legislative task force on the new baseball stadium. The intent of this document is to familiarize members with the major issues surrounding this complex topic.

---

1. Do We Need A New Stadium?

The nature of major league sports has changed significantly since the construction of the Metrodome in 1982. At that time, the Metrodome was a model stadium development, combining low- cost construction with some cutting-edge attempts to add luxury suites and other revenue -generating design features to a stadium. Today, however, escalating player salaries have dictated that greater sources of revenue be dedicated to operational expenses. Small and medium-size markets, like Minnesota and Milwaukee, cannot hope to match the kind of revenues that a team like the New York Yankees can enjoy from broadcast rights or ticket sales. In the race to compete financially, smaller markets have started devoting to the teams revenue streams which were traditionally used for financing construction of the stadium itself.

One line of argument for a new stadium runs as follows: The existing Metrodome is inadequate, given the revenue needs of small-market baseball and football teams. A modern stadium must create revenue streams from many sources (more seats close to the field, better luxury boxes, personal seat licenses, enhanced concessions, naming and advertising rights) to make the owner more competitive. According to this argument, the Metrodome does not generate enough revenue for the Twins to be able to pay players and field a competitive team. Lack of money breeds lack of players, which breeds losing teams and lowers attendance. Therefore, the Metrodome is a recipe for failure and financial shortfalls.

Another line of argument that tends to work against a new stadium runs as follows: A state expenditure of any sort, or even state-backed bonds, must meet a public purpose. That public purpose must be more pressing than other public needs. A new stadium has potential benefits, but those benefits have not been demonstrated and have not been measured against other pressing public needs.

A third line of argument about new stadium construction would have the Legislature spend a set amount on a new stadium, an amount that represents the public commitment that policymakers feel appropriate. This amount would be a capped public commitment, and would probably not pay for the entire new stadium. If the Twins did not feel that this amount was enough, they could seek other additional sources, or could choose to leave the state. The problem with setting a capped public commitment is in selecting a reasonable figure that would be attractive to the Twins, yet would satisfy policymakers with its modesty.

2. Location.

Minneapolis has centered on one site, near the river, and has proposed -- in a press conference conducted by Mayor Sayles Belton -- to offer a $50 to $70 million package of land and site preparation along the Mississippi River. The Governor has invited the City of Saint Paul to consider a possible Saint Paul stadium, perhaps to be located on the south bank of the Mississippi. Bloomington sites have also been mentioned, but Bloomington does not wish to be considered as a site for a new stadium. Neither Saint Paul nor Minneapolis has fully outlined its proposed contributions.

Local contributions of land and site preparation have been assumed to be part of the Twins' stadium deal since the beginning of the 1997 legislative session, but details have not been totally nailed down.

3. Design.

The actual design of the new Twins' stadium has, at various times, been considered to be a Twins' decision, or a joint Twins-Metropolitan Sports Facilities Commission decision. The 1997 legislative session operated on an assumption that the new stadium would be a single-purpose baseball stadium with a retractable roof.

This assumption may be in question. The Minnesota Vikings may be pursuing the design and operation of a dual-purpose stadium, of similar utility but much enhanced design over the existing Metrodome. Also, finance considerations may open up the question of a retractable roof, which is estimated to add a cost of about $90 million to the stadium design.

Design issues are, in part, revenue-stream issues -- a modern stadium attempts to increase the numbers of seats that are close to the field and thereby more desirable and sellable to fans. A modern stadium also builds attractive concession areas, club seat and luxury box features, and other design features that increase monetary streams that can go to the team owners.

Therefore, a multiple-use stadium raises the issue of multiple owners who have to agree on which revenue streams for which events go to each owner. Even a single-use stadium designed to maximize revenue streams raises issues of how to spend those revenues -- on the stadium cost, or for the owner's enhanced income from baseball or football operations?

4. Cost.

The latest estimate on total construction and bonding costs for an outdoor baseball stadium was $348 million for construction, land, and other costs and $90 million for a retractable roof, bringing the actual construction and site costs to about $438 million. Interest costs on possible debt issuance vary depending upon the nature of the bonds and the years of repayment. Yearly payments on such a facility would be roughly around $35 million.

The cost issue is fairly straightforward. A revenue stream must be created to back any bonds that are issued. That revenue stream must be about $35 million per year, from sources that are sufficiently stable to impress the bond markets. The amount of funds needed can be lowered by foregoing a retractable roof or by capping the state commitment at a lower figure and requiring the Twins' owner to make up the rest, if they so agree.

5. Owner Contribution.

Contributions from owners at various baseball stadia in the past few years have ranged from as low as $0 (in Chicago) to $262 million (in San Francisco). The Twins have been required in various bills to contribute as little as zero dollars . . . and as much as $100 million. The contribution issue has become muddied up by some confusion as to what exactly constitutes an owner contribution.

A loan of funds to be repaid by the state, either directly or through stadium revenues, is one possible kind of owner contribution. A loan is typically repaid with some interest, which raises the long-term cost to the state in putting the deal together. A loan should be judged against the amount the state would pay in the bond market for the same amount of funds.

A share of a revenue stream from the stadium -- either naming rights, concessions, advertising, or luxury suites -- is another kind of owner contribution. A share of one of these streams is usually paid a few years after the legislation passes, in order to give the owner time to sign deals and raise the share. A share of one of the stadium revenue streams is only real money if the revenue stream pans out.

A direct cash contribution is difficult to arrange. The entire structure of any modern stadium deal is designed to create enhanced owner revenue streams that do not already exist. Therefore, any owner contribution is logically only a portion of these enhanced owner revenue streams. It is possible to require an upfront, day-one payment from an owner, but it is the nature of stadium financing that the owner will be able to recoup the payment from enhanced revenue streams somewhere down the line, perhaps through favorable lease arrangements.

6. Lease or Public Ownership?

The Twins' stadium legislation during the 1997 session gave the state a 49 percent "ownership" interest in the team. The definition of ownership has been less than clear. The details in the legislation specify an amount that the state could pay for the team, in the event the owner would like to sell the team. This amount should reflect the remaining 51 percent of the team cost.

Ownership would supposedly "take the wheels off of the team". However, it is not assured that major league baseball would approve of this form of public ownership. Another way to lock the team into a new stadium is through a tightly drawn lease, without an attendance escape clause. A lease would also specify a rent payment for the team to make.

7. Stadium Revenue Streams.

There are two types of revenue streams created by a new stadium. First, there are design revenues -- cash coming from the new design -- luxury suites, club seats, naming rights, advertising rights, concession rights. These design revenue streams are often reserved for the owner, in order to make the owner competitive with other major league teams.

Second, there are taxes and users' fees generated at the stadium -- parking taxes, concessions taxes, player salary surcharges, tax increment financing, and other specifically legislated income streams dedicated to paying for a new stadium.

It is fair to say that the proposed new Twins stadium -- $438 million -- is not affordable through tax and user fee revenue streams. Tapping design revenue streams makes the deal less palatable to the owner, jeopardizing the entire agreement. The result is a necessity to go beyond user fee revenues and tap non-stadium revenue streams.

8. Non-Stadium Revenue Streams.

In theory, any general fund revenue stream could be tapped to cover the debt service cost of bonding for a new Twins stadium. During the 1997 session, three non-stadium revenue streams were discussed: A state-run casino, slots at Canterbury Downs, and a cigarette tax. A cigarette and cigar tax would raise about $3.4 million per penny of tax, raising a sufficient amount with a 10-cent tax.

The slots at Canterbury Downs proposal raises at least $25 million per year from machines and blackjack tables which, in conjunction with some small users' fees, covers the cost of a new stadium. The amount actually generated by slots is still under discussion, but estimates from Lottery staff show that a sufficient revenue stream could be generated.

A state-operated casino would almost certainly raise sufficient funds to pay off a new stadium in a relatively short span of years. Siting concerns, which gambling games are allowed, and other policy issues surrounding a new casino would determine exactly how much was raised.

There are numerous other non-stadium revenue streams that have been mentioned, including a metro-wide sales tax or even a straight general fund appropriation from the projected state surplus. The policy questions that surround a non-stadium funding source include the propriety of the given revenue stream, the stability of the funds that would come from the revenue stream, and the ability of the revenue stream to garner enough legislative support for enactment.

9. Tax Status of Bonds.

The total cost of a stadium construction project would be significantly reduced by issuance of tax-exempt bonds to finance the project. Complex provisions of the Internal Revenue Code determine whether bonds issued for a particular project will be exempt from taxation. In general, the ability to use tax-exempt bonds is limited on the basis of the amount of private stadium revenues that are used to pay debt service. Legislation currently pending in Congress would place additional restrictions on the use of tax-exempt financing for stadium projects. The fact that this legislation has a retroactive effective date is currently causing concern for projects even before the bill is enacted.

10. Other Sports Interests.

The Twins stadium project does not exist in a vacuum. Two other immediate concerns exist: The Saint Paul hockey arena, and the future needs of the Minnesota Vikings. In addition, a stadium package must address the future needs of the University of Minnesota.

The City of Saint Paul has secured a National Hockey League franchise and committed to construction of a new arena to replace the Civic Center. The total construction and site costs of the deal are $130 million. The state has been asked to supply $65 million in general obligation bonds for the new hockey arena. If the state provides the $65 million, the hockey deal is less problematic for city debt obligations.

The Minnesota Vikings, concerned about their long-term profitability in an aging Metro-dome, have suggested either major modifications in the Metrodome or construction of a dual-purpose stadium for both Twins' and Vikings' games. The Vikings have raised questions about the financial viability of the Metrodome should the Twins leave.

LEGISLATIVE HISTORY

A total of 11 bills (seven in the Senate and four in the House, excluding delete-everything amendments) were introduced in the Legislature regarding a new professional baseball stadium. The major proposals originated in S.F. 1140 and its companion, H.F. 1367.

S.F. 1140 - During the 1997 legislative session, Senator Janezich introduced S.F. 1140 in the Senate. His bill included a roof for the stadium, and the facility was to be essentially paid for by an increase in the cigarette tax and a special taxing district around the new stadium. S.F. 1140 underwent significant revision, increasing the owner's contribution, changing the location of the stadium, and modifying the revenue streams. The bill was sent to the Senate Tax Committee, where a number of competing proposals were heard, including slots at Canterbury, sports-related fees, establishment of a new state-run casino, and numerous other member ideas. The bill did not progress past the Tax Committee.

H.F. 1367 - In the House, Representative Ann Rest introduced H.F. 1367, which started as a very similar companion to S.F. 1140. During its consideration before House committees, the bill at one point considered funding the stadium through a number of baseball-related fees and taxes. H.F. 1367 ended up in the House Tax Committee and did not progress any further.

SUMMARY OF ALL BILLS INTRODUCED

S.F. 1140 - Partial public ownership; construction of the new stadium with revenues from a cigarette tax, special sales tax district, and a loan from the owner.

DE 1 (Janezich) - Public ownership; $15 million owner contribution; 5 cent cigarette tax; sales tax at Metrodome and new stadium; special lottery game.

DE 2 (Marty) - Construction of new stadium; cap on Twins' operating revenues; any extra used to pay for stadium.

DE 3 (Janezich) - Public ownership; $15 million owner contribution and $35 million advance; construction paid for by users' fees and an additional funding source to be found by the Legislative Commission on Planning and Fiscal Policy.

DE 4 (Day) - No public ownership; total owner contribution of $50 million; construction of new stadium through video slots at Canterbury Downs.

DE 5 (Johnson, Douglas J.) - Baseball stadium, hockey arena, and Metrodome refurbishment to be paid for by a state-run casino.

DE 6 (Day) **-** User charges, special taxes, and proceeds from gaming machines at Canterbury Downs would be used to pay for construction of new stadium.

DE 7 - Attempt to keep the Twins from being able to exercise the escape clause in their lease by buying thousands of tickets for Twins games.

S.F. 1323 - Purchase the Twins and set up a mechanism for "broad based private community ownership of a major league baseball franchise in Minnesota". Companion to H.F. 936.

S.F. 1727 - Companion to H.F. 1962.

S.F. 1942, S.F. 1964, S.F. 1965 - Cap the Twins' operating revenues; use the excess to pay for the new stadium.

S.F. 1949 - Companion to H.F. 2201. Pay for construction of a new stadium through a state-run gaming facility and a $100 million owner contribution.

H.F. 936 - Purchase the Twins for $100 million; build a new stadium only from taxes on businesses that directly benefit from the team.

H.F. 1367 - Public ownership; pay off Metrodome by selling Met Center land; players' tax; memorabilia tax; ticket tax; special lottery game; and a parking tax.

H.F. 1962 - Form limited partnership of public authority and private investors to construct a new stadium and lease it to the Twins. Public authority, Twins, and private investors each contribute $80 million. Public authority collects a ticket tax, gets naming rights money, and collects the rent from the Twins.

H.F. 2201 - Pay for construction of a new stadium through a state-run gaming facility and a $100 million owner contribution.

Return to the Research Reports page