

Minnesota Sports Facilities Authority
900 South 5th Street, Minneapolis, MN 55415



March 8, 2013

The Honorable Michael V. Nelson
Chair, State House Government Operations Committee
565 State Office Building
100 Rev. Dr. Martin Luther King Jr. Blvd
Saint Paul, MN 55155

Dear Representative Nelson:

On behalf of the Minnesota Sports Facilities Authority, I am submitting a study examining the financial feasibility of a ticket raffle in the new stadium.

On January 22, 2013, I presented an update to the State House Government Operations Committee. While the Authority had previously submitted a report on the feasibility of the raffle, your committee and staff requested a more financially focused feasibility report. Accordingly, we engaged a consultant to conduct this study. Please find the study attached.

If you have further questions or require additional information, please let me know, and I would be happy to respond at any time.

Best regards,

A handwritten signature in black ink, appearing to read "Michele Kelm-Helgen". The signature is fluid and cursive, with a large, stylized initial "M".

Michele Kelm-Helgen
Chair
Minnesota Sports Facilities Authority

cc:

The Honorable Thomas Bakk, Senate Majority Leader
The Honorable David Hann, Senate Minority Leader
The Honorable Paul Thissen, Speaker of the House
The Honorable Kurt Daudt, House Minority Leader
The Honorable Mike Freiberg, Vice Chair, State House Government Operations Committee
The Honorable Joyce Peppin, GOP Lead, State House Government Operations Committee
The Honorable David Dill, State House Government Operations Committee



cc continued:

The Honorable Zachary Dorholt, State House Government Operations Committee
The Honorable Steve Drazkowski, State House Government Operations Committee
The Honorable Andrew Falk, State House Government Operations Committee
The Honorable Rick Hansen, State House Government Operations Committee
The Honorable Phyllis Kahn, State House Government Operations Committee
The Honorable Ben Lien, State House Government Operations Committee
The Honorable Tim O'Driscoll, State House Government Operations Committee
The Honorable Cindy Pugh, State House Government Operations Committee
The Honorable Tim Sanders, State House Government Operations Committee
The Honorable Tama Theis, State House Government Operations Committee
The Honorable Ryan Winkler, State House Government Operations Committee
The Honorable Mary Murphy, ex-officio, State House Government Operations Committee
The Honorable Sandra Pappas, Chair, Senate State & Local Government Committee
The Honorable Bobby Jo Champion, Legislative Commission on MN Sports Facilities
The Honorable Roger Reinert, Legislative Commission on MN Sports Facilities
The Honorable Kathy Sheran, Legislative Commission on MN Sports Facilities
The Honorable Julie Rosen, Legislative Commission on MN Sports Facilities
The Honorable Jeremy Miller, Legislative Commission on MN Sports Facilities
The Honorable Karin Housley, Legislative Commission on MN Sports Facilities
The Honorable Joe Atkins, Legislative Commission on MN Sports Facilities
The Honorable Jim Davnie, Legislative Commission on MN Sports Facilities
The Honorable Kim Norton, Legislative Commission on MN Sports Facilities
The Honorable Joe Hoppe, Legislative Commission on MN Sports Facilities
The Honorable Tim Kelly, Legislative Commission on MN Sports Facilities
The Honorable Paul Anderson, Legislative Commission on MN Sports Facilities



March 8, 2013

Memo to: Michele Kelm-Helgen, Chair and Ted Mondale, Executive Director
Minnesota Sports Facilities Authority
900 South Fifth Street
Minneapolis, MN 55415

Subject: Financial Feasibility of a Raffle of Prime Vikings Tickets

The legislation creating the Minnesota Sports Facilities Authority provides that “The authority shall study the feasibility of conducting a raffle for chances to win a pair or other limited numbers of prime seats (such as lower deck , 50 yard line seats) in the stadium for professional football games for the duration of the lease or use agreement.”

In determining the feasibility it is important to estimate the value of a pair of such tickets and the potential proceeds that could be generated from a raffle. As anticipated in the legislation, prime seats would be available for the term of the use agreement. At this time Vikings tickets are not typically sold for a 30-year term. However, for this purpose it is assumed that the Vikings would make a pair of tickets available for that extended period of time. With this assumption it is possible to place a value on the right to receive those tickets for each season from 2016 through 2045 and to calculate the present value of this bundle of rights and future delivery of tickets.

The Vikings have not set prices for the 2016 season; however, based on ticketing at comparable venues, it is reasonable to conclude that the price of a single “prime seat” as defined in the legislation would be in a range from \$150 to \$350. This analysis focuses on \$250 per ticket. It is also reasonable to assert that the annual increase in the price of such tickets would vary between 2% and 8% with a midpoint of 5%. Simple multiplication by two results in an initial price of \$500 for a pair of prime seats. Using a 2016 value of \$500 for a pair and advancing the price each year by 5% result in a total price, if paid each year, for 30 seasons of \$332,194.

It is logical to submit that the present value of this grouping of tickets would be equal to the price one would pay for a portfolio of “riskless” securities each of which would mature in time to buy the actual tickets. Using a weighted average U.S. Treasury interest rate of 3.763%, this present value would be \$169,828 for the \$332,194 face value of season tickets. With the cooperation of the

Minnesota Vikings, a price similar to \$169,828 could presumably be negotiated for the delivery of the tickets to the MSFA or its agent for a raffle as anticipated by the legislation.

Based on the experience in Minnesota and other jurisdictions, it is typical to sell an amount of raffle tickets equal to twice the value of the prizes that are being offered. The Annual Report of the Minnesota Gambling Control Board reports a 49.1% overall payout for raffles during Fiscal Year 2011. The Minnesota Wild and the Buffalo Sabres have each instituted "50-50" raffles at their venues and provide cash prizes equal to 50% of raffle ticket sales. A series of "Dream House" raffles in other states set their prize values at 50% of the gross amount of ticket sales. Oregon law specifically requires that raffles return 50% of sales to the public in the form of prizes.

While it is typical for states to pay out more than 50% through their lotteries (approximately 62% in Minnesota), raffles clearly center on the 50% payout figure. The Minnesota Lottery's annual "Holiday Raffle" gives away 50% of its anticipated gross ticket sales. Unlike other states, where raffle sales goals have not always been met, the Minnesota raffle has sold its full allotment of tickets for six years in a row. Feedback from staff of the Minnesota Lottery confirms that 50% payouts are standard for raffles across the United States.

Using the 50% payout assumption suggests total raffle sales of \$339,656 for a prize valued at \$169,828. At a \$5 raffle ticket price, 67,931 tickets would be offered for sale. However, unlike a raffle that delivers cash, an automobile, a house or some other commonly available prize, this potential Vikings ticket raffle would provide the winner with scarce items: 30 years of high quality football tickets. The perceived value of the tickets would likely be greater than the calculated present value because the Vikings maintain an existing priority list. Most Vikings fans and most Minnesota lottery players are not likely to be high enough in that queue to buy prime seating at the new stadium as defined by the Legislature. Therefore, persons buying the MSFA's raffle tickets could perceive the prize as being worth more than the simple calculated value. For the purpose of this study, a factor of 1.5 times face value is being used. At a perceived value of \$254,742 (1.5 times \$169,828) the raffle could presumably be structured to attempt to sell 101,898 tickets at \$5 each for gross sales of \$509,484. There is no guarantee that all of the available tickets would be purchased.

After paying the Vikings for the tickets (which would presumably cost the MSFA the base price of \$169,828), \$339,656 would be available to pay administrative, legal and advertising costs as well as sales commissions if all the tickets were sold. Costs could easily add up to \$200,000: 50 hours of legal fees at \$600 an hour (\$30,000); combined administrative costs for the MSFA and its lottery contractor (another \$30,000); a 5.5% sales commission to retailers (\$28,022); plus an advertising budget (\$111,978 would remain within a \$200,000 total cost budget). With these debits, the Authority would gain \$139,656 free and clear if the full complement of tickets were bought.

In a lottery, players win cash, some of which can be used to pay taxes. Conversely the winner of a Vikings ticket raffle would have to self-fund any income tax liability. To compensate for this fact, the prize could be enhanced by bundling the tickets with enough dollars to pay the federal and state governments. At a \$169,828 taxable value the winner might owe the federal and state governments combined approximately \$80,075, assuming a federal rate of 25% and state tax rate of 7.05% and including the additional taxes on the cash prize itself compounded. Adding in a cash prize of \$80,075 would call for an additional \$160,150 in ticket sales using the 50% rule. A necessary total of 133,927 tickets at \$5 each or half that number at \$10 each would complete the formula. In this instance the MSFA would gross \$669,634. The Authority would then give out prizes that cost it \$249,903 (\$169,828 for tickets plus \$80,075 in cash). After funding the legal, administrative, retailing and advertising costs totaling perhaps \$200,000, the Authority would net out \$219,731, rounded to \$220,000, which it would pass on to the State.

There are eight significant inputs leading to this net conclusion:

- 1) estimates of the value of prime Vikings tickets starting in 2016;
- 2) the increase in the value of tickets over time;
- 3) the fact that the tickets are delivered over the course of 30 years;
- 4) the special nature of "jumping the queue" to acquire prime tickets;
- 5) the historical experience of raffles;
- 6) the tax consequences of winning the prize;
- 7) the costs to be incurred by the Authority;
- 8) whether the entire portfolio of tickets could be sold.

Based on these factors the conclusion of this memo is that a raffle for a pair of tickets as suggested by the Stadium Legislation could result in approximately \$220,000 becoming available to reduce the principal or interest costs on the stadium bonds to be issued by the State of Minnesota. The aforementioned assumptions would have to materialize in order to realize the calculated results.

Mark Kaplan, Principal
35W Financial
1019 W Minnehaha Parkway
Minneapolis, MN 55419
(612) 978-5678

| Season | Base Case Percentage Increase | Future Face Value of Pair of Tickets* | Price for 10-Game Season | Present Value of Future Tickets** |
|--------|-------------------------------|---------------------------------------|--------------------------|-----------------------------------|
| 2016 | | \$500 | \$5,000 | \$4,941 |
| 2017 | 5% | \$525 | \$5,250 | \$5,125 |
| 2018 | 5% | \$551 | \$5,513 | \$5,289 |
| 2019 | 5% | \$579 | \$5,788 | \$5,436 |
| 2020 | 5% | \$608 | \$6,078 | \$5,565 |
| 2021 | 5% | \$638 | \$6,381 | \$5,673 |
| 2022 | 5% | \$670 | \$6,700 | \$5,758 |
| 2023 | 5% | \$704 | \$7,036 | \$5,820 |
| 2024 | 5% | \$739 | \$7,387 | \$5,941 |
| 2025 | 5% | \$776 | \$7,757 | \$6,072 |
| 2026 | 5% | \$814 | \$8,144 | \$6,199 |
| 2027 | 5% | \$855 | \$8,552 | \$6,321 |
| 2028 | 5% | \$898 | \$8,979 | \$6,438 |
| 2029 | 5% | \$943 | \$9,428 | \$5,617 |
| 2030 | 5% | \$990 | \$9,900 | \$5,626 |
| 2031 | 5% | \$1,039 | \$10,395 | \$5,616 |
| 2032 | 5% | \$1,091 | \$10,914 | \$5,605 |
| 2033 | 5% | \$1,146 | \$11,460 | \$5,573 |
| 2034 | 5% | \$1,203 | \$12,033 | \$5,543 |
| 2035 | 5% | \$1,263 | \$12,635 | \$5,515 |
| 2036 | 5% | \$1,327 | \$13,266 | \$5,515 |
| 2037 | 5% | \$1,393 | \$13,930 | \$5,497 |
| 2038 | 5% | \$1,463 | \$14,626 | \$5,513 |
| 2039 | 5% | \$1,536 | \$15,358 | \$5,553 |
| 2040 | 5% | \$1,613 | \$16,125 | \$5,578 |
| 2041 | 5% | \$1,693 | \$16,932 | \$5,616 |
| 2042 | 5% | \$1,778 | \$17,778 | \$5,653 |
| 2043 | 5% | \$1,867 | \$18,667 | \$5,689 |
| 2044 | 5% | \$1,960 | \$19,601 | \$5,742 |
| 2045 | 5% | \$2,058 | <u>\$20,581</u> | <u>\$5,795</u> |
| | | | <u>\$332,194</u> | <u>\$169,828</u> |

* Base case of \$500 for pair of premium tickets for each 2016 season game.

** Using Present Value Discount Rate of 3.763% based on Treasury Yield Curve

(All amounts shown rounded to the nearest whole dollar.)

| | | Face Value for Pair of Tickets for 30 Years Based on 2016 Price and Yearly Increase* | | | | | | |
|---------------------|----------|--|-----------|-----------|------------------|-----------|-----------|-----------|
| Yearly Increase | 2.00% | 3.00% | 4.00% | 5.00% | 6.00% | 7.00% | 8.00% | |
| 2016 Price Per Pair | \$300.00 | \$193,707 | \$195,577 | \$197,447 | \$199,317 | \$201,186 | \$203,056 | \$204,926 |
| | \$350.00 | \$225,992 | \$228,173 | \$230,355 | \$232,536 | \$234,717 | \$236,899 | \$239,080 |
| | \$400.00 | \$258,277 | \$260,770 | \$263,262 | \$265,755 | \$268,248 | \$270,741 | \$273,234 |
| | \$450.00 | \$290,561 | \$293,366 | \$296,170 | \$298,975 | \$301,779 | \$304,584 | \$307,388 |
| | \$500.00 | \$322,846 | \$325,962 | \$329,078 | <u>\$332,194</u> | \$335,310 | \$338,427 | \$341,543 |
| | \$550.00 | \$355,130 | \$358,558 | \$361,986 | \$365,414 | \$368,841 | \$372,269 | \$375,697 |
| | \$600.00 | \$387,415 | \$391,154 | \$394,894 | \$398,633 | \$402,372 | \$406,112 | \$409,851 |
| | \$650.00 | \$419,700 | \$423,751 | \$427,802 | \$431,853 | \$435,903 | \$439,954 | \$444,005 |
| | \$700.00 | \$451,984 | \$456,347 | \$460,709 | \$465,072 | \$469,435 | \$473,797 | \$478,160 |

| | | Present Value for Pair of Tickets for 30 Years Based on 2016 Price and Yearly Increase** | | | | | | |
|---------------------|----------|--|-----------|-----------|------------------|-----------|-----------|-----------|
| Yearly Increase | 2.00% | 3.00% | 4.00% | 5.00% | 6.00% | 7.00% | 8.00% | |
| 2016 Price Per Pair | \$300.00 | \$99,070 | \$100,012 | \$100,954 | \$101,897 | \$102,839 | \$103,781 | \$104,723 |
| | \$350.00 | \$115,582 | \$116,681 | \$117,780 | \$118,879 | \$119,979 | \$121,078 | \$122,177 |
| | \$400.00 | \$132,093 | \$133,350 | \$134,606 | \$135,862 | \$137,119 | \$138,375 | \$139,631 |
| | \$450.00 | \$148,605 | \$150,018 | \$151,432 | \$152,845 | \$154,258 | \$155,672 | \$157,085 |
| | \$500.00 | \$165,117 | \$166,687 | \$168,257 | <u>\$169,828</u> | \$171,398 | \$172,968 | \$174,539 |
| | \$550.00 | \$181,628 | \$183,356 | \$185,083 | \$186,811 | \$188,538 | \$190,265 | \$191,993 |
| | \$600.00 | \$198,140 | \$200,025 | \$201,909 | \$203,793 | \$205,678 | \$207,562 | \$209,447 |
| | \$650.00 | \$214,652 | \$216,693 | \$218,735 | \$220,776 | \$222,818 | \$224,859 | \$226,900 |
| | \$700.00 | \$231,163 | \$233,362 | \$235,560 | \$237,759 | \$239,957 | \$242,156 | \$244,354 |

* 2016 Price from \$300 to \$700 per pair. Table shows yearly increase between 2% and 8%.

** Using Present Value Discount Rate of 3.763% based on Treasury Yield Curve

(All amounts shown rounded to the nearest whole dollar.)

Basic Analysis of Raffle Economics for MSFA

| Value and Cost of Tickets | Amount |
|---|---------------|
| Base Case Face Value over 30 Years for One Pair | \$332,194 |
| Present Value of One Pair over 30 Years | \$169,828 |

| Perceived Value by Raffle Participants | 1.5x Scarcity Value |
|---|----------------------------|
| Perceived Value of Tickets Due to Scarcity Factor | \$254,742 |

| 1 Pair of Tickets Raffled / 50% of Value Paid Out | 1.5x Value |
|--|-------------------|
| Gross Receipts of Raffle if 50% Payout | \$509,483 |
| Number of \$5 Raffle Tickets Needed to be Sold | 101,897 |
| Advertising, Administrative and Legal Costs | \$200,000 |
| Payment to Vikings for Tickets | <u>\$169,828</u> |
| Proceeds Available to Offset Cost of Stadium | <u>\$139,656</u> |

Basic Analysis of Raffle Economics for MSFA with Tax Grossup

| Value and Cost of Tickets | Amount |
|---|------------------|
| Base Case Face Value over 30 Years for One Pair | \$332,194 |
| Present Value of One Pair over 30 Years | \$169,828 |
| Present Value of Cash to Cover Tax Liability | <u>\$80,075</u> |
| Total Prize Value | <u>\$249,903</u> |

| Perceived Value by Raffle Participants | 1.5x Scarcity Value |
|---|----------------------------|
| Perceived Value of Tickets Due to Scarcity Factor | \$254,742 |

| 50% Payout: 1 Pair Tickets Plus Cash | 1.5x Value |
|--|-------------------|
| Gross Receipts Based on Ticket Value Plus Cash | \$669,633 |
| Number of \$5 Raffle Tickets Needed to be Sold | 133,927 |
| Advertising, Administrative and Legal Costs | \$200,000 |
| Cost of Cash Tax Compensation | \$80,075 |
| Payment to Vikings for Tickets | <u>\$169,828</u> |
| Proceeds Available to Offset Cost of Stadium | <u>\$219,731</u> |

(All amounts shown rounded to the nearest whole dollar.)