



GOVERNOR GREG ABBOTT
ECONOMIC DEVELOPMENT & TOURISM

Major Events Reimbursement Program

Report on the 2019 Formula 1 United States Grand Prix

Date of Event: November 1-3, 2019

BACKGROUND

The Major Events Reimbursement Program permits local governments and local organizing committees to apply to the State for the establishment of a Major Events Reimbursement Fund to help pay for certain eligible costs associated with conducting specifically-named major events if all statutory and administrative requirements are met pursuant to Article 5190.14, Section 5A, Vernon's Texas Civil Statutes. The fund established for each event consists of amounts deposited by the State and local government of the estimated incremental increase in tax receipts, as determined by the State, that are directly attributable to the preparation for and presentation of the event for a one-year period. The period begins two months before the date of the event and continues for ten months thereafter. In accordance with statute, the estimated increase in tax receipts is limited to amounts collected within a designated market area, and only to amounts collected from five specific tax types.

The Legislature transferred the administration of the program from the Texas Comptroller of Public Accounts ("Comptroller's Office") to the Economic Development and Tourism Office within the Office of the Governor ("OOG") during the 84th Legislative Session, with an effective date of September 1, 2015. As part of these duties, Article 5190.14, Section 5A(w) requires the Office of the Governor to use existing resources to complete a post-event study in the market area of eligible major events.

This post-event economic impact study provides the best available information regarding the direct tax effects of the 2019 Formula 1 United States Grand Prix.

SUMMARY OF EVENT

The 2019 Formula 1 United States Grand Prix (the "event") was held November 1-3, 2019 at the Circuit of the Americas in Austin. Formula One Management Ltd. was the Site Selection Organization for the event. A Site Selection Letter was submitted to the OOG as a part of the application to the program. See Appendix A for the application, including the Site Selection Letter.

According to the attendance report provided to the OOG by the Circuit Events Local Organizing Committee (CELOC), the Applicant for the event, the total attendance was 104,903 fans. CELOC further estimated that 58 percent of the total attendees, or 60,844, were from out-of-state. This OOG report makes no assumptions about the accuracy of this reported estimate.

METHODOLOGY

The methodology established to determine the direct tax effects of the event by the OOG began with collecting tax data for the five applicable taxes for the most precise period available. Collection of information requires interagency cooperation. Some tax data is available for a monthly period and by city or county. However, some taxes are collected statewide and are only reported quarterly or annually. Since daily tax collection data is unavailable, specific taxes collected for only the days during which the event occurred cannot be determined. After collecting the available data, the OOG compared the tax information for the month of the event in the market area to the same month of years prior to the event. Comparing data from the event to the same time period of the following year cannot be done since the report is due prior to the following year's data being available. The OOG assessed other factors that could

also affect the tax data. Some of the factors include: population growth, crowding out effects, other events being held in the market area during November 2018 (the year prior to the event being held), or different events held in the market area during November 2019 (the month the event was held). Crowding out can include locals leaving town or staying home to avoid frequented businesses due to the influx of visitors. The OOG does not have information available regarding events that do not apply to any of the Events Trust Fund programs to factor into the comparison. These reasons prevent the OOG from determining the actual amount of incremental tax increases of the 2019 Formula 1 United States Grand Prix utilizing existing resources.

APPLICABLE STATE TAXES

In accordance with the Major Events Reimbursement Program statute, the estimated increase in tax receipts attributed to major events are limited to amounts collected within a designated market area, and only to amounts collected from five specific tax types. The five state taxes are: 1) state sales and use taxes; 2) hotel occupancy taxes; 3) mixed beverage taxes; 4) motor vehicle rental taxes; and 5) wholesale alcoholic beverage taxes. Information on each of these tax types are summarized as follows:

Sales & Use Tax

The sales and use tax rate of 6.25 percent is assessed on all tangible personal property and certain services. The sales and use tax is collected by the Comptroller's Office either monthly, quarterly, or annually based on certain qualifications. Since the period of collection varies by business, determining the taxes directly attributable to the event is not attainable. This report reflects that data for the quarter. This tax is also likely to be affected by crowding out.

Hotel Occupancy Tax

The state hotel tax rate is 6.0 percent and is collected on either a monthly or quarterly basis. The Comptroller's Office collects only the state tax portion of the hotel tax, while cities and counties are primarily responsible for collecting their own local hotel taxes. Similar to sales and use tax, the variation of periods that the tax is collected from businesses results in an indeterminable incremental tax increase as a result of the event. Most hotels report monthly, therefore, this report reflects the monthly data.

Motor Vehicle Rental Tax

The motor vehicle gross rental receipts tax is imposed on motor vehicle rentals. The tax rate is based on the length of the rental contract listed below:

- 10% for contracts of 1-30 days
- 6.25% for contracts exceeding 30 days but no longer than 180 days.

Not all cities collect a local tax for car rental, and taxes are collected from the rental company for all rentals across the state, not by city or county. Additionally, a car might be rented from several locations for the event. For these reasons, the motor vehicle rental taxes leveraged in a period cannot be isolated and directly attributed to the event.

Mixed Beverage Tax

The gross receipts tax of 6.70 percent is charged with the sale of mixed beverages on the amount received from the sale, preparation, or service from the sale of an alcoholic beverage that is consumed on the premises of the mixed beverage permittee. The mixed beverage sales tax of 8.25 percent is imposed on the person or organization holding the mixed beverage permit and not the customer. This tax is collected monthly, but since the mixed beverage sales tax is imposed on the mixed beverage permit holder, it may not be added to the selling price as a separate charge and may not be “backed out” from the amount received. This can result in an inaccurate reporting of spending on mixed beverages by event attendees.

Title 5 ABC Tax

Tax rates vary depending on beverage type and alcohol content. The Texas Alcoholic Beverage Commission (TABC) Tax Division receives and processes monthly excise tax reports. Manufacturers of alcoholic beverages may only sell to wholesalers/distributors and the wholesalers/distributors may, in turn, sell only to the retailers. Alcoholic beverages become taxable when the beverages are sold at the retail level, and data for tax collection is only available at a state level. Additionally, the Title 5 ABC tax and the mixed beverage tax are likely to be affected by crowding out, resulting in an unmeasurable effect of the event on these taxes.

TOTAL INCREMENTAL INCREASE IN STATE TAX RECEIPTS

The Major Events Reimbursement Program statute requires the OOG to provide an estimate for the incremental increases in tax receipts expected to be generated by the event based on the five specified tax-types. For this event, the estimate was comprised of both Primary Direct Spending and Secondary Direct Spending (including indirect and induced). The total estimated incremental increase to the state was \$23,116,616. Based on this amount, the Applicant was required to submit a local share of \$3,698,659 according to the state-to-local share ratio of 6.25:1, resulting in a total trust fund of \$26,815,275 (See Appendix B).

The breakdown of the estimated incremental increase of state taxes from the Primary and Secondary Direct Spending are shown below:

Type of Expenditure	Primary - Direct	
	Spending	Taxes
Hotel & Motels	\$ 73,790,877	\$ 4,427,453
Eating & Drinking Establishments	\$ 47,319,687	\$ 2,957,480
Alcoholic Beverages (Mixed & Title 5 ABC)	\$ 47,945,977	\$ 3,289,094
Event Expenses	\$ 21,683,221	\$ 1,355,201
Auto Rental	\$ 9,046,411	\$ 904,641
Shopping & Entertainment (Aggregated)	\$ 51,262,994	\$ 3,203,937
TOTAL	\$ 229,365,946	\$ 14,782,605
*NOTE: There was an estimated \$8,095,420 in post event state tax revenue.		

Primary Spending was estimated by the OOG based on projected attendance and projected event spending. Estimated attendee spending was broken down by five (5) expenditure categories: Food and

Beverage (Sales & Use Tax); Entertainment and Shopping (Sales & Use Tax); Lodging (Hotel Occupancy Tax); Rental Car (Car Rental Tax); and Alcohol (Mixed Beverage and Title 5 ABC taxes). The estimated incremental increases in state and local taxes were then calculated for each spending category. The OOG defined the market area for the event as the Austin Metroplex.

Secondary Spending estimates were derived by the OOG by using an economic model to determine tourism industry employment and statutorily eligible tax impacts associated with the event.

STATE TAX RECEIPT IMPACTS FROM DIRECT SPENDING

The following table is based on the best information the OOG was able to gather on tax receipts for the five tax-types specified in the Events Reimbursement Fund statute. The chart shows amounts for December 2019 since the event occurred in November and taxes are collected in the month following the event. All tax types in the market area except for title 5 ABC saw an increase in receipts when comparing tax receipts around the time period when the event was held with the same time period the year before. However, changes in tax receipts cannot reliably be attributed to any particular event.

Sales Tax			
	2018 Q4	2019 Q4	Difference
Travis County	\$338,334,852	\$460,942,465	\$122,607,613
Williamson County	\$133,564,822	\$146,913,264	\$13,348,442
Hays County	\$70,428,306	\$79,303,212	\$8,874,906
Bastrop County	\$13,206,114	\$14,035,859	\$829,745
Caldwell County	\$3,813,360	\$4,155,796	\$342,436
Hotel Occupancy			
	December 2018	December 2019	Difference
Travis County	\$3,721,290	\$4,344,724.14	\$623,434
Williamson County	\$425,963	\$487,684	\$61,721
Hays County	\$322,650	\$313,794	(\$8,856)
Bastrop County	\$133,956	\$110,586	(\$23,370)
Caldwell County	\$14,895	\$13,663	(\$1,232)
Car Rental			
	December 2018	December 2019	Difference
State of Texas	\$30,899,644	\$35,472,547	\$4,572,903
Mixed Beverage – 1.) Gross Receipts			
	December 2018	December 2019	Difference
Travis County	\$5,839,735	\$6,219,986	\$380,250
Williamson County	\$713,081	\$767,652	\$54,572
Hays County	\$359,625	\$429,869	\$70,243
Bastrop County	\$65,229	\$64,286	(\$943)
Caldwell County	\$7,824	\$11,670	\$3,846
Mixed Beverage – 2.) Mixed Beverage Sales Tax			
	December 2018	December 2019	Difference
Travis County	\$5,801,975	\$6,134,652	\$332,678
Williamson County	\$705,635	\$770,854	\$65,220

Hays County	\$349,239	\$424,532	\$75,293
Bastrop County	\$65,196	\$64,254	(\$942)
Caldwell County	\$7,420	\$10,449	\$3,029
Title 5 ABC			
	December 2018	December 2019	Difference
State of Texas	\$20,306,439	\$20,110,903	(\$195,536)

EVENT DEADLINES RELATED TO PROGRAM

The following program deadlines were verified to have been completed as follows (see Appendix C for documentation):

- Application Received (including Site Selection letter): 9/2/2019
 - Deadline: 10/2/2019, or no later than 45 days prior to the event
- Event Support Contract Received: 10/31/2019
 - Deadline: 10/31/2019, or prior to the event
- Attendance Certification Received: 12/16/2019
 - Deadline: 12/18/2019, or no later than 45 days after the event
- Local Share Received: 1/30/2020
 - Deadline: 2/1/2020, or no later than 90 days after the event
- Disbursement Request Received: 2/19/2020
 - Deadline: 5/1/2020, or no later than 180 days after the event

CONCLUSION

Given the available data and constrained to the use of existing resources, it is unlikely that the economic impact directly attributable to the preparation and presentation of the event is measurable with any reasonable degree of accuracy. Using available resources, the data is inconclusive in determining the actual economic impact of the event. Neither a positive nor negative impact is determinable since the tax information provided showed both increases and decreases in taxes collected. The available and reported tax data cannot reliably be attributed to any particular event, while some data cannot even be attributed to any particular market area. The economic variables and limited detail of tax and participant data make it impossible to isolate the incremental tax generated by one particular event to the Texas economy. The development of a reasonably accurate economic impact study requires data state government cannot feasibly capture, such as the actual number of out-of-state-visitors attributable to the event, the actual per-day spending by each event attendee for each of the five allowable tax types, and the length of stay of each attendee. The OOG will continue to examine the collection and reporting of information relating to these major events in an effort to identify options for improvement in data collection to ensure that the purposes of the statutory post-event reporting requirement can be achieved.