

*Below are responses to questions asked by City Council during the Formula 1 U.S. Grand Prix briefing held on June 9, 2011.*

A. Economic Impact Study

Q1: When will the economic impact study be ready for public review?

A1: **(UPDATED 6-21-2011)** The economic impact study was released by the Circuit Events Local Organizing Committee on June 20<sup>th</sup> and posted to the EGRSO website, [www.austintexas.gov/redevelopment](http://www.austintexas.gov/redevelopment).

Q2: Will the City perform an outside review of the economic impact study?

A2: **(UPDATED 6-21-2011)** Yes, the City retained Jon Hockenyos of Texas Perspectives to perform an outside review of the economic impact study as part of the due diligence related to the first Formula One event. Utilizing a firm that has expertise in the development of these types of studies is the best approach to help verify the reasonableness of assumptions underlying this economic impact study. Mr. Hockenyos provided his observations and comments, in writing, after completion of this review. The review is posted on the EGRSO website.

Q3: What are the data sets that will be used to assess the post-race economic impact?

A3: [From Circuit Events Local Organizing Committee]

The data sets used to assess post-race economic impact will be similar to those used for measuring impact of tourism related to most major events and festivals. These include data such as number of hotel nights stayed in the area, length of stay, average amount of money spent in the area, whether or not a car was rented, and where the attendee traveled from.

B. Proposed Contract with the Circuit Events Local Organizing Committee

Q4: Will the Circuit Events Local Organizing Committee Board have a slot for a Council appointee?

A4: [From Circuit Events Local Organizing Committee]

One slot will be available for the City to appoint.

Q5: Will the Circuit Events Local Organizing Committee guarantee the annual \$4 million City contribution to the Major Events Trust Fund, rather than the City?

A5: The City of Austin is no longer contributing its tax increment to the Major Events Trust Fund.

Q6. What is the contractual authority of the Circuit Events Local Organizing Committee?

A6: Under the statute, a Local Organizing Committee has the ability to:

- Pursue an event application and bid on a city's behalf
- Provide the State with annual audited financial statements
- Provide the State with event data, and
- Apply for disbursements from the trust fund

The City and Local Organizing Committee may contract with each other for additional terms and conditions.

C. Major Events Trust Fund

Q7: Who determines the “market area” for the taxes calculated, and is the City obligated to provide the match for revenues collected outside of the City limits but within this market area?

A7: [From the Texas Comptroller’s Office]

The Comptroller’s Office is required by statute to designate the geographic area of the market area, but relies on the local community to recommend the market area. Under the administrative rules (34 TAC Sec. 2.102(c)), the City’s (or local organizing committee) request for participation should include the requestor’s desired market area.

The City, or its designee, may only contribute an amount up to the incremental tax revenues generated by the event that are estimated to be collected from within the City’s boundaries.

Q8: How is the City’s contribution to the Major Events Trust Fund determined?

A8: The Comptroller determines the City’s contribution by estimating how much the Event will increase certain City taxes (sales, mixed beverage, motor vehicle rental tax, hotel occupancy tax, and surcharge and user fees if any). The estimated increase is the maximum the City can contribute.

Q9: Can staff provide a graphical illustration of how the Major Events Trust Fund works? The graph should show cash flow, reimbursements, and expenditures.

A9: See the attached graphical illustration and cash flow.

D. Tax Revenues from the Formula 1 Event

Q10: Can the City direct tax revenues received in excess of the contribution to the Major Events Trust Fund to other City purposes?

A10: The City of Austin is no longer contributing to the Major Events Trust Fund.

City tax revenues derived from the event must be deposited into the appropriate City accounts as required by State and Local laws. As an example, hotel occupancy taxes must be deposited into the Hotel Occupancy Tax Fund and not the City’s General Fund.

Eligible Expenses that are Reimbursable by the Major Events Trust Fund

Q11: How do you relate a City expense incurred to “conducting the event” so that the expense is eligible for reimbursement, and how would that be separated from events associated with it?

A11: The City of Austin is no longer contributing to the Major Events Trust Fund.

However, the event organizers will be subject to City charges for services provided for the event pursuant to the City’s fee ordinance.

Q12: What are the City costs incurred for other large events?

A12: See the attached summary of these costs.

E. New City Revenues

Q13: Can the City implement a contract term whereby the Circuit Events Local Organizing Committee would remit parking fees collected during the event to the City of Austin?

A13: No longer applicable.

Q14: Can the City begin to research the possibility of expanding its current taxing authority to include the items listed below; and can the revenue generated by these new taxes be used to meet the local contribution requirements before tapping into the taxes generated by the event:

- a. New fees or surcharges
- b. Sales tax on ticket sales
- c. City tax on alcohol sold at CoTA facility
- d. Car rental tax

A14. The City of Austin is no longer contributing to the Major Events Trust Fund.

Yes, these revenues can be researched. Generally, to collect these taxes the area needs to be within the City limits. An increase to the car rental tax needs to be approved by the voters for a venue the City proposes to fund.

Currently, car rental taxes are obligated to existing venue expenditures. City tax revenues derived from the event as a result of annexation must be deposited into the appropriate City accounts as required by State and Local laws. As an example, hotel occupancy taxes must be deposited into the Hotel Occupancy Tax Fund and not the City's General Fund.

Q15: Is the City able to assess and collect alcoholic beverage taxes from alcohol sold at the Circuit of the Americas facility?

A15: Yes, upon annexation.

Q16: Can a ticket surcharge be assessed that is then remitted to the City for its contribution to the Major Events Trust Fund in lieu of new, incremental tax revenue?

A16: No longer applicable.

F. Circuit of the Americas Facility

Q17: What are the numbers, types, and kinds of jobs to be created by the facility?

A17: [From Circuit Events Local Organizing Committee]

Circuit of the Americas will create 200-300 full-time equivalent jobs year-round and 4,000 jobs the day of the event. The types of jobs include employment at all levels involved in operating a world-class facility, ranging from admissions to executive level employees, including managers, supervisors and directors.

Q18: Describe efforts to "green" the facility.

A18: Waiting on a response from the Circuit Events Local Organizing

- G. Q19: Is there a way to monitor air quality in the area, and if so, what is the best approach for collecting that information? Are you aware of any other efforts to monitor air quality impacts of Formula One events around the world?

A19: [From Circuit Events Local Organizing Committee]

Currently, we are not aware of air quality monitoring that is taking place at any other motorsports facilities, including other Formula 1 facilities around the world. While Formula 1 is the world championship in motorsport, it provides the automotive industry with some of the most rigorous research and development to develop green and clean transportation technologies.

AT&T Williams Formula 1 Team, one of the leaders in technology and innovation in the global automotive industry, has committed to significantly reducing its carbon footprint through fuel efficient travel, developing environmentally friendly automotive products (Williams F1 Team Ceramic Coat) and investment in revolutionary energy storing technologies. All of these aspects naturally apply to the development of the sport and influence host cities and facilities.

- H. Formula 1 Event

Q20: What are the attendance figures and economic impacts for other Formula 1 race events?

A20: [From Circuit Events Local Organizing Committee]

Average 3-day attendance of Formula One races in 2010 was 170,355. Total 3-day attendance in 2010 was 3,236,738. Waiting on a response regarding economic impact from the Circuit Events Local Organizing Committee.

- I. Annexation

Q21: Describe the process for annexing the Circuit of the Americas facility, including the timeline for annexation.

A21:

The F1 site is not contiguous to the full purpose city limits and therefore cannot be annexed for full purposes on its own. Establishing contiguity to the site will require annexing additional properties located between the current city limits and the F1 site and providing full municipal services to these tracts. A few properties may be agriculturally exempt for appraisal purposes, therefore, prior to annexation; the city must make an offer to enter into non-annexation agreements with the property owners of these tracts. Such agreements would guarantee the continuation of the property's ETJ status until a development application is filed for the property. If the owners are not agreeable to entering an agreement, the city would be required to annex all or a portion of these properties, and provide full municipal services to these tracts as well.

Steps in the annexation process include notification, setting and conducting two public hearings at regular City Council meetings, and approving an annexation ordinance at a separate Council meeting. In accordance with the following schedule, annexation could become effective no earlier than December 19, 2011.

- 09/22/2011 Set public hearings
- 10/03/2011 Mail notices and offers of non-annexation agreements to property owners
- 10/22/2011 Publish notices in newspaper
- 11/03/2011 Conduct public hearing #1
- 11/10/2011 Conduct public hearing #2
- 12/08/2011 Approve annexation ordinance
- 12/31/2011 Effective date (or 12/19/2011 if preferred)

Q22. What is the financial analysis for this annexation?

A22:

**Financial Analysis (UPDATED 6-21-2011)**

- Typically, a 25 or 30-year net present value (NPV) analysis is performed to determine the City’s financial gain or loss as a result of the annexation. This financial analysis requires significant time to prepare given the vast quantity of data needed to perform this analysis.
- NPV analysis is a common approach in assessing long-term financial costs and benefits associated with annexation. The analysis incorporates projected revenue and expenditures in current year dollars, and then applies a discount rate to arrive at an overall, “net” value in today's dollars.
- Based upon very preliminary estimates, discounted for the time value of money over a 25-year period, the NPV totals approximately \$13 million. This estimate will be scrubbed and refined as analysis with the annexation process progresses.

**Estimated Sources of Revenue**

- There are several large revenue sources that have been estimated based on either (1) information published by Formula 1 U.S. Grand Prix, or (2) the Texas Comptroller’s preliminary estimates of ticket sales.
- Estimated property tax revenues:
  - According to a press release from Formula 1 U.S. Grand Prix, a construction study estimates the cost of the Circuit of the Americas facility between \$215 million and \$242 million.
  - The following City property tax revenues are estimated based on differing taxable assessed values and the current property tax rate of 45.71 cents per \$100 valuation.

Taxable Assessed Value	Annual City Property Tax Revenue
\$200 million	\$ 914,200
\$225 million	\$ 1,028,475
\$250 million	\$ 1,142,750

- For purposes of the annexation analysis, the lower property value of \$200 million was reflected in annual property tax revenue projections. Ultimately, the assessed valuation will be determined by the Travis County Appraisal District as buildout occurs.
- Estimated sales tax revenues:
  - The site is currently within the City’s extra-territorial jurisdiction and is located within the Travis County Emergency Services District 11A (ESD), which imposes a sales tax at a rate of 1.5% and the East Travis Gateway Library District, which imposes sales tax at a rate of 0.5%.
  - If the site were to be annexed, the site would be removed from the ESD and its sales tax rate of 1.5% would no longer apply. Both the City of Austin and transit sales tax rates would then apply in that area, along with the Library District sales tax rate.
  - However, because the statutory 2% cap on local sales tax rates would be exceeded, a “combo” area would be created that equally splits a 1.0% sales tax rate between the City of Austin and the Library District, thereby leaving the City sales tax rate at 0.5% for the site.
  - The Texas Comptroller’s preliminary estimate for State sales tax increment used an average ticket price of \$250 per ticket.
  - The following City sales tax revenues are estimated based on differing quantities of ticket sales, an average ticket price of \$250 per ticket, and a 0.5% City sales tax rate.

Ticket Sales	Annual City Sales Tax Revenue
110,000	\$ 137,500
120,000	\$ 150,000
130,000	\$ 162,500

- The financial analysis related to annexation reflects \$137,500 in annual sales tax revenue. As a conservative approach, other sales transactions that will occur at the venue and will be subject to local taxes, such as merchandise and alcoholic beverages, have not been included in future revenue projections at this point in the analysis.

#### Estimated Cost of Service

- The City would incur the cost of providing basic municipal services to the newly annexed area. Examples of these services include police and fire protection emergency medical services, and utilities.
- Annexation costs are typically driven by the size of the population residing in the area targeted for annexation. Because there will be few permanent residents added if this area is annexed, the demand for services like public safety is expected to be minimal on a day-to-day basis. City costs related to events that will occur at the Circuit of the Americas, including public safety costs, will be billed to event promoter(s) based on City fee ordinances.
- It is not anticipated that new fire or EMS stations will be required unless significant development begins to occur along the annexation corridor from the City’s current boundaries up to the Circuit of Americas site. There are typically one-time

- The City Council approved two Service Extension Requests in September 2010 for the water and wastewater infrastructure necessary to support events at the Circuit of the Americas site. These sunk costs are not considered as new, additional costs in the annexation analysis. The analysis does include costs associated with an extended wastewater service line to an existing property in the annexation area.
- Revenue generated by the City's Drainage Utility and Solid Waste Services are based on the projected cost of service to the newly annexed area, and typically are not forecast to generate net, positive cash flow in annexation analyses as a conservative approach.

*On June 9, 2011, City Council directed staff to respond to an email from Susan Moffat of the Austin Neighborhoods Council. Below are the responses:*

Item #1

The governing statute for the Major Events Trust Fund (METF) contains three clauses that would legally limit the city's recovery of its annual \$4 million contribution to approximately \$551,600.

The law governing use of the state's Major Events Trust Fund, which includes the F1, is contained in Vernon's Civil Texas Statutes, Title 83, Chapter 10, Art. 5190.14. I have attached the complete act as a pdf, as well as a condensed MS word version highlighting the relevant provisions.

The statute provides that the state and the endorsing municipality, in this case the city, will deposit funds at a 6.25 to 1 ratio, with the state contributing the larger share. At this ratio, the city's proportionate contribution to the fund is approximately 1/7 or 13.8 percent.

Sec. 5A. Subsection (k) of this act allows the comptroller to disburse money from the fund to pay for obligations under an event support contract subsection; but subsection (l) requires that the payment "shall be satisfied proportionately from the state and local revenues in the trust fund." This means that our \$4M contribution will be mingled with the state's \$25M contribution for a total of \$29M in the pot and that the promised annual disbursement of \$25M to F1 must legally draw on a proportionate amount of the city and state's respective contributions. Therefore roughly 13.8% of our \$4M contribution - approximately \$3,448,400 - must legally go directly to F1 to satisfy the state's promise of \$25M a year (a promise apparently already made without consulting the city).

This might be okay if we could actually get all our money back at some point - but legally we can't. Subsection (m) provides that after all payments are made under an event contract, the comptroller shall remit any remaining funds back to each endorsing entity, but only "in proportion to the amount contributed by the entity...". Since we are only contributing approximately 13.8 percent of the fund, we can only be reimbursed at that rate. If a total of \$4 million is left in the fund after payment to F1, we are only eligible to receive our proportionate share of that amount - or approximately \$551,600.

Response to Item #1

*Yes, the statute provides the authority for the City to be reimbursed up its \$4 million contribution for eligible expenses. However, the City of Austin is no longer contributing to the Major Events Trust Fund.*



## Item #2

The governing statute for the Major Events Trust Fund does not protect the city's right to be reimbursed for its expenses associated with the event.

In fact, the statute specifically states that it does NOT guarantee "any obligation imposed on the [city] under an event support contract or other agreement relating to hosting one or more events..." (Section 5A, subsection (o)).

The statute also states that the comptroller may only make disbursements for a purpose for which the municipality is "obligated under an...event support contract." (Section 5A, subsection (h)). This appears to mean that any items for which the city hopes to seek reimbursement must be clearly specified in the event contract (which has not yet been negotiated or written, but which F1's agent insists must be rushed to approval on June 23). But again, even if we manage to place very solid language in the contract regarding our projected expenses, the state still does not guarantee reimbursement.

The stated purpose of the statute is "...to provide assurances required by [F1]...and to provide financing for the costs of..." applying or bidding for the event, making preparations for the event, or conducting the event. Please note that the purpose clause refers only to providing assurances and financing for the "site selection organization," which is F1 - not the endorsing municipality. (Section 2. PURPOSE).

Where there is latitude in the statute, the city will be dependent on the state for a favorable interpretation. Given the longstanding animosity toward Austin from the legislature and the current governor, is it smart to bet \$4M annually in their goodwill, especially when both the state and the city face substantial budget deficits?

## Response to Item #2

*Yes, the statute provides the authority for the City to be reimbursed for its eligible expenses. However, the City of Austin is no longer contributing to the Major Events Trust Fund.*

## Item #3

Additional statutory issues. The controlling law requires that the "Local Organizing Committee" (LOC) be authorized by the endorsing municipality, which as far as I know the city has not done (Subdivision (2-a) (7)(A) (B)). The statute further states that the comptroller may not undertake any "responsibilities or duties set forth in this section" unless a request is submitted by a municipality (Section 5A, subsection (p)). This apparent breach of the statute by the comptroller has already been noted in the local media. Where this puts the deal legally is anyone's guess.

## Response to Item #3

*The Statute's related rules define a Local Organizing Committee in part as an entity authorized by the City to pursue an Event. The Comptroller has stated that the actions must all occur, but they do not have to happen in the exact order described in the Statute or related rules.*

### Item #7

City staff does not know how much it will cost to host F1. City staff said they did not know the costs of hosting and would "lean on" the state comptroller in determining city expenses for the event. Given that the comptroller is getting all its numbers from F1 promoters, this does not foster confidence in their projected figures. Again, there is no guarantee the city will receive reimbursement from the state and any possible reimbursement would be limited to roughly \$550,000. Maybe this will be enough to cover city costs, but we have no basis for knowing that.

### Response to Item #7

*The City of Austin is no longer contributing to the Major Events Trust Fund.*

*However, the event organizers will be subject to City charges for services provided for the event pursuant to the City's fee ordinance.*

### Item #8

The \$4M being fronted by the F1 promoters for the first year will not be reimbursable to the city, only to the F1 promoters. According to Richard Suttle's testimony, the \$4 million the promoters are offering to put up to kick loose the state's first \$25M payment will only be reimbursable to F1 promoters, not the city. Suttle says the city may apply to the state in the second year to be reimbursed retroactively for any city expenses incurred in the first year of race operation - but if the event fails, how will the city be reimbursed for first-year costs if F1 doesn't continue? Even if the event runs for a full 10 years, we will still be a year behind on reimbursements; how will the city be reimbursed for its final year expenses when there is no race the following year to replenish the fund? Please note that, according to Suttle, the performance bond the promoters have talked about would only cover the first year if the race does not take place; it doesn't cover Austin for any expenses incurred during the first year or for its continued \$4M annual contribution.

### Response to Item #8

*The City of Austin is no longer contributing to the Major Events Trust Fund.*

### Item #9

Given that plenty of successful Texas businesses have started on a shoestring and gone on to great success without a \$25 million taxpayer handout upfront, on what basis can the City of Austin justify giving F1 preferential treatment over other private business ventures? Put another way, if F1 is such a surefire success, why can't it just make it on its own without our public dollars?

### Response to Item #9

*The City of Austin is no longer contributing to the Major Events Trust Fund.*

*The proposal to be considered by Council is to utilize the METF to attract an international sporting event.*

*The METF is an economic development tool created by the State legislature to do the following:*

- 1. Provide national and international exposure to Texas and the local community*
- 2. Encourage and provide major economic benefits to the local community*
- 3. Provide local community opportunity for job creation through event support functions and related activities*

*Below is the response to a question asked by City Council during the Formula 1 U.S. Grand Prix briefing held on June 21, 2011.*

Question: What is the breakdown of the \$4.6 million of increased City tax revenue (i.e., sales tax, hotel occupancy tax, car rental tax, and mixed beverage tax) that is estimated by the economic impact study?

Answer:

The following information was taken from Table 5 of the Economic Impact Study prepared for the Formula 1 U.S. Grand Prix. A column has been added "Type of Tax" to categorize the tax revenues as either sales tax, hotel occupancy tax, mixed beverage tax, or car rental tax. The "Total Austin Tax Gain" is the amount of increased tax revenue that the study estimates the City of Austin would receive as a result of the Formula 1 U.S Grand Prix through direct, indirect, and induced expenditures.

**Table 5  
Austin Tax Gain under Major Event Trust Fund for Formula One Race**

<b>Expenditure</b>	<b>Metro Gain (including tax)</b>	<b>Austin Direct Tax Gain</b>	<b>Austin Indirect Tax Gain</b>	<b>Austin Induced Tax Gain</b>	<b>Total Austin Tax Gain</b>	<b>Type of Tax</b>
Airfare Cost	\$18,908,033	\$0	\$40,046	\$6,578	\$46,624	Sales
Hotel	\$34,906,558	\$2,458,636	\$63,690	\$18,189	\$2,540,514	Hotel Occ.
Food & Beverage (excludes alcohol)	\$49,102,828	\$285,772	\$88,288	\$19,207	\$393,267	Sales
Alcoholic Beverage	\$28,067,231	\$153,004	\$121,937	\$13,816	\$288,756	Mixed Bev.
Shopping & Entertainment	\$63,243,932	\$408,968	\$226,014	\$29,849	\$664,830	Sales
Merchandise at Venue	\$6,221,235	\$0	\$25,894	\$2,945	\$28,839	Sales
Rental Car	\$11,513,415	\$0	\$46,698	\$4,058	\$50,756	Car Rental
Other	\$15,175,813	\$73,601	\$61,771	\$7,667	\$143,038	Sales
TV Production Costs	\$1,500,000	\$10,393	\$787	\$635	\$11,815	Sales
Advertising	\$5,000,000	\$23,095	\$2,130	\$2,670	\$27,894	Sales
Event Costs	\$9,336,583	\$64,688	\$19,001	\$4,166	\$87,855	Sales
Catering	\$13,221,069	\$122,135	\$25,470	\$5,541	\$153,145	Sales
Gratuity	\$13,311,221	\$86,257	\$30,062	\$24,707	\$134,849	Sales
<b>Subtotal</b>	<b>\$269,507,918</b>	<b>\$3,686,546</b>	<b>\$751,786</b>	<b>\$140,028</b>	<b>\$4,572,182</b>	
Tickets	\$27,422,461	\$0	\$0	\$0	\$0	
<b>Revenue Type</b>						
Sales Tax					\$1,692,156	
Hotel Occupancy Tax					\$2,540,514	
Mixed Beverage Tax					\$288,756	
Rental Car Tax					\$50,756	
<b>Total</b>					<b>\$4,572,182</b>	

*Below is the response to a question asked by City Council on June 28, 2011 regarding the Formula 1 U.S. Grand Prix.*

Question: "Please determine if Formula One will serve as guarantor of the Local Organizing Committee \$4 million contribution. The LOC is a recently formed nonprofit with a board who we did not pick."

Response: The City in no way will be obligated to contribute the \$4 million Local Increment. Should the Local Organizing Committee not contribute the Local Increment, then the Agreement terminates.