

Study projects large economic windfall from F1 race

By [Eric Dexheimer](#)

AMERICAN-STATESMAN STAFF

Monday, June 20, 2011

A Formula One race in Austin next year would generate just under \$288 million in direct economic impact for the area, according to an estimate released Monday by promoters of the race. That spending would produce \$26.6 million in new tax revenue for the state, according to the study.

The numbers are crucial to F1 race promoters' efforts to secure \$25 million in public incentive payments from a state program designed to lure large, primarily sporting events to Texas for their economic development potential. The Major Events Trust Fund, which is administered by the comptroller's office, in the past has been used to draw the Super Bowl and NBA All-Star games to the state.

The study released Monday was written by Don Hoyte, a former economist for the comptroller's office who now runs a company that produces economic impact studies and advises trust fund applicants on how to secure money through the state program.

Jon Hockenyos, a public policy consultant, reviewed the numbers on behalf of the City of Austin, which must sign off on the incentive deal before it is reviewed by state officials. In a letter dated Monday, he cautioned that because of little historical F1 financial data, "the assumptions for this first event plausibly could vary from what is presented."

Still, he added, "Overall, it seems likely that the event will have a substantial positive local economic impact."

To qualify for the trust fund subsidy, organizers must prove that their event will generate at least the same amount of money in "extra" sales, alcohol, hotel and car rental taxes. Generally, economic impact studies arrive at that by counting the anticipated number of out-of-state attendees. Then, using past large event surveys as a guide, the studies estimate how much money each fan will spend on lodging, food and alcohol and then multiply that figure by the tax rate to arrive at the state's take.

By giving sports event organizers a subsidy equivalent to the projected tax income from the event being held in Texas, supporters say that it costs taxpayers nothing directly.

In the case of Formula One, however, legislators in 2009 appropriated \$25 million from general revenue to cover the first year's incentive payment. Local race organizers, led by Tavo Hellmund and San Antonio automobile magnate Red McCombs, have said the money will pay international F1 boss Bernie Ecclestone the sanctioning fee required to hold the Austin event.

Still, boosters have said that government subsidies given to Formula One promoters more than pay back citizens in additional economic activity. Christian Sylt, who analyzes the business of F1 racing from England, recently calculated that while governments in the countries that host the 19 races each year contributed a total of \$410 million to Formula One last year — an average of \$21.6 million per race — the impact of the races on the local economies was \$1.9 billion.

Opponents — among them economists — have responded that studies purporting to calculate tax revenue attributable to individual events are imprecise at best and wildly inaccurate at worst.

"I've read hundreds of these things," Craig Depken, an associate professor of economics at the University of North Carolina at Charlotte who specializes in measuring the financial impact of large sporting events, told the Statesman last year. "I don't think I've seen one that wouldn't be panned by economists. They are all very rosy projections."

In economic papers, for example, Depken and others have noted that projections of revenue attributable to a single large event often do not take into account tax revenue the state might forgo because some potential visitors may choose to avoid Austin during the week the F1 race is in town.

The new projections are slightly more conservative than initial calculations performed by state economists last year, when Comptroller Susan Combs was touting Formula One as a candidate for a trust fund subsidy. For example, the comptroller estimated fans would spend about \$48 million on lodging during the race. The new study puts the figure at just over \$39 million.

Overall, the comptroller last year pegged the direct economic impact of the race to the state at just under \$300 million — about \$12 million higher than the \$287.8 million figure in the updated study.

The next hurdle for local race organizers is to get the City Council to agree to sign off as "endorsing entity" of the race, a step necessary for organizers to qualify for the trust fund incentive payments. That vote is scheduled for Thursday but could be postponed.

If approved by the council, race organizers next will submit their application for the trust fund money to the comptroller's office. Agency economists there have 30 days to review Hoyte's numbers and ask for changes.

Allen Spelce, a spokesman for the comptroller, said analysts will review the underlying numbers Hoyte used to reach his conclusions.

"If we have questions as we calculate our estimate, we work with the applicant to gather more information," Spelce said. "Our estimate is often less than the estimate provided by the applicant."

Courtesy of JB Goodwin