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Since the announcement of the new F1 track site in southeast Austin was made, there have been many opinions offered about the wisdom of this venture. Was it going to really happen? Most of the Austin and Texas 'big' real estate and finance players seemed to not know about it until after it was announced.

Opponents wanted to know how in the midst of the 'Great Recession' how anyone could consider spending money to build a race track. Is using of taxpayer's dollars to support the event a sound investment, especially in the midst of school systems suffering financially and teachers being laid off?

In order to have an informed opinion on F1, let's move forward with some basic questions and answers.

**What is Formula One?** The first thing about F1 racing is that it isn't NASCAR. Beyond the look and components of the cars being different, so are the fans (just look at the web site).

According to racing sources, Formula One is the *highest class of single-seater auto racing* with speeds up to 220 mph and cars capable of pulling in excess of 5Gs on some corners. The season is a series of races known as Grand Prix held on purpose-built circuits (what they are building in Austin comes at a \$250 million price tag). Europe is Formula One's stomping ground and where the teams are based, but more than half of Grand Prix races are held outside of Europe - now including Austin, Texas!

**What is the Formula One audience?** Again, not NASCAR. Racing experts and supporters claim that Formula One is one of the world's most expensive sports and is high profile. As opposed to the NASCAR reputation of appealing to "a bunch of yokels". Nothing wrong with that. NASCAR started with a bunch of southern boys, many the sons of bootleggers and moonshiners, racing around a track.

Formula 1 has a reputation for appealing to a highly educated population. The auto industry believe that Formula One is the absolute pinnacle of motor racing in the area of auto technology. Most of the current technology that you and I have in our cars came out of the millions spent on technology for this sport. The teams often spend nearly half a billion dollars per year building cars for 18 races. The drivers are claimed to be the best drivers in the world and earn millions.

**What type of crowds and economic impact should we expect? 300,000+/-** Beyond being high profile, F1 appears to be extremely popular as well. It attracts a global television audience of 30 million per race. The Austin-American Statesman mentioned in a recent article that in Indianapolis, F1 brought crowds from 90,000 to 225,000 and over \$270 million in the immediate area. To put that in perspective, SXSW music festival brought in 286,000 and with and \$167 million over the nine days of the festival last year. ACL brought in \$87 million over 3 days. Although Texas Longhorn football is big in Austin, the economic impact per game is about \$18+ million per game.

In addition, other events at the Circuit of the Americas site are estimated to generate as much as \$400 million in additional spending every year. MotoGP (the top international motorcycle racing circuit) has already expressed an interest and the facilities are being designed to accommodate large concerts, corporate events, and additional racing or auto-related activities.

According to the City of Austin sources, the majority of visitors are expected to spend up to \$1500 per day, with many hotels requiring at least a four day stay. This does not include travel expenses.

65% of all guests will be from other areas of the US, 20% from Texas, 15% international with most from Mexico, then Canada, Britain and Australia. So over 80% foreigners...

If projections are right, the city should see a 45% increase in sales tax revenue over the length of the races.

Beyond just spectators, the Austin Circuit of the Americas Formula One brings new jobs. Each F1 team requires staff to prepare the car, run the media operation, do sponsorship activities, etc. – not to mention the staff required to operate the facilities. F1 drivers and team members (2,400) could spend \$800+/- a day each and international officials (600) who travel with the races could spend \$700+/- a day.

F1 fans have a tendency to stay in nice hotels or what the industry calls ‘amenity filled’ hotels and many fans tend to have an unlimited budget.

**What other economic impact will Formula One generate for the area?** Let’s start with property taxes. The land on which the future F1 facility will sit is currently appraised at about \$11.7 million. At current rates, that translates to about \$148,350 for the Del Valle school district.

Promoters say they’ve spent about \$300+ million in private money on the new facility. If appraisers use the cost valuation method of determining the property’s new worth, Del Valle schools will collect about \$4 million a year.

Finally, if things turn out as promoters promise, the track will bring more than F1 to the area. Organizers say they’ve already lined up more races, including the MotoGP motorcycle race, and plan to use the track and grandstand many more days out of the year, meaning even more visitors and more spending.

Boosters maintain that government subsidies given to Formula One promoters more than pay back citizens in additional economic activity. Christian Sylt, an analyst in the business of studying the economic side 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 – a 533 percent rate of return per race! That is an impact on the economy of World Cup proportions.

Proponents of Circuit of the Americas events are projecting \$400 million to \$500 Million annual impact, equating to \$4-5 billion over ten years for Texas.

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.

**Won’t it also cost taxpayers a lot to handle the crowds?** Define “a lot.” Right now, the largest event for which the city picks up the tab is the South by Southwest music, film and interactive festivals, which claim about 225,000 participants, although it’s unclear how many of those are from out of town.

This spring, the city had about \$341,000 in waived fees for police overtime and extra sanitation services, among other expenses. Although the city says it doesn’t keep annual figures of such fee waivers, when the Statesman last reported on the festival’s cost to local taxpayers four years ago, it was \$90,000.

Much of the typical crowd-control police cost for F1 also will be occurring outside of Austin, in Travis County, where the track is located. Sheriff's officials said they haven't yet discussed what that might cost or who will pay for it.

**What non-economic impact will the track have on Austin?** Primarily, exposure. The track would generate an estimated \$200 million in television exposure every year, exposure that the City of Austin does not need to purchase. Remember, F1 is internationally popular, so exposure would extend around the globe. The track will change how Austin is viewed in the global economy. We have not had a race yet, but the media coverage has been good. Austin has been mentioned in the context of F1 racing in articles from Sports Illustrated, New York Times, and ESPN. Advertising in a major media like Sports Illustrated is not cheap and being mentioned in the context of an article, rather than an ad, is profoundly more powerful. (This type of PR is always thought to be three to four times more beneficial than advertising.)

According to the U.S. Census Bureau, over 560,000 people are expected to move to the Austin area in the next ten years. This figure was determined without consideration of the F1 track and its impact on the local economy. As the Census Bureau is generally conservative in its predictions, we could see a much higher number when all is said and done.

**What peripheral economic impacts can we expect from the F1 track?** The 'Circuit of the Americas' is more than a track facility – it is a full real estate development. It is not just about one or two 'mega races' but about all the other events and businesses that will be attracted there. Much like a golf course or a convention center, race tracks recruit new support businesses. Besides the race revenues, we can expect an impact from new resort hotels and convention centers, automobile research centers, real estate services, engineering and construction firms, restaurants, catering, security and general support services.

**What effects will F1 have on local real estate?** Appreciation of real estate across the five county area will see very little impact on an annual basis. (Home and real estate appreciation).

During race time, Austinites will feel how little hotel occupancy we have as a city (Austin has 2,200 downtown convention style high end hotel rooms compared to San Antonio's 8,800). Austin has over 33,000 hotel rooms in the five county area. Remember F1 fans are used to cosmopolitan cities such as Montreal, Shanghai, Monaco, or Abu Dhabi. We will see what we consider exorbitant short term rental values for private homes, just as you see in Augusta during the Masters or Indianapolis during their experiment with F1.

Again, the real value in a venture like this is in the real estate surrounding the facility. With a track of this magnitude, it should attract auto and auto industry peripheral manufacturers and their engineering facilities. These companies will need and want to have offices for testing capabilities because of the track. An added bonus is the closeness to a growing market in Latin America.

**Tell me about the facility.** The state of the art 3.4 mile track has capacity for over 120,000 fans. In addition, the facility features an amphitheater that can hold 17,000 to 20,000. Circuit of the Americas hopes to have at least fifteen large scale concerts at the amphitheater.

The media center will hold up to 500 reporters and journalists. (The city and Circuit of the Americas are expecting 700 media personnel for the inaugural event.) The media center can itself be turned into a 1,000 person event center. In addition there is a 5,000 person VIP sitting area located over the pits.

**Was there an economic impact study done?** Yes. The state comptroller's Major Events Trust Fund requires

promoters to show that their game or race will pay for itself in extra sales, alcohol, car rental and hotel taxes. In F1's case, the study must demonstrate that the race will generate at least \$25 million for the state's treasury — the amount Comptroller Susan Combs committed to paying race organizers in written correspondence.

Promoters have said the money will go toward covering the sanctioning fee to the international F1 body, run by Bernie Ecclestone. According to Formula Money, a marketing company that tracks everything money-related about the event, in 2009 such annual fees ranged from \$45.7 million, in Malaysia, to zero in Monaco. The average was \$28 million.

**Is this study accurate?** It's extremely accurate in one respect: The \$26.6 million in projected tax revenue closely tracks the amount of economic activity projected by Texas Comptroller Combs's office in 2008, when she first wrote Tevo Hellmund a letter referencing the \$25 million Formula One could expect from the state's Major Events Trust Fund. Combs again says that her May 10, 2010, letter was not a legally binding promise of state money. Instead, she described it as a "letter of optimistic support" for F1 Austin.

But the bottom line also cuts it close. If a few critical assumptions are wrong, the trust fund could end up short of the necessary \$25 million in incremental tax revenue necessary to receive the full amount of the subsidy. Of course, errors in the other direction would mean more money for the fund.

Another calculation: If the government's "profit" is \$26.6 million but it returns \$25 million of that to F1, that's a 6.4 percent rate of return.

**What's the role of the comptroller's office?** Legally, the comptroller's office is the agency charged with reviewing the numbers in economic impact studies accompanying the applications for its trust fund program. A spokesman, Allen Spelce, said the office has never rejected a study for fallacious assumptions but has revised a few downward.

Before the 2011 Final Four men's college basketball championship, for example, Houston calculated the April event would generate \$15.32 million in extra state and local tax revenue. After its review, the comptroller's office set that at \$13.6 million.

Yet, there has been no way to know whether either estimate was on the mark. But a new state law now calls for after-the-fact studies to gauge the accuracy of pre-event predictions. The first such review, of the 2011 Super Bowl, is being performed by the Super Bowl Select Committee, which brought the event to Dallas.

Spelce said that in the future, the comptroller's office will undertake the post-event analyses. If it is approved, F1 stands to be first in line for such a state review.

**What should we expect during the race weekend?** First the weekend is November 16-18th, with trials happening the week before.

There will be a Fan Fest celebrating Formula One in downtown Austin, from 6PM to 2 AM on Friday the 16th and again at 10AM on Saturday and Sunday. The Event is free and open to the public with a few paid ticketed events. There will be bands and other attractions. In addition, there will be many unsanctioned F1 events happening also. There will be downtown street closures beginning as early as Tuesday the 13th around 4 pm through the 14th.

There will be additional traffic congestion that weekend. The expected influx of visitors is equal to a quarter of Austin's current population. It will be congested, and yes restaurants will be harder to get into that week.

## Visitors will be expecting a Texas experience.

- Show that southern hospitality. These visitors are helping keep your taxes lower. And if you are going to wave to them, use all your fingers on your hand.
- Most will go to restaurants to dine (longer time at the table). They are not here to eat and run.
- Yes your traditional western clothing stores (Allens Boots on South Congress) will have lots of new and strange looking boots. These people wear skinny jeans and wear boots to party. They don't expect or want the usual western wear.
- This is our first time to host an event this size. Yes, there will be problems. Other cities that annually host events like this (again the Masters and The Indianapolis 500 come to mind) have over 72+ and 106 years respectively hosting events.
- Howdy and y'all are expected, but don't use peoples first names when first meeting them. Mr. and Mrs. are preferable.
- Business cards are of utmost importance in most countries, have plenty of them available and;
  - o Receive business cards give to you with your right hand or both hands. NEVER take a business card with your left hand.
  - o Never write on cards.
  - o Always give a card with the print showing.

Lastly, have a good time, and show our visitors a good time so they plan to come back for the next ten years.

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