

SUBJECT: Expanding financial mechanisms to recruit certain sporting events

COMMITTEE: Economic Development — committee substitute recommended

VOTE: 5 ayes — J. Keffer, Homer, Hughes, Rodriguez, Thompson

0 nays

2 absent — Isett, Wong

WITNESSES: None

BACKGROUND: In 1999, the 76th Legislature enacted SB 456 by Madla, authorizing the state to establish two trust funds to support efforts by some Texas cities to attract the 2007 Pan American Games and 2012 Olympics. The act established a \$100 million trust fund for the Olympic bid and a \$20 million fund for the Pan American Games bid. The law sought to address requirements by site-selection organizations that the state create a trust fund to cover any losses by the site-selection committee resulting from the games. Although the U.S. Olympic Committee considered Houston and Dallas for the 2012 Olympics, both bids were unsuccessful. The city of San Antonio's attempt to attract the 2007 Pan Am Games also was unsuccessful.

SB 456 (V.T.C.S, art. 5190.14) authorizes a Texas municipality with a population of more than 850,000 to enter into a contract with a games site-selection organization to fulfill obligations of the state or municipality. The Texas Department of Economic Development (TDED) may enter into a "joinder agreement" with a site-selection organization on behalf of the state and municipality to establish state guarantees required by the site-selection organization for the purpose of hosting the games.

The two funds created under SB 456 are administered by the comptroller. In the event of a successful bid, the comptroller would have had to determine the incremental state and municipal tax revenue increases generated by the selection of a Texas city through its hosting of either of the games. The incremental revenue would have had to be deposited in the fund once the first measurable economic impact occurred from the selection of a city as a host

site. The comptroller must determine the amount of incremental tax revenue directly attributable to the games and must maintain all designated municipal sales, use, and hotel occupancy tax revenues in the fund.

Disbursements from one of the funds are authorized only after the comptroller certifies that the money is required by a game's support contract. Money spent from a fund would have to come first from municipal revenue that had been deposited, and then from state deposits.

The statute also requires that an election be held to endorse the use of a portion of the municipality's sales and use taxes to support the fund.

DIGEST:

CSHB 2768 would expand the application of V.T.C.S, art. 5190.14 to cover any Pan American or Olympic Game. It would establish a new trust fund to aid municipal bidding on site selection for the Super Bowl, NCAA Final Four, National Basketball Association All-Star Game, National Hockey League All-Star Game, Major League Baseball All-Star Game, NCAA Bowl Championship Series Games, World Cup Soccer Games, or World Games, including events and activities related to these games.

The bill would expand the definition of an entity eligible to participate in the statutory funding programs by allowing an "endorsing county" to participate, in addition to the currently authorized endorsing municipalities. It would define an endorsing municipality as a municipality with a population of 850,000 or more that authorizes a bid for selection as the site of a game, and an endorsing county as a county that authorizes a bid for a game and that contains a municipality with a population of 1 million or more. More than one endorsing municipality or county could participate collectively in the financing mechanism.

CSHB 2768 would specify that the purpose of the current statute is to finance the cost of a municipality's bidding for a site selection, preparing for the games through activities such building or renovating facilities, or conducting games in the state.

Olympic Games trust fund. If an endorsing municipality were chosen for an Olympic Games, the comptroller would have to determine the incremental increases in certain state tax receipts within an economically impacted area

delineated by the comptroller for each calendar year after a measurable impact resulting from preparation for the games occurred. The comptroller would have to determine the incremental increase in county and municipal tax revenues from local sales and use, hotel occupancy, and mixed-beverage taxes. The comptroller would have to retain the amount of mixed-beverage tax revenue directly attributable to the games that was collected by the state from the amounts that otherwise would be sent to the endorsing municipality or county. The comptroller would have to retain this mixed-beverage tax revenue until the earlier of either the end of the third calendar month after the end of the games or the date when the amount of revenue in the trust fund equaled 14 percent of the fund's \$100 million maximum.

The endorsing municipality would have to deposit the amount of its hotel occupancy tax revenue determined by the comptroller into the fund on a quarterly basis. The comptroller concurrently would deposit a portion of the incremental increase in relevant state tax revenue determined to be attributable to the games. TDED could use money in the fund only to fulfill obligations of the state and the endorsing municipality or county to the site-selection organization.

Before August 31 of the year that was 12 years before the year of the games, or as soon as practicable thereafter, the comptroller would have to provide an estimate of the total amount of state and municipal tax revenue that would be deposited into the trust fund if the games were held. On January 1 of the second year following the year of the games, the comptroller would have to transfer any remaining state revenue in the fund, plus interest, to the general revenue fund. Any remaining money in the fund would be remitted to the municipality.

Other Events trust fund. For the other events defined in CSHB 2768, the comptroller would have to determine the incremental increase in receipts collected by the endorsing municipality from its mixed-beverage, hotel occupancy, and sales and use taxes that was directly attributable to the game. The comptroller would have to delineate a market area for the game that included the endorsing municipality or county that the comptroller determined would be economically affected by the game.

An endorsing municipality or county would have to remit to the comptroller the incremental increase in sales and use, mixed beverage, and hotel occupancy taxes, less any amount pledged to obligations of the county or municipality issued for purposes other than the bid. The comptroller would deposit the revenue into the Other Events trust fund. TDED could spend money from this fund without appropriation only as provided by the act.

The endorsing municipality or county could guarantee obligations under a game support contract by pledging surcharges from user fees charged in connection with the game. An endorsing municipality or county could issue notes to meet its obligations under a game support contract to improve or build facilities or acquire equipment. The notes could be paid from amounts deposited in the Other Events trust fund or from surcharges on user fees charged in connection with the game.

Money from the fund could be spent only to fulfill obligations of the municipality or county to a site-selection organization. A local committee working on the bid would have to provide the comptroller with audited financial statements of the committee's financial records and other data relating to the economic impact of the game. The comptroller would have to provide an estimate of the total amount of tax revenue to be deposited in the Other Events fund no later than three months before the date of a game.

Elections. An endorsing municipality or county would have to hold an election to determine if its sales and use taxes could be contributed to the Other Events trust fund. If the election were unsuccessful, the endorsing municipality or county would not have to deposit its estimated incremental sales and use taxes into the fund.

A municipality or county bidding on the 2004 Super Bowl would not have to hold an election to contribute its portion of the sales and use taxes if there were not a sufficient number of days between the bill's effective date and a uniform election date that occurred before a deadline set by a site-selection organization.

An endorsing municipality or county would not have to hold an election to contribute its mixed-beverage or hotel occupancy tax revenue to any of the three funds.

Other provisions. TDED would have to review requests by an endorsing municipality or county that the department enter into a games-support contract on behalf of the state. Other agencies would have to cooperate with endorsing municipalities or counties in the manner that they now must cooperate with an organizing committee.

The bill would take effect September 1, 2003.

**SUPPORTERS
SAY:**

Although Texas cities were unsuccessful in recruiting the 2007 Pan American Games and 2012 Olympic Games, CSHB 2768 would allow Texas cities to bid competitively for those events in the future. The Legislature established the Pan American Games and Olympic Games trust funds with the purpose of recruiting two specific events to Texas, and the attempt almost paid off. San Antonio was one of two finalists for the Pan American Games, and Houston came close to being chosen as the official U.S. candidate for the 2012 Olympics. The site-selection organizations for these two games expressed serious interest in Texas as a host, and CSHB 2768 would keep the state competitive in the future.

CSHB 2768 would enable the city of Houston to pay for renovations and services required for the 2004 Super Bowl. The National Football League has committed to holding the Super Bowl in Houston next year. Establishment of a trust fund to pay for expenditures by Houston and Harris County would create a funding mechanism for the capital improvements required to host this major sporting event.

An event such as the Olympic Games, Pan American Games, or Super Bowl can be a huge economic boost for a city, and the state should facilitate this important economic development strategy. A major sporting event can provide the state with invaluable public visibility throughout the world, enhancing Texas' reputation for years in the future. Such an event also can provide substantial economic benefit for the host community and generate jobs that pay a living wage for Texans.

With some of the most popular sports teams in the nation, Texas is a key sports destination, a status that would be reinforced if a major sports event such as the Olympics took place in Texas. The long-term indirect benefits of increased visibility for the state could lead to an increase in tourism and

relocation to Texas by companies and individuals.

With the trust funds under CSHB 2768, a city could fund a game fully with revenue generated by the event. The Other Events trust fund would allow a city to issue notes to pay for an event and to pay for those notes with the fund money based on incremental tax revenue generated by the event.

Given that Super Bowl 2004 is just around the corner, CSHB 2768 wisely would exempt the City of Houston and Harris and adjacent counties from having to hold elections to dedicate sales and use taxes if time does not permit such an election.

**OPPONENTS
SAY:**

The National Football League already has chosen Houston as the host city for the 2004 Super Bowl. CSHB 2738 would force the city to forfeit substantial tax revenue resulting from this event to a new trust fund. The additional sales and use, hotel occupancy, and mixed-beverage taxes that the Super Bowl will generate would go into city coffers and could be spent for any purpose, not only the purposes allowed under this bill. Houston should find some other way to pay for the improvements required to host the game, so that the game's economic impact is not diluted.

CSHB 2768 would allow a state, municipality, or county to pay sales tax revenue, the primary method of financing many governmental functions, into a trust fund that could be used only to pay for a specific sporting event. Even if the money paid into a trust fund went unspent, it would be set aside for several years, potentially impairing the state's or city's ability to provide funding for needed services. CSHB 2768 would include no safeguards to ensure that money from the trust fund was spent wisely or that these expenditures would benefit all citizens who pay taxes and demand services from relevant jurisdictions.

By allowing an exception to the election requirement for the Super Bowl, CSHB 2768 would allow Houston to dedicate sales and use taxes while denying citizens the opportunity to decide on this issue.

NOTES:

CSHB 2768 originally was set on the House General State Calendar for April 30 but was recommitted to the Economic Development Committee. The second committee substitute removed many changes made to the section

governing the Pan American Games Trust Fund and largely would retain current language governing this fund. The second substitute also would define an endorsing municipality and an endorsing county in terms of population criteria. It would incorporate changes suggested by the comptroller specifying the different sections in the Tax Code affected by the trust funds, and it would add an endorsing municipality and county to the list of entities with which TDED and other state agencies must cooperate when considering a site selection bid.

The first committee substitute changed the filed version of HB 2768 in several ways, including by:

- waiving the election requirement for a Super Bowl if there was not enough time to hold an election on dedication of sales and use tax revenue to the Other Events fund, and
- revising the funding mechanism for the Pan American, Olympics, and Other Events trust funds.

The companion bill, SB 1882 by Whitmire, has been referred to the Senate Intergovernmental Relations Committee.