

From: Richard Viktorin
Sent: Friday, February 06, 2015
Subject: Project No. 19-20E

Project Staff,

I wish to comment on this project but just today became aware of the exposure draft. I did not see the draft because I am not employed in government accounting but do public interest work, primarily in the arena of economic development incentives, in Austin, Texas. I hang a shingle, hardly compensated, called Audits in the Public Interest. I am a CPA in Texas, 028113.

Copied below is viewpoint, published in the Austin American Statesman in late October 2013 which explains my involvement in the arena of incentives and governmental accounting. I am still actively involved in the Formula One investigation. I would welcome the opportunity to respond to Project No. 19-20E.

The problem with incentives, as described in the project materials, may be worse than the draft contemplates. In the case of Formula One, the accounting for an incentive program, created false revenues. It was done by the instrument of an economic impact study, which booked revenues in excess of the Leisure and Hospitality sector capacity in Central, Texas. We found it in the hotel room count, through the bed and breakfast tax.

As you will see from the Viewpoint, there were other errors though.

Viktorin: Formula One should fuel its own economic engine

Posted: 7:00 p.m. Sunday, Nov. 10, 2013

<http://www.mystatesman.com/news/news/opinion/viktorin-formula-can-fuel-its-own-economic-engine/nbknD/#ceef530c.3437719.735635>

Formula One racing will be back in Texas this weekend. For the second year, F1 will also receive roughly \$25 million in taxpayer support. By the time they tab out in 2021, one-quarter billion dollars of your taxes, recycled through the fun house, will have gone their way.

In 2011, Audits in the Public Interest opened a case file on the Formula One subsidy from the Texas Major Events Trust Fund. During four months in the winter and spring, we made open records requests and undertook an array of forensics to understand this matter. The fund is administered by Texas Comptroller Susan Combs.

We found an atrocious degree of error in the comptroller's work. Let me give but one example.

The fund payment is a complex cipher about what out-of-state tourists spend on lodging, restaurants, liquor, retail and rental cars, and then a calculation of tax outflow to the state. Then, 100 percent of these taxes are passed to Formula One. Not part, all.

One of those taxes is the restaurant sales tax. In her calculation, the comptroller had over \$1 million coming from taxes on gratuities. Check any restaurant receipt. Is the tax computed before the tip line, or after? Answer: before. Therefore, tips aren't taxed in Texas.

In short, Combs was awarding to Formula One state revenues that do not exist. This is a serious matter. This was just one of many errors.

In June 2011, a group of concerned activists joined as we presented our findings to Austin's City Council. As a consequence, four council members blocked F1's access to city matching funds.

For the first time in the history of the fund, a recipient had to go past local government to get at the state's quarter billion. Our work kept a nifty \$40 million in city coffers.

In December 2012, the comptroller made her first \$25 million payment to F1. All indications are she will continue paying this year.

The events fund law states repeatedly, explicitly, the incentive is limited to the increase in taxes from the event. The purpose of this provision is to retain for general revenue those funds which would have been collected whether F1 came or not. Austin's lodging economy — hotel/motel being the signal metric in any hospitality economy — was already 70 percent full before F1.

The comptroller is overpaying F1 at least \$15 million per year, false payment on an incentive that was already quite generous. It is normative and reasonable to limit incentives to only a portion of increased economic activity. The fund already awards all the increased tax revenues to the event, F1.

A more concrete explanation is this: When something large-scale and new locates to an economy, it may be (maybe) worthwhile to return a portion of the new public revenues to encourage the location. But one never gives all the increased revenues. And certainly not revenues, your taxes, the comptroller would have received whether F1 came or not.

That is, unless, it's just another big ol' pork pie one is serving.

Formula One, worldwide, relies on public funds for fully one-third of its revenues. This harms host economies and public treasuries.

Markets and economies are wonderful things. One of their key functions is to show what works and what doesn't. The former succeed; the latter fail. In this way, the manner by which we provision ourselves as a society progresses.

Sometimes markets need regulators to keep them functioning. However, market participants should only rarely need public support, and certainly not year-in and year-out. Public revenues given to the private sector create what economists call moral hazard.

Returning to Formula One, if one-third of its revenues come from public funds, how will markets ever know if F1 is a winner or loser in the sports entertainment economy? The public, our taxes, will always be there to hide the results, cover their bottom line. This really brings home the meaning of moral hazard. It is dangerous when market participants conceal their failure; witness no more the pain of the Great Recession, when the market buried millions of bad mortgages in layered securitizations.

Formula One, we embrace you in Texas. But please fuel your own economic engines. One-quarter billion dollars for 45 days of economic activity benefiting just one sector of our economy, hospitality, for just one part of the state, Central Texas, is not merely unreasonable, it's an outrage. Texas taxpayers should take appropriate notice of your ongoing need for public support.

Comptroller Combs, please do your job to safeguard state general revenues and the Major Events Trust Fund, your public treasuries, from further abuse.

Viktorin, a certified public accountant, is a member of Audits in the Public Interest.