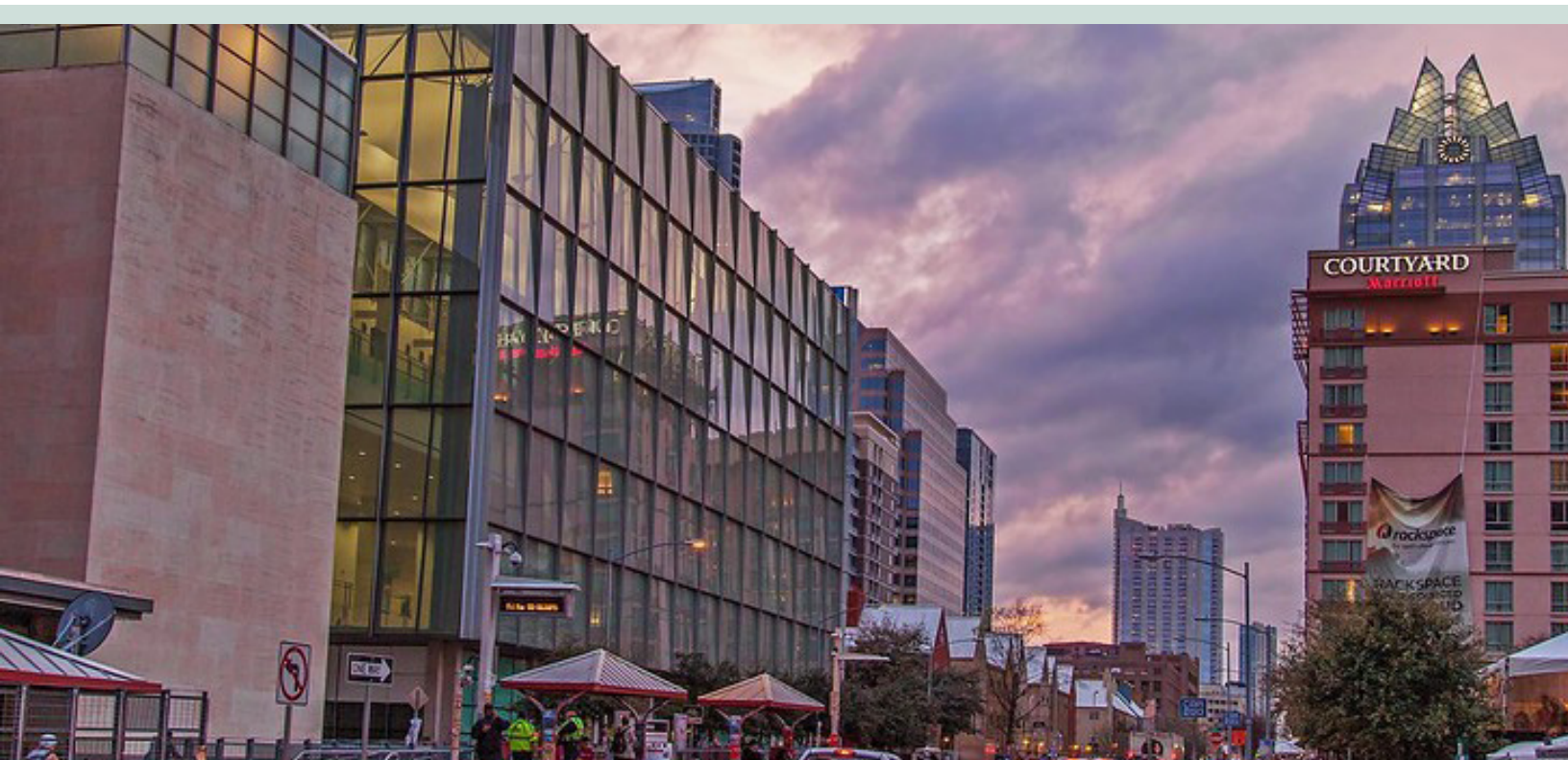


Special Report

Convention Center Financial Review

April 2021



The primary sources of revenue for the Austin Convention Center (ACC) are the Hotel Occupancy Tax, contractor and facility revenue, and parking fees. During fiscal years 2015 through 2020, the ACC received approximately \$550 million from all revenue sources (annual revenue ranged between \$69 million and \$114 million). About \$391 million (71%) was from the Hotel Occupancy Tax.

During fiscal years 2015 through 2020, ACC annual expenses and transfers to other funds ranged between \$71 million and \$106 million.

While there are similarities in the way ACC and other Texas cities track and use convention center revenue, it appears there are some differences.

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Cover: Austin Convention Center, photo by David Ingram via Flickr, <https://flic.kr/p/eM9mPL>

Objective

The objective of this special request was to answer the following City Council questions:

1. What are the sources of funding that flow into the Austin Convention Center?
2. What are the funding amounts by source for fiscal years 2015 through 2020?
3. How was the funding allocated?
4. How does the funding (including operating, capital, and any other funds used by the Austin Convention Center) flow through the Austin Convention Center?
5. How does Austin Convention Center’s accounting practices for tracking and usage of available funding compare with those of other Texas cities?

Background

The Austin Convention Center Department (ACCD) is a self-sufficient, revenue-generating (also known as an enterprise) department. ACCD maintains and operates the Austin Convention Center (ACC), Palmer Events Center (PEC), and three parking garages.¹ The mission of the ACCD is to provide outstanding event facilities and services to its customers so they can have a positive experience.

¹ This review covers only the Austin Convention Center.

What We Learned

Summary

The primary sources of revenue for the Austin Convention Center (ACC) are the Hotel Occupancy Tax, contractor and facility revenue, and parking fees. During fiscal years 2015 through 2020, the ACC received approximately \$550 million from all revenue sources (annual revenue ranged between \$68 million and \$114 million). About \$391 million (71%) was from the Hotel Occupancy Tax.

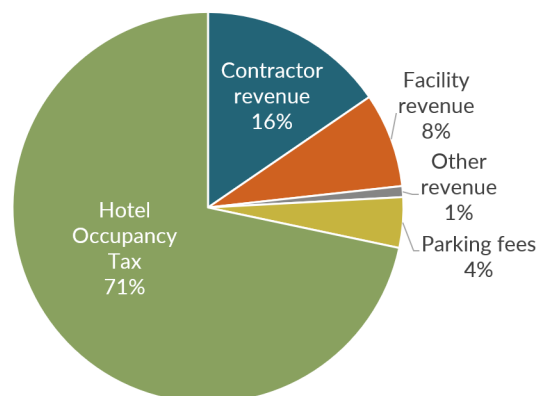
During fiscal years 2015 through 2020, ACC annual expenses and transfers to other funds ranged between \$71 million and \$106 million.

While there are similarities in the way ACC and other Texas cities track and use convention center revenue, it appears there are some differences.

What are the sources of funding that flow into the Austin Convention Center?

The primary sources of revenue for the Austin Convention Center are the Hotel Occupancy Tax, contractor revenue, facility revenue, and parking fees. Other sources include revenue from penalties, interest, and scrap sales. As shown in Exhibit 1, on average, about 71% of the ACC's funding was from Hotel Occupancy Tax during fiscal years 2015 through 2020.

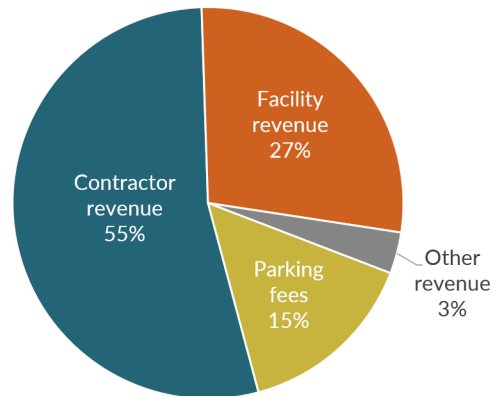
Exhibit 1: About 71% of ACC funding came from Hotel Occupancy Tax



Source: OCA analysis of the Austin Convention Center Financial Reports for fiscal years 2015 through 2020, February 2021

After Hotel Occupancy Tax funding, ACC's next largest revenue source is contractor revenue, followed by facility revenue. Contractor revenue and facility revenue account for approximately 80% of the total non-Hotel Occupancy Tax revenue from ACC operations.

Exhibit 2: Excluding Hotel Occupancy Tax, over 80% of ACC funding came from contractor and facility revenue



Source: OCA analysis of the Austin Convention Center Financial Reports for fiscal years 2015 through 2020, February 2021

What are the funding amounts by source for fiscal years 2015 through 2020, and how was the funding allocated?

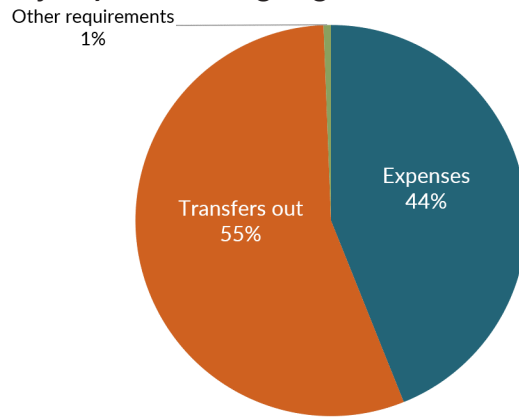
During fiscal years 2015 through 2020, the ACC received a total of about \$550 million from all revenue sources (annual revenue ranged between \$69 million to \$114 million). Of that amount, about \$159 million was from facility operations, and \$391 million was from the Hotel Occupancy Tax. Appendix A shows the detailed annual ACC funding by source for the last six years and how that funding was allocated.

ACC uses available revenue to pay operations and maintenance costs, debt service requirements, citywide administrative support costs, maintain an operating reserve as required by the Department's City Council-approved financial policies, and provide funding for the Live Music and Historic Preservation Funds.

During fiscal years 2015 through 2020, the ACC annual expenses and transfers to other funds (outgoing funds) were about \$559 million (annual expenses and transfers to other funds ranged between \$71 million to \$106 million).² About 55% of that amount was transferred to other funds, while about 44% was spent on ACC operating expenses.

² For the purpose of this review, the term "outgoing funds" refers to available revenue that is spent or transferred to other funds.

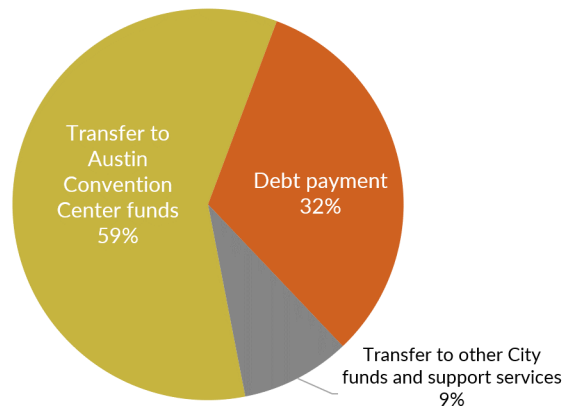
Exhibit 3: Majority of ACC outgoing funds were transfers to other funds



Source: OCA analysis of the Austin Convention Center Financial Reports for fiscal years 2015 through 2020, February 2021

The majority of ACC's transfers out was allocated to other ACC funds. According to ACC management, transfers out are made at the end of the year after meeting the financial policy and Capital Reserve obligations. About 59% of the transfers out during fiscal years 2015 through 2020 were made to the ACC Convention Center Capital Fund. The Convention Center Capital fund was created in 2018 to account for the transfer of the excess of available funds from the Convention Center. Prior to 2018, the Capital Improvement Project (CIP) accounted for these transfers. Also, approximately 32% of the transfers out was spent on debt payment.

Exhibit 4: Majority of transfers were allocated to ACC funds and debt service payments

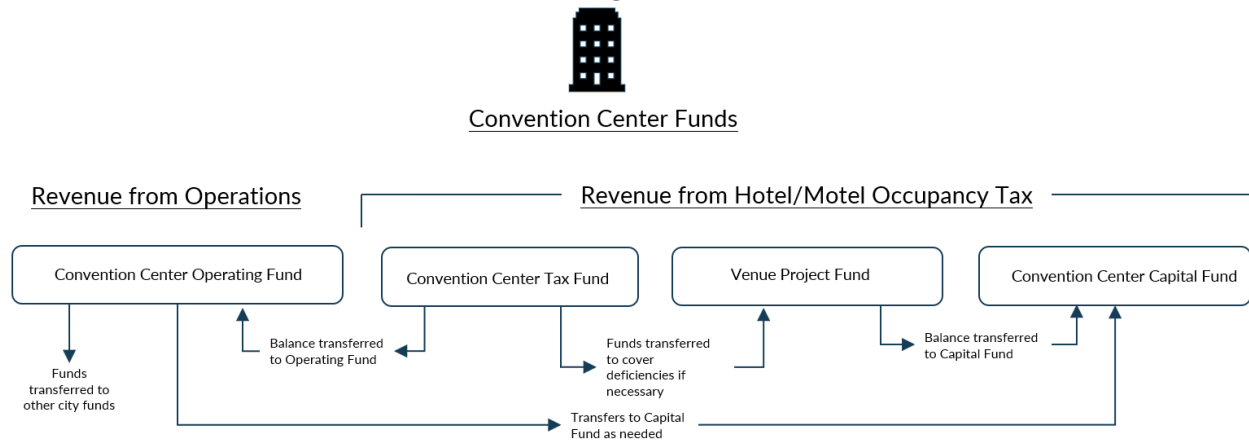


Source: OCA analysis of the Austin Convention Center Financial Reports for fiscal years 2015 through 2020, February 2021

How does the funding (including operating, capital, and any other funds used by the Austin Convention Center) flow through the Austin Convention Center?

The financial information of the ACC is accounted for in four key funds (three funds directly related to operations of the ACC and one capital reserve fund) to better reflect limitations and restrictions placed on the use of available money. As noted earlier in the report, the main sources of funding for the ACC are revenue from operations and allocations from the Hotel Occupancy Tax. Exhibit 5 below shows the flow of funds through the ACC. Appendix B shows the detailed flow of funds through the Austin Convention Center.

Exhibit 5: Flow of funds through the Austin Convention Center



Source: OCA analysis of the Austin Convention Center Financial Reports for fiscal years 2015 through 2020, February 2021

How does Austin Convention Center's accounting practices for tracking and usage of available funding compare with those of other cities?

We surveyed other Texas cities (San Antonio, Fort Worth, and Houston) that own convention centers to gather information about the way they track and use convention center revenue.

Based on the survey results, while there are similarities in the way ACC and other Texas cities track and use convention center revenue, there are some differences.

All the surveyed cities indicated they receive both restricted and unrestricted revenue.³ Once revenue is moved into the operating budget, Austin is the only city that does not track its restricted and unrestricted revenues separately. Austin and San Antonio spend unrestricted revenue first before spending the restricted revenue.⁴ However, Fort Worth and Houston indicated they do not have such a requirement.

³ Restricted revenue is money that can only be spent for specific purposes based on state law, City Code, or City Council direction. Restricted revenue cannot be spent for other purposes. Unrestricted revenue is money that is not tied to a specific purpose.

⁴ This is an undocumented practice for Austin. San Antonio indicated that it is their policy.

The cities were also asked whether excess convention center revenue at the end of the year can be used to fund other City needs outside the convention center. All other cities indicated that they do not use excess convention center revenue to fund other City needs outside the convention center.

Exhibit 6: Peer cities' tracking and usage of convention center revenue

Question	Austin	San Antonio	Fort Worth	Houston
Does the convention center receive both restricted and unrestricted revenue?	Yes	Yes	Yes	Yes
Once revenue is moved into the operating budget, are the restricted and unrestricted revenues tracked separately?	No	Yes	Yes	Yes
Does the convention center spend restricted revenue first before spending the unrestricted revenue or vice versa?	Unrestricted revenue is used first	Unrestricted revenue is used first	No stated policy or practice	No stated policy or practice
Can the City use some of that excess revenue at the end of the year to fund other City needs outside the convention center?	No*	No*	No*	No*

**Unless the use complies with the applicable funding source statutes and/or requirements. For example, spending of HOT funds is restricted to allowable expenses under Texas State Code Chapter 351. State law also mandates that cities cannot charge a fee in excess of the cost to provide the service. Therefore, if ACC were to use the fee on things outside the ACC, it would be considered an illegal tax.*

Source: OCA analysis of peer cities' practices for tracking and spending of convention center revenue, February 2021

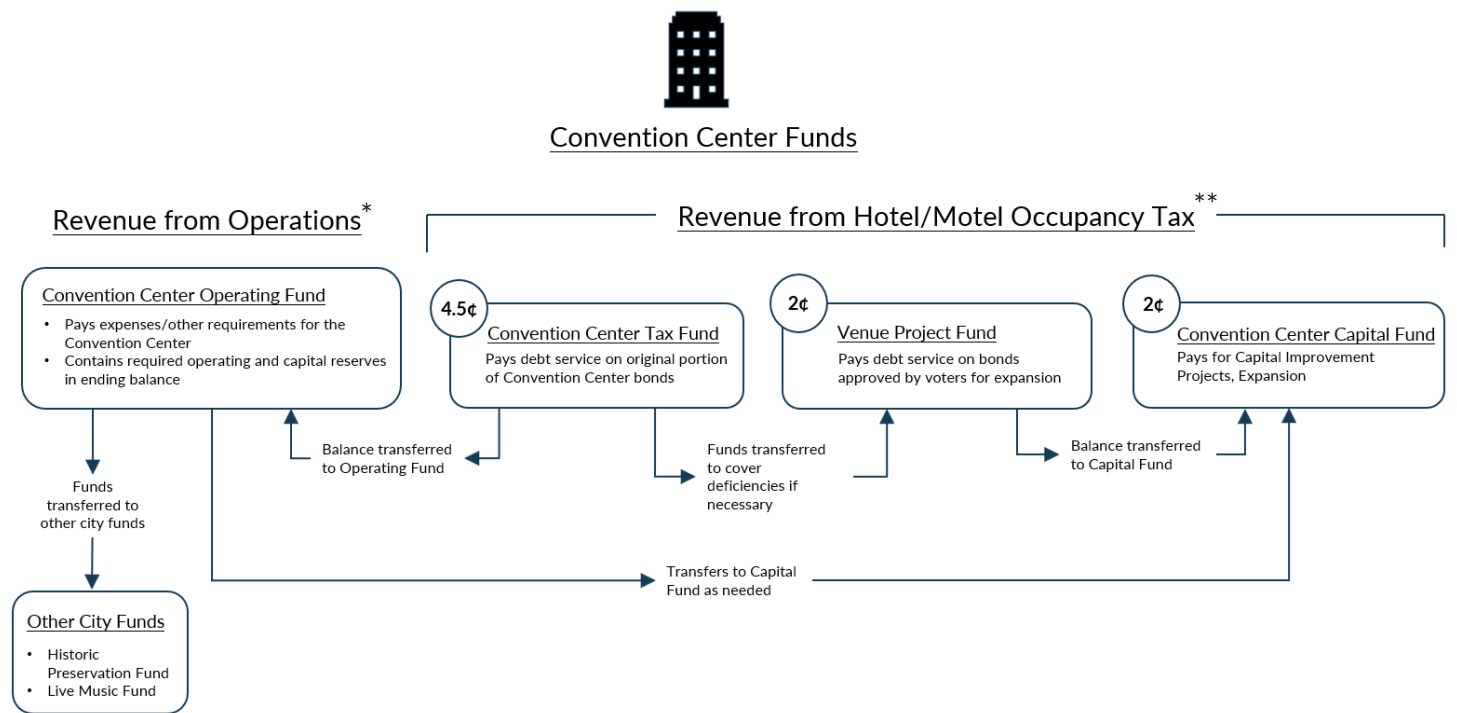
Appendix A - Austin Convention Center Revenue, Expenses, and Transfers for Fiscal Years 2015 through 2020⁵

	FY20 (\$)	FY19 (\$)	FY18 (\$)	FY17 (\$)	FY16 (\$)	FY15 (\$)
Revenue						
Contractor revenue	5,551,474	21,721,537	14,026,043	19,806,784	14,689,420	12,064,505
Facility revenue	4,032,680	8,020,149	8,408,779	8,120,408	7,801,689	6,823,167
Parking Fees	2,362,928	4,720,773	4,042,496	4,258,468	3,946,153	3,730,723
Interest	616,816	1,038,536	674,111	342,841	204,892	97,788
Other revenue	207,409	345,486	348,586	340,908	313,286	470,564
	12,771,308	35,846,482	27,500,014	32,869,408	26,955,440	23,186,747
Transfers in						
Hotel Occupancy Tax	55,703,581	78,219,641	69,507,678	67,250,844	63,267,438	57,376,366
Total available funds	68,474,888	114,066,123	97,007,692	100,120,252	90,222,878	80,563,113
Expenses						
Event operations	28,203,781	31,194,237	30,494,917	23,051,117	23,957,004	23,165,542
Contractor expenses	5,134,482	11,289,035	7,793,166	9,681,751	7,952,060	7,113,117
Support services	7,119,670	7,534,271	6,316,857	5,807,971	4,815,647	4,960,871
Total operating expenses	40,457,933	50,017,543	44,604,940	38,540,839	36,724,711	35,239,530
Other requirements						
Other expenses	24,913	212,379	103,633	60,067	115,629	2,915,500
Transfers out						
Transfer to other Convention Center funds	9,141,698	34,745,505	26,081,740	37,830,794	38,197,046	36,219,908
Debt payment	13,805,948	14,731,922	18,781,982	17,459,040	17,898,040	17,076,386
City support services	3,688,538	4,060,906	3,362,773	2,959,499	2,367,448	2,199,240
Transfer to other City funds	3,761,908	2,427,856	2,776,937	285,000	75,000	75,000
Total transfers out	30,398,092	55,966,189	51,003,432	58,534,333	58,537,534	55,570,534
Total Requirements	70,880,939	106,196,111	95,712,005	97,135,239	95,377,874	93,725,564
Excess (deficiency of revenue over requirements)	(2,406,050)	7,870,012	1,295,687	2,985,012	(5,154,996)	(13,162,451)
Adjustment to GAAP	-	556,989	415,496	759,675	118,311	210,918
Beginning Balance	37,544,044	29,117,044	27,405,861	23,661,173	28,697,857	41,649,390
Total ending balance	35,137,994	37,544,045	29,117,044	27,405,860	23,661,172	28,697,857

Source: OCA review of the Austin Convention Center Financial Reports for fiscal years 2015 through 2020, February 2021

⁵ Based on ACC management, the fiscal year 2020 financial information is unaudited.

Appendix B - Flow of Funds Through the Austin Convention Center



* Revenue from operations includes contractor revenue, facility revenue, parking fees, and other miscellaneous revenue (such as scrap and property sales and interest).

** The City receives 11 cents of the Hotel Occupancy Tax collected by the City of Austin. Out of this amount, 8.5 cents is allocated to the Austin Convention Center.

Source: OCA analysis of the Austin Convention Center Financial Reports for fiscal years 2015 through 2020, February 2021

Why We Did This Report

This report responds to a request from Council Member Leslie Pool as a sponsor and Council Member Ann Kitchen as a cosponsor regarding Austin Convention Center finances.

Scope

The project scope included Austin Convention Center financial information and activities from fiscal year 2015 to fiscal year 2020.

Methodology

To complete this special request, we performed the following steps:

- Interviewed staff in the Austin Convention Center Department, the City's corporate Budget Office, and the City Law Department
- Analyzed Austin Convention Center financial reports
- Reviewed documentation related to tracking of Austin Convention Center financial information
- Reviewed relevant Austin Convention Center revenue and expense reports
- Surveyed a sample of Texas cities (San Antonio, Fort Worth, and Houston) regarding tracking and usage of convention center revenues and expenses

Project Type

Special request projects conducted by the Office of the City Auditor are considered non-audit projects under Government Auditing Standards and are conducted in accordance with the ethics and general standards (Chapters 2-3).

The Office of the City Auditor was created by the Austin City Charter as an independent office reporting to City Council to help establish accountability and improve City services. Special requests are designed to answer specific questions to assist Council in decision-making. We do not draw conclusions or make recommendations in these reports.

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