



BUREAU OF BUSINESS RESEARCH  
THE UNIVERSITY OF TEXAS AT AUSTIN

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MEMO

To: Scott Dudley, Legislative Budget Board  
John Heleman, Comptroller of Public Accounts

Cc: The Honorable Ellen Cohen ✓  
The Honorable Royce West  
The Honorable Senfronia Thompson

From: Dr. Bruce Kellison, Associate Director, Bureau of Business Research (475-7813) BK

Date: March 13, 2009

Re: HB 2070 ("Revision to Adult Entertainment Fee") Estimates

At the request of the Office of the Attorney General's Crime Victims Services Division and pursuant to HB 1751, we have recently completed a detailed analysis of the socio-economic impacts of the adult entertainment industry in Texas. Part of the study analyzed the revenues earned by adult cabarets in Texas and payments of the Adult Entertainment Fee made by cabarets since January 1, 2008.

We have prepared estimates of the AEF in HB 2070 based in large part on our research findings. I attach them now for your information. I would be happy to answer any questions you might have about these estimates.

Estimate for HB 2070

Prepared by the Bureau of Business Research, The University of Texas at Austin  
March 13, 2009

Summary: Based on Adult Entertainment Fee (AEF) collections history and estimates of economic growth statewide in Texas, we estimate that full compliance with a \$3 Adult Entertainment Fee would generate approximately \$33 million in the 2010-2011 biennium (\$16.5 million per year).

Details and Assumptions: From our research, we estimate that the current AEF of \$5 imposed on clubs would yield a *maximum* of \$60 million in the coming biennium (\$30 million/year), assuming full compliance by all cabarets. More likely, the maximum would be between \$25 million and \$30 million. A figure of \$27.5 million was used as a starting point in this process.

The actual statewide economic growth rates over the past three years (2006-2008 time period), according to the Comptroller's Office, have averaged 4.3% per year or approximately 13%. During the same time, total club revenues have increased 10.5%. This slightly lower growth together with the AEF suggests that adult club revenues will grow less than the state's economy as a whole in the next two fiscal years.

The Texas Comptroller's Office has estimated state economic growth of 1.9% in fiscal year 2010 and 3.8% in fiscal year 2011. Our assumption is that fiscal year 2010 club sales could show no change or a decline by 2%. That would yield AEF totals of between \$26.95 million and \$27.5 million, assuming full compliance and a \$5 fee. We believe fiscal year 2011 AEF revenues will probably grow at half of the statewide growth rate, which would generate approximately \$28 million.

Over the next biennium, therefore, we project the AEF, at \$5, would generate between approximately \$55 million and \$55.5 million. A \$3 AEF would generate approximately \$33 million (\$16.5 million per year), assuming full compliance. A more protracted economic contraction than envisioned by the Office of the State Comptroller could yield revenues over the biennium as low as \$30 million. Anything less than full compliance would lead, of course, to lower revenues as well.