

**INDEPENDENT ANALYSIS REPORT OF AUGUSTA GEORGIA  
FEASIBILITY STUDY FOR BUILDING AND OPERATING A  
PROFESSIONAL LEVEL DRAG STRIP**

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## SUMMARY

This report provides an independent analysis of the Feasibility Study submitted as fulfillment of a legal contract with the Commission of Augusta Georgia by C.H. Johnson Consulting, Inc. and Frost Motorsports, LLC. The study was commissioned by the city of Augusta's Administrator, Fredrick Russell, in an effort to provide local officials with the necessary information to make an informed decision regarding the commitment of public funds and property to the establishment of a professional drag strip affiliated with the International Hot Rod Association in the southern section of Richmond County, Georgia.

Through verification of the study's references and cross-checking of its calculations, this report documents the inaccuracies and omissions of critical financial data within the study. The generation of this report is provided at no cost to the staff of the Richmond County Development Authority (RCDA). It was generated by private citizens of Richmond County in an effort to inform the RCDA of questionable economic information contained within the Feasibility Study. Due to failure of the Feasibility study to provide accurate and complete data to validate its conclusions, it is the recommendation of this report that the study be disregarded by the Augusta Commission and the RCDA.

The commitment of public funds and property for a project based upon a flawed study is irresponsible under any circumstances, yet even more so when the city of Augusta is experiencing financial hardship. If such a facility is truly financially viable, proponents of the venture should attempt to secure private funding and backing for the facility instead of public.

## INTRODUCTION

### Background

Besides being the governing body of the city, the Augusta Commission promotes economic development within the city's boundaries through various actions including up to the utilization of public funds and property to entice companies or ventures to locate there. In September 2005 two of the commission's ten commissioners proposed the establishment of a professional drag strip within the city's boundaries as a methodology to attract entertainment dollars, even though a viable competing facility is already in operation within a short distance of the Augusta metropolitan area. The main rationale behind this venture having viability was that a large tract of land in the southern section of Richmond County was available for such a venture and no acquisition costs.

The legalities of the tract's ownership were misunderstood by the commissioners at the time of the venture's proposal, and as such the venture's price tag was misrepresented to the public and to consultants contracted to produce the feasibility study. Estimates of the possible economic impact of the facility for the city varied widely in both commission meetings and in the local media, with one commissioner even attempting to compare the track impact to that of the Master's Golf tournament. In addition, many of the residents whose property borders or is in the vicinity of the tract opposed such a facility due to concerns regarding excessive noise levels, traffic congestion, and decreased property values.

### Purpose

The purpose of this report is to provide an independent analysis of the feasibility study in order to determine whether or not its data is complete and accurate.

### Scope

A large portion of the feasibility study references various aspects of the Augusta, Georgia metropolitan area's geographical, educational, and economic characteristics. Though of some importance to the viability of the proposed facility, this data is widely available and not in dispute. The stated reason for the commission's championing of a drag racing facility is that it would be a significant economic benefit to the city; therefore the focus of the independent analysis will be on section VI. *Financial Projections* and section VII. *Economic and Fiscal Impact Analysis*.

## Method

After reviewing the copy of the feasibility study provided to Commissioner Jimmy Smith, it was determined that critical portions of the study's financial data seemed skewed so as to provide more favorable income and economic projections. The basis and/or references for each estimated income and expense figure were researched and any calculations verified in an effort to determine its accuracy.

## CONCLUSIONS

In the study's transmittal letter, the consultants stated that the sources used in the preparation of the document were thought to be reliable, but their accuracy could not be guaranteed. Independent analysis of the feasibility study identified a significant number of irregularities in its economic projections. It is the position of this analysis document that the consulting firms of C.H. Johnson Consulting, Inc. and Frost Motorsports, LLC utilized questionable data sources and provided inaccurate and incomplete data in preparation of its Feasibility Study for the city of Augusta.

## RECOMMENDATION

Any action by the Commission to acquire all or part of the tract of land in south Richmond County controlled by the RCDA for the construction of a professional drag strip should be tabled indefinitely. Any decision by city officials to commit public monies and property in pursuit of such a facility should be based solely upon a historical financial data of similar facilities within the southeastern United States.

## DISCUSSION

Much of the financial data and income estimates in the study are based upon estimates of the number of out-of-town patrons and their spending patterns for food and lodging. No statistical data was provided from existing facilities regarding the estimates of event attendance nor did a comparison of the event calendars for comparable facilities in Texas and North Carolina validate the high number of events listed in Table 6-1 of the Feasibility Study. In regards to the spending levels of out-of-town patrons, the Feasibility Study in Section 7, Page 3 references the *Expat 2004 - Convention Expenditure and Impact Study* as the source for its data and statistics. The *Expat Study*, published under a grant from the *International Association of Convention and Visitors Bureaus*, was generated by "surveys of delegates, exhibitors and event organizers for a variety of meetings, conventions and trade shows to determine how much they spent in the city where the event was held."<sup>1</sup> A specific disclaimer against using the *Expat Study's* data for estimating direct event spending for consumer shows, sporting events, fairs, festivals, or concerts was provided to the members of *Destination Marketing Association International* on their organization's web-site. The web-site stated that "These figures should ONLY be used to determine the direct event spending for meetings, conventions, tradeshows and exhibitions."<sup>1</sup> The decision by the consultants to utilize a financial data reference which by its author's admission is not applicable to sporting events instead of historical financial data from existing drag racing facilities suggest either incompetence or an attempt to hide the true economic impact from the course.

Besides the use of non-applicable reference sources, review of the data in Table 6-2, Augusta Drag Strip Summary Performance Income Statement, and Table 6-3, Augusta Drag Strip Estimated Development Costs, by Certified Public Accountant (CPA) Michael Hunter, identified the following discrepancies and/or omissions:

- (1) Income for all years within the income statement include substantial revenues from Luxury Suites and Rentals even though their construction cost are not included in the development cost estimate.
- (2) Item *Marketing and Administrative* under the *Expenses* section of Table 6-2 either does not include the cost of insurance or the estimated cost of insurance for such a facility is extremely underestimated. Insurance costs alone to cover both workers and patrons for a 15,000 seat facility is estimated by CPA Hunter to be between \$200,000- \$300,000 annually. In addition, there is no funding identified in Table 6-3 for insurance during the facility's estimated 18 month construction period.
- (3) Neither Table 6-2 nor the section *Cost of Sales and Expense Assumptions* include the cost associated with locking in television coverage of the event on a sports channel (i.e.

- ESPN). Media coverage is neither automatic nor free, especially for new facilities, and both local and national sponsors/advertisers have to be identified and persuaded through various means to agree to pay for coverage via advertising dollars.
- (4) The cost of the land on which the facility would be constructed is incorrectly listed as \$0. The proposed tract for the site is actually controlled by the Richmond County Development Authority (RCDA), not the city of Augusta. By state law the development authority must either sell the land to the city or accept a trade of property owned by the city of equal dollar value. The minimum proposed acreage for the facility is 250 acres. Since the tract owned by the RCDA is estimated at \$5000 per acre, the city would have to either spend or transfer property worth \$1,250,000 to the development authority. Since the only viable location for the strip due to its length and the tracts topology is parallel to Horseshoe Road and near Highway 56 would prevent utilization of the remaining acreage for other uses, the RCDA could require the city to acquire all of the 1725 acres of the tract, raising the city's expenditure to \$8,8625,000.
  - (5) Table 6-3's *Fees and Contingency* item under the heading of *Indirect Costs* lists "financing" as one of the components of the category, yet the dollar figure for the item does not accurately reflect expected finance costs. At current interest levels of 6%, interest payments alone on \$6,900,000 (Note - Assuming utilization of 15 year bonds) would exceed \$350,000 annually. Even if the costs of constructing the luxury suites are omitted and using the low figure of \$6,900,000 (\$5.4 million of original estimate + \$1.5 million for land acquisition) for construction, when the financing and insurance costs are added to the *Expenses* item in Table 6-2, the facility will never show a profit during its first ten years of operation.

Table 7-1 in the study displays in tabular form the proposed initial economic impact to the local economy, yet this table's data is misleading. By separating the table's explanatory text from the table itself, that fact that the table actually covers a 30 month period is lost on most readers (Construction's impact is over the first 18 months and the Operations and Visitor Spending is over the remaining 12 months). The reason why this is important is that the Table's supposedly positive economic impact ignores the negative impact of city expenditures of at least \$7.387 million dollars (\$5.4 million construction costs, \$1.5 million land acquisition costs, and \$487 thousand dollars for financing) by the city during the 18 month construction period and a minimum net loss of \$170,000 (projected profit before taxes in Table 6-1 of \$380,000 - \$200,000 (low end estimate) insurance costs, -\$350,000 interest payment = -\$170,000) during the subsequent 12 months of operation. The bottom line is that in the first two and one half years, the city spends at least \$7.5 million dollars and isn't even close to being able to generate sufficient revenue to pay the interest on its debt.

Some additional issues regarding the validity of data in Table 7-1:

- (1) When using the IMPLAN model to estimate total economic activity, the accuracy of the estimation is highly dependent upon utilization of multipliers which accurately reflect local economic factors. The feasibility study did not state their multipliers nor did they provide references as of their source.
- (2) When using the IMPLAN model to calculate the number of jobs created for a given infusion of dollars into the economy, the number of jobs created is dependent upon the segment or segments of the economy (i.e. manufacturing, restaurants/lodging, construction, etc...) being directly impacted. This variation is reflected in the Table, but nowhere is there an explanation that all of the estimated full time jobs are unequal. For example, the average annual pay from the *Construction* phase calculates out to roughly \$35,000, an unrealistic, low figure for this type job. The pay for the full time *Operations* job is a more credible \$25,740, while the full time *Visitor Spending* job annual pay of roughly \$7300 is well below the minimum wage.
- (3) Since the City of Augusta does not have an income tax, the only tax revenues being collected would be from sales tax on goods (applicable to all sections) and hotel tax on lodging (applicable only to *Visitor Spending*). No documentation of tax rates and calculations are provided by the study and since the tax figures in Tables 7-8 and 7-1 comprise estimates for Federal, State, Local, Sales, and Hotel taxes, the figures are invalid as an estimate of local tax revenue.
- (4) The structure of the Table implies that the true economic impact of the strip's first 30 months of operation is over \$40 million dollars and creates 490 full time jobs, while in fact the total earnings and taxes are already accounted for in the total economic activity estimate.

Table 7-4's estimate of visitors during the first year of operation is based in part on an unrealistic estimate of the number of events from Table 6-1. No historical data on attendance figures at similarly sized facility was provided in the study, nor did checks via internet of schedules of other large facilities in the southeastern U.S. validate the projected number of 130 events (1 National + 14 Regional + 115 Local) in one year.

**Table 7-5's estimated visitor spending levels for Retail, Food and Beverages, and Lodging are taken from the *EXPACT 2004 Study* which is not applicable to sporting events. Since the spending estimates created in Table 7-5 are invalid, then the Total Economic Activity calculations in Table 7-6 and 7-7 are invalid as well.**

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## REFERENCES

1. *Destination Marketing Web Site.*  
[http://www.destinationmarketing.org/page.  
.asp?pid=149](http://www.destinationmarketing.org/page.asp?pid=149) ( 8 October 2006)

## ACKNOWLEDGEMENTS

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