



BUREAU OF BUSINESS RESEARCH  
THE UNIVERSITY OF TEXAS AT AUSTIN

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2815 San Gabriel, First Floor • Austin, TX 78705

MEMO

To: The Honorable Ellen Cohen

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

Date: March 13, 2009

Re: HB 982 ("Sexually Oriented Businesses Admissions Tax")

In response to staff requests, I attach an estimate of the admissions tax in HB 982 using the findings of our study 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.

I would be happy to answer any questions you might have about this estimate.

Estimate for HB 982

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

Summary: Based on different estimates of admissions fees for adult clubs, the proposed HB 982 would yield between \$487,500 and \$1,218,750 per year (a mid-point of \$812,250) after deducting 25% for payment to the school foundation fund (Section 184.009). The actual amount provided to the sexual assault program fund would be less, however, because of Section 184.003 (Credit), pertaining to prior payments. In the absence of Section 184.003 and for club owners who have not remitted AEF payments, it is likely that club owners and operators would reduce their admissions fees after enactment of HB 982. Therefore, the amounts estimated above are likely to be diminished further.

Details and Assumptions: In calendar year 2007, total revenues of adult entertainment clubs were \$216.62 million, with mixed beverage sales comprising approximately 71.7% of the total.<sup>1</sup> Non-mixed beverage revenues were \$61.38 million, or 28.34% of total revenues. Within this category are beer and wine sales for licensees with beer and wine-only permits, non-alcoholic sales, food sales, entertainers' fees, cover charges/admission fees, and other miscellaneous revenue sources. Based upon interviews with former club employees and club owners, cover charges/admissions fees in the aggregate are less than 10%.<sup>2</sup> To provide a range, three rates were used for the estimation process: (a) three percent; (b) five percent; and (c) seven and one-half percent. The pertinent calculations are provided below.

Estimation Percentage (%)	Total Revenues (millions)	Cover Charge/ Admission Fees (millions)	HB 982 Tax Amount (10%) (millions)	Amount Remaining After School Foundation Funding 75% of prior column (millions)
3	\$216.62	\$6.50	\$0.65	\$0.487
5	\$216.62	\$10.83	\$1.08	\$0.812
7.50	\$216.62	\$16.25	\$1.62	\$1.218

The main assumptions supporting the three estimates in the far right-hand column are:

- All clubs would comply—if some do not, then the figures would be lower;
- Clubs would not alter their revenue structure—if some clubs reduce or eliminate their admissions fees after enactment of HB 982, then the figures would be lower.

<sup>1</sup> Because of late reporting by multiple adult clubs, final revenue data for calendar year 2008 are unavailable. However, based on available data, there is a strong likelihood that total sales for adult clubs in 2008 will be within 3% of 2007 calendar year sales.

<sup>2</sup> Some clubs may exceed the 10% amount but these will be smaller clubs and some BYOB clubs.