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Tourist Attraction Fund – FY 2019 Financial Highlights

June 26, 2020

Hagåtña, Guam – The Office of Public Accountability (OPA) released the Tourist Attraction Fund’s (TAF) financial statements, report on compliance and internal control, and the auditor’s communication with those charged with governance for fiscal year (FY) 2019. Independent auditors, Ernst & Young LLP (EY), rendered an unmodified (clean) opinion on TAF’s financial statements, for which no material weaknesses or significant deficiencies were identified. EY did not issue a management letter for FY 2019.

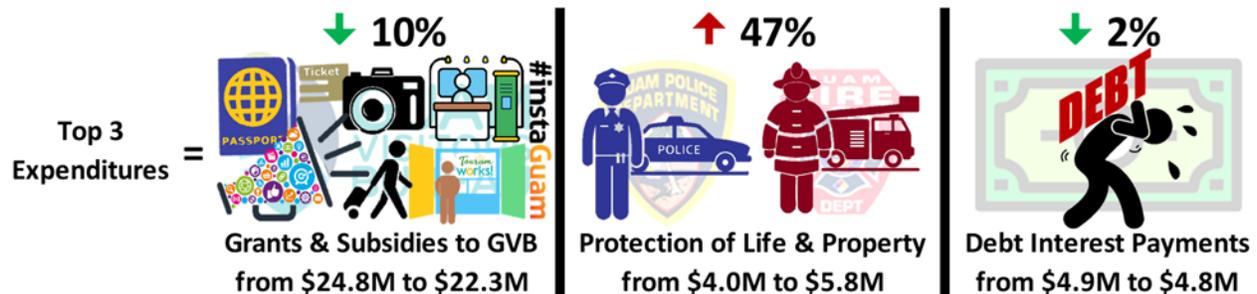


TAF was created to fund various recreational projects and visitor industry activities with revenues derived from the hotel occupancy taxes (HOT) generated from the visitor industry. In FY 2019, the Government of Guam collected more in HOT than it spent, ending FY 2019 with an increase in net position (net income) of \$1.3 million (M). This was an improvement from TAF’s FY 2018 net loss of \$4.7M. TAF records three governmental funds, all of which ended FY 2019 with a positive fund balance – the operating fund (or TAF) with \$1.4M, the Capital Projects Fund with \$7.9M, and the Debt Service Fund with \$12.7M. Combined, TAF’s ending fund balance increased by \$1.3M (or 6%), from \$20.9M in FY 2018 to \$22.1M in FY 2019.

HOT Revenue Increased While Expenditures Decreased

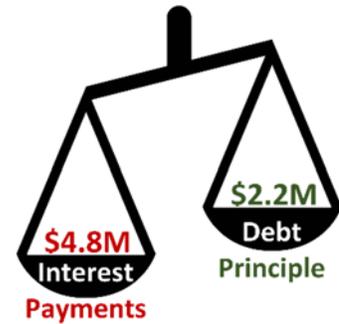
Collections of HOT revenue increased by \$1.5M (or 4%) to \$44.7M in FY 2019, due primarily to a 7% increase in tourist arrivals from 1.5M tourists in 2018 to 1.6M tourists in 2019.

Combined expenditures decreased by \$4.2M (or 9%), from \$48.2M in FY 2018 to \$43.9M in FY 2019. The top expenditures in FY 2019 were as follows: \$22.3M in grants and subsidies to the Guam Visitors Bureau (GVB) operations, \$5.8M to the Guam Police Department and Guam Fire Department for the protection of life and property, and \$4.8M to interest payments on debt. Grants and subsidies to GVB decreased by 10% from \$24.8M. Debt interest payments also decreased by 2% from \$4.9M. However, the protection of life and property increased by 47% from \$4.0M.



Debt Costs Twice the Principle of HOT Bond

The Debt Service Fund accounts for the principal and interest due on the HOT Revenue Bonds, 2011 Series A, which were issued to refund the 1997 Infrastructure Improvement Bonds and fund projects that benefit Guam's tourism industry. In FY 2019, TAF paid back \$7.0M in principle and interest. Of the \$7.0M, \$4.8M went to interest payments, which was more than twice the cost of the \$2.2M principle.



Construction Project Activities Decreased by 79%

The bond agreement of the 2011 HOT Revenue Bonds requires amounts to be restricted for capital projects. The Capital Projects Fund accounts for the bond proceeds restricted for the construction of capital improvement projects. Construction project activities decreased by 79% (or \$2.7M), from \$3.5M in FY 2018 to \$734K in FY 2019, due primarily to the completion of the projects while pending the final release of claims. The largest amounts remaining in continuing appropriations were for the following: San Vitores flooding with \$1.4M, the Guam and Chamorro Educational Facility (Guam Museum) with \$7.0M, and other HOT Bond projects with \$10.7M.

Uncorrected Misstatements

TAF had three uncorrected misstatements, which had no material effect on its FY 2019 net position or financial statements.

COVID-19 Impact

Beginning in February 2020, the worldwide outbreak of the coronavirus disease (COVID-19) had a sudden and ruinous effect on Guam's tourism, which came to a complete standstill in March 2020. The Department of Administration's financial management anticipates that the HOT revenues collected from the hotels providing quarantine shelter will provide funding for debt payments. However, FY 2020 revenues will be severely impacted, requiring significant reductions in non-restricted expenditures, including payments to GVB.

For more details on the use of TAF, see the Management's Discussion and Analysis in the audit report at www.opaguam.org.