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Tourist Attraction Fund – FY 2022 Financial Highlights

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Hagåtña, Guam – The Office of Public Accountability (OPA) has released the Government of Guam (GovGuam) Tourist Attraction Fund's (TAF) financial statements, report on compliance and internal control, management letter, and auditor communication with those charged with governance for fiscal year (FY) 2022. Independent auditors, Ernst & Young LLP (EY), rendered an unmodified (clean) opinion and identified no material weaknesses or significant deficiencies.

TAF was created to help fund various recreational projects and tourist activities, with revenues derived from Hotel Occupancy Taxes (HOT) generated by the visitor industry. TAF comprises three governmental funds: (1) Tourist Attraction Special Revenue Fund, (2) Capital Projects Fund, and (3) Debt Service Fund. The Tourist Attraction Special Revenue Fund accounts for an excise tax levied and imposed on transient occupants of a room or rooms in a hotel, lodging house, or similar facility in Guam. The Capital Projects Fund accounts for constructing capital improvement projects from bond proceeds. The Debt Service Fund accounts for funds required by the bond indenture to redeem the bond principal and pay bond interest as it becomes due.

Increase in Revenues and Expenditures

Total combined revenues increased by \$5.8 million (M) (or 47%) from \$12.4M in FY 2021 to \$18.2M in FY 2022. The HOT revenues constituted a substantial fraction of the total combined revenues, due primarily to the ease of coronavirus pandemic restrictions which encouraged an increase in tourist arrivals in FY 2022.

Total combined expenditures increased by \$712 thousand (K) (or 4%) from \$18.9M in FY 2021 to \$19.6M in FY 2022. Mainly supported by HOT revenue collections, the increase in expenditures was due primarily to a \$9.2M increase in payments to Guam Visitors Bureau (GVB) from \$5.3M in FY 2021 to \$14.5M in FY 2022 and a \$1.5M increase related to Capital projects from \$42K in FY 2021 to \$1.5M in FY 2022. These expenditures were offset by a \$5.8M decrease in debt service payments, a \$1.9M decrease in the Guam Police Department payments, a \$1M decrease in the Department of Parks and Recreation payments, a \$123K decrease for the Department of CHamoru Affairs payments, a \$542K decrease for the Mayor's Council of Guam payments, and a \$150K decrease for the University of Guam payments.

\$3.2M Decrease in Fund Balance

At the end of FY 2022, the Tourist Attraction Special Revenue Fund, Capital Projects Fund, and Debt Service Fund held a fund balance of \$0, \$6.5M, and \$7.1M, respectively. Impacted by a reduction in tourist activity due to the COVID-19 pandemic, TAF's ending fund balance decreased by \$3.2M (or 19%), from \$16.8M in FY 2021 to \$13.6M in FY 2022.

HOT Revenue Bonds: 2021 Series A

The Debt Service Fund accounts for the principal and interest due on the HOT Revenue Bonds, 2021 Series A, wherein these funds are restricted for (1) capital projects associated with the new Guam Museum and certain other related projects that benefit Guam's tourism industry, and (2) future debt

service. In FY 2022, TAF paid only \$3.0M in interest on the 2021 Series A, HOT Bonds.

FY 2022 Books Not Closed on a Timely Basis

The independent auditors, in a separate management letter, noted that TAF's FY 2022 books were not closed in a timely manner. Additional man-hours incurred could have been avoided if an updated financial management system had been in place. The untimely closure of TAF's books is a repeat occurrence from the prior year and has been an issue since FY 2019. The Department of Administration (DOA) has procured a new FMIS system, which is being implemented.

Expenditures Exceed Appropriations

In FY 2022, DOA was appropriated \$1.2M from the Guam Tourist Attraction Special Revenue Fund. The total expenditures exceeded the appropriated amount by \$1.7M. Internal auditors encouraged periodic comparisons to total appropriations to avoid overspending. In the event that over-expenditure is necessary, documentation must exist.

Post-Coronavirus (COVID-19) Pandemic Impact and Outlook

On March 11, 2020, the World Health Organization (WHO) categorized the novel coronavirus (COVID-19) as a global pandemic. GovGuam implemented travel and business restrictions and quarantines as precautionary measures. Unfortunately, this severely impacted the direct reduction of its tourism-based economy.

Prior to the WHO announcement, Guam experienced an all-time high of 1.6M visitors. As Guam ends FY 2022 on a high note with increased visitor arrivals of 155K (252%) from 62K in FY 2021 to 217K tourists in FY 2022, the outlook for 2023 remains prospective with an expected visitor forecast of 680K.

For FY 2023, GVB will continue to build on its successful three-prong approach of helping visitors return home with free COVID testing with DPHSS, helping airline partners increase capacity through airline incentives, and helping with upgrades and investments to Guam's tourism infrastructure. Additionally, FY 2023 will bring forth aggressive GVB marketing campaigns in Guam's major markets – Korea, Japan, North America, and other main markets. In such an emerging time, Guam's tourism rebounding efforts remain crucial as much of the world is competing for market shares of eager inbound travelers amidst the post-era of the coronavirus pandemic.

Super Typhoon Mawar

On May 25, 2023, Super Typhoon Mawar devastated the island of Guam. Although COVID-19 and international travel restrictions drove the tourism industry downward in FY 2020, the Post-Mawar aftermath has delayed its recovery even further. Mawar produced sustained winds of 150 miles per hour, flooding and damaging tourism-dependent hotels and businesses. Nearly 5,000 visitors were left stranded in Guam after the storm caused disruptions on the island. According to GVB acting president Gerry Perez, "Recovery from the typhoon is likely to take 24 to 30 months based on historical recoveries of private facilities, public infrastructure, operational restoration of the island's destination value chain, and consumer confidence in our source markets."

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