



Tourist Attraction Fund FY 2012 Financial Highlights

April 2, 2013

The Tourist Attraction Fund (TAF) ended fiscal year (FY) 2012 with a \$1.3 million (M) increase in fund balance. Although operating expenditures increased by \$943 thousand (K) from \$18M to \$19M, revenues increased by \$3.1M from \$23M to \$26.1M. This is the highest level of tax revenues received in over a decade.

Independent Auditors Deloitte & Touche, LLP rendered an unqualified (clean) opinion for TAF's financial audit. The Department of Administration is to be congratulated for there are no findings on TAF's internal control over financial reporting and compliance. However, the auditors issued a management letter which identified one control deficiency pertaining to the recording of encumbrances.

TAF Operations Fund

Compared to FY 2011, the TAF saw a 13% revenue increase in FY 2012. This was mainly due to the increase in hotel occupancy tax revenues. Guam's tourism industry saw an 11% increase in visitor arrivals for a total of 1.3M visitors, rebounding from a 2% decrease in FY 2011. The increase was primarily due to Japan's full recovery from the March 2011 triple disasters and the continued upward arrival trends for Guam's other market sources: Korea, Taiwan, China and Russia. Japan remains Guam's largest visitor market with a total of 908 thousand (K) travelers. Japan combined with Korea, which has a total of 165K travelers, represent 85% of all tourist arrivals.

TAF's revenues are derived from 11% hotel occupancy taxes levied and imposed on occupants of hotels and similar facilities on Guam. TAF was established to fund various recreational projects and visitor industry activities and is the major source of funding for the Guam Visitors Bureau (GVB). In FY 2012, TAF paid GVB \$2M more or \$16.3M compared to the previous year's payment of \$14.3M. Of the \$16.3M, 84% or \$13.7M were payments to GVB operations; 7% or \$1.1M were payments for Beach maintenance; and 3% or \$530K were payments that passed through to different non-profit organizations

Festival of Pacific Arts (FESTPAC) Funding

The FY 2012 Budget Act appropriated \$1.3M to GVB for deposit into the Guam FESTPAC and Folklife Festival Trust Account. In addition, \$400K was appropriated to send participants to the 11th FESTPAC held in the Solomon Islands during 2012, of which \$340K was expended by the Guam Council on the Arts and Humanities Agency. Of the \$1.3M appropriation, \$1.2M was to

be used for future FESTPAC and Folklife activities, and \$100K went to the Guam Tourism Foundation for the development of the Guam Convention/Special Events Center. Of the \$1.2M, \$750K was deposited into the Trust Account for the 12th FESTPAC to be held in Guam in 2016 and Guam's participation in the 2015 Smithsonian Folklife Festival.

The total FY 2012 appropriation of \$1.7M (\$1.3M plus \$400K) shall continue to be available until expended and is not subject to transfer or use for any other purpose.

Rainy Day Fund

GVB was appropriated an additional \$195K from TAF for its Rainy Day Fund in FY 2012. In April 2010, Public Law 30-116 established the GVB Rainy Day Fund. The fund was to receive 1½ percent of the adopted revenue projection of the TAF, or a minimum of \$200K each year. The first funding occurred in FY 2011 for \$191K and the second was on FY 2012 for \$195K for a total funding of \$386K. The funds were to be used to meet unforeseen or unanticipated challenges resulting from a natural or man-made disaster that has occurred on Guam, or from external economic conditions that have severely affected Guam's ability to attract visitors.

Hotel Occupancy Tax (HOT) Bond Funding

In April 2011, the government issued Series 2011A HOT Revenue Bonds in the amount of \$90.7M. The bonds were used to refinance the remaining balance of \$28M from the 1997 Series A Limited Obligations Infrastructure Improvement Bonds. Of the \$56.7M available for construction, \$4.3M was paid to the Guam Preservation Trust and the rest will be used for over 20 projects. Among the key projects with their approximate costs were the: Guam Museum (\$27M), Tumon Flooding (\$11.5M), Farmers Co-op and Dededo Flea Market Building (\$3.9M), and Historic Hagatna Renovations (\$1.4M).

As a result of the issuance of the Series 2011A HOT bonds, annual debt service increased to \$7M compared to the average debt service of \$4.7M that was paid for the previous bond. Interest rates for the 1997 Series Bonds varied between 4.8% and 5.25% while the Series 2011A HOT bonds varied between 1% and 6.63%. FY 2012 debt service payments represented 26% of the TAF's tax revenues.

Management Letter Comment-Outstanding Encumbrances

The independent auditors issued a management letter pertaining to encumbrances (commitments incurred but not yet expended) in some contracts that were understated by \$1.7M.

For a more detailed commentary of the TAF's operations, refer to the Management Discussion and Analysis in the audit report or visit our website at www.guamopa.org.