



OFFICE OF PUBLIC ACCOUNTABILITY

Suite 401 DNA Building, 238 Archbishop Flores Street, Hagatna, Guam 96910
Tel (671) 475-0390 · Fax (671) 472-7951 · Hotline: 47AUDIT (472-8348)
www.opaguam.org

Tourist Attraction Fund – FY 2020 Financial Highlights

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Hagåtña, Guam – The Office of Public Accountability (OPA) released the Tourist Attraction Fund’s (TAF) financial statements, report on compliance and internal control, management letter and auditor’s communication with those charged with governance for fiscal year (FY) 2020. Independent auditors, Ernst & Young LLP (EY), rendered an unmodified (clean) opinion on TAF’s financial statements and identified no material weaknesses or significant deficiencies.

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. TAF records three governmental funds. The Capital Projects Fund and the Debt Service Fund ended FY 2020 with a positive fund balance of with \$8 million (M) and \$12.8M, respectively. The Tourist Attraction Special Revenue Fund ended the fiscal year with a zero fund balance. Combined, TAF’s ending fund balance decreased (for a net loss) by \$1.3M (or 6%), from \$22.1M in FY 2019 to \$20.8M in FY 2020. This was a reversal of the \$1.3M increase in net position (net gain) in FY 2019.

Coronavirus (COVID-19) Pandemic Impact and Outlook

COVID-19 had a drastic effect on Guam’s tourism, which came to a complete standstill in March 2020. After an all-time high of 1.6M visitors in FY 2019, the pandemic severely hampered visitor arrivals to Guam to 757 thousand (K) in FY 2020, which was a decrease of 874K (or 54%).

The government hopes to reopen Guam’s tourism industry by May 2021, during which tax revenue collections may slowly recover. It is anticipated that the HOT revenues collected from hotels providing quarantine shelter will provide sufficient funding for FY 2021 debt payments. However, significant reductions for FY 2021 expenditures will still be required.

Restatement of Beginning Fund Balances

In FY 2020, the Department of Administration’s (DOA) management concluded that FY 2019’s recorded interfund balances and related transfers were incorrectly stated. The amounts were corrected during the FY 2019 government-wide audit, resulting in a \$659K adjustment that increased Tourist Attraction Special Revenue Fund’s net position to \$2.1M and decreased the Debt Service Fund’s net position to \$12.1M. This resulted in the restatement of TAF’s FY 2020 beginning fund balances.

Decline in Expenditures Not Enough to Offset 41% Decline in HOT Revenues

Combined expenditures decreased by \$8.2M (or 19%), from \$43.9M in FY 2019 to \$35.7M in FY 2020. The decrease came from reductions of \$6.9M for payments to the Guam Visitors Bureau, \$1.2M of Mayor’s Council of Guam operational expenses, \$613K of capital project expenses, and \$267K of Department of Parks and Recreation expenses.

However, the total decline in expenditures was not enough to offset the massive decline in revenues. Collections of HOT revenue decreased by \$18.3M (or 41%), from \$44.7M in FY 2019 to \$26.4M in FY 2020.

HOT Revenue Bonds: 2011 Series A & Series 2021A

The Debt Service Fund accounts for the principal and interest due on the HOT Revenue Bonds. In FY 2020, TAF paid \$7M in principal and interest on the 2011 Series A HOT bonds.

In March 2021, the HOT Revenue Refunding Bonds, Series 2021A were issued in the amount of \$71.7M to advance refund \$70.5M of outstanding 2011 Series A bonds. After payment of underwriting fees, insurance, and other issuance costs, the remainder of net proceeds and available funds of the government totaling \$72.8M were placed in escrow. As a result, subsequent to FY 2020, the 2011A refunded bonds are considered to be voided and the liability has been removed from the government-wide financial statements of the Government of Guam.

The issuance of the Series 2021A bonds included revised annual debt service requirements to maturity up to FY 2041. The details of the schedule include no principal paid for the first five fiscal years (FY 2021 – FY 2025) and an interest of \$253K in FY 2021 and \$2.9M for years 2022-2025. Principal plus interest on the Series 2021A bonds totals about \$100M, which is a \$29.6M savings from the \$129.5M remainder of the 2011 Series A bonds. This is due to the \$14.2M reduction in principal and \$15.4M reduction in interest.

FY 2020 Books Not Closed on a Timely Basis

In a separate issued management letter, independent auditors noted TAF's FY 2020 books were not closed on a timely basis. According to DOA, the delay's root cause was that the financial management system was not updated to include financial year closing as a standard feature. Further, additional man-hours incurred could have been avoided if an updated financial management system was in place. DOA's preferred remedy is to invest in a new financial management system that incorporates all required year-end closing procedures as standard features. Procurement for the new system has begun under Executive Orders 2020-44, and 2021-07.

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