

BILL 1227

INVITEES

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"Michael Carlson, General Manager",Guam Visitors Bureau,P. O. Box 3520,"Agana, Guam 96910",Mr. Carlson

"Manfred Pieper, Chairman",Guam Hotel & Restaurant Assoc.,P. O. Box 11199,"Tamuning, Guam 96931",Mr. Pieper

"David B. Tydingco, President",Guam Hotel & Restaurant Assoc.,P. O. Box 8565,"Tamuning, Guam 96931",Mr. Tydingco

"Eloise Baza, President",Guam Chamber of Commerce,P. O. Box 283, "Agana, Guam 96910",Ms. Baza

"Frank Campillo, Chairman",Guam Chamber of Commerce, P. O. Box 283,"Agana, Guam 96910",Mr. Campillo

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"Wilfred G. Aflague, Director",Dept. of Administration,P. O. Box 884,"Agana, Guam 96910",Mr. Aflague

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"Peter R. Barcinas, Director",Department of Commerce,590 S. Marine Dr.,"Tamuning, Guam 96931",Mr. Barcinas

"Joaquin G. Blaz, Director",Dept. Revenue & Taxation,P. O. Box 2950,"Agana, Guam 96910",Mr. Blaz



**OFFICE OF THE VICE-SPEAKER**  
**Twenty-Second Guam Legislature**  
**Senator John Perez Aguon**

Chairman, Committee on Tourism & Transportation

155 Hessler St., Agana, Guam USA 96910 • (671)472-3435 • 472-3497 • 472-3570/1/2 • Facsimile: (671)477-8358

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November 17, 1994

MEMORANDUM

To: Members, Committee on Tourism & Transportation;  
Members, Committee on Ways & Means

From: Chairman, Committee on Tourism & Transportation  
Chairman, Committee on Ways & Means

Subject: Joint Public Hearing

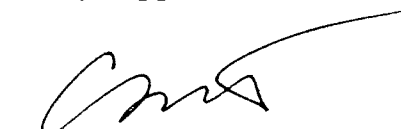
Please be advised that the Committee on Tourism & Transportation and the Committee on Ways & Means have scheduled a joint public hearing for Friday, November 25, 1994 at 3 p. m. to receive testimonies on the following:

Bill 1227 - AN ACT TO AMEND 11 GCA §30101 RELATIVE TO THE HOTEL OCCUPANCY TAX.

The hearing will be held in the Legislative Public Hearing Room, Pacific Arcade Building, 155 Hessler Place in Agana.

Your participation at the hearing is sincerely appreciated.

  
JOHN PEREZ AGUON

  
CARL T. C. GUTIERREZ

c: All Senators  
Media



# ● Public Hearing Notice

Friday, November 25, 1994

Public Hearing Room, Guam Legislature  
Pacific Arcade Building, 155 Hesler Street, Agana

**SEN. JOHN PEREZ AGUON**

**CHAIRMAN**

**COMMITTEE ON TOURISM & TRANSPORTATION**

• 9:00 a.m. •

COMMITTEE ON  
TOURISM & TRANSPORTATION

**Oversight Hearing on the  
Guam Mass Transit Authority**

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• 3:00 p.m. •

JOINT PUBLIC HEARING  
COMMITTEE ON  
TOURISM & TRANSPORTATION  
with the  
COMMITTEE ON WAYS & MEANS

• Bill No. 1227 - by Senators J. P. Aguon  
and F. E. Santos: AN ACT TO AMEND  
11GCA §30101 RELATIVE TO THE  
HOTEL OCCUPANCY TAX —

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**The Public is Invited to Express their Views**



November 21, 1994

**Committees:**

**CHAIRPERSON:**

**Rules**

**VICE CHAIRPERSON:**

**Ways & Means**

**MEMBER:**

**Economic-  
Agricultural  
Development,  
and Insurance**

**Education**

**Electrical  
Power and  
Consumer  
Protection**

**Federal and  
Foreign Affairs**

**General  
Governmental  
Operations and  
Micronesian Affairs**

**Health,  
Ecology and  
Welfare**

**Judiciary  
and  
Criminal Justice**

**Tourism and  
Transportation**

**Youth, Senior  
Citizens and  
Cultural Affairs**

**MEMORANDUM**

**TO:** Chairperson, Committee on Tourism and Transportation

**FROM:** Chairperson, Committee on Rules

**SUBJECT:** Referral - Bill No. 1227

The above Bill is referred to your Committee. Please note that the referral is subject to ratification by the Committee on Rules at its next meeting. It is recommended you schedule a public hearing at your earliest convenience.

Based on subsection 6.04.06.02, Rule VI, of the Standing Rules, upon completion of your Committee findings, please refer this Bill to the Committee on Ways and Means for their review.

It is requested that you inform the Committee on Rules of the sequential referral date to the Committee on Ways and Means. Thank you for your cooperation.

  
**HERMINIA D. DIERKING**

**Attachment**

**cc: Committee on Ways and Means  
(For Information Only)**

TWENTY-SECOND GUAM LEGISLATURE

1994 (SECOND) Regular Session

94 NOV 17 PM 1:38

Bill No. 1227

Introduced by:

J. P. AGUON 

E. E. SANTOS 

AN ACT TO AMEND 11 GCA §30101 RELATIVE TO THE HOTEL OCCUPANCY TAX.

1 BE IT ENACTED BY THE PEOPLE OF THE TERRITORY OF GUAM:

2 Section 1. 11 GCA §30101 is amended to read:

3 "§30101. Imposition.

4 An excise tax is hereby levied and imposed which shall be  
5 assessed and collected monthly, against transient occupants of a room  
6 or rooms in a hotel, lodging house, or similar facility located in Guam  
7 according to the following schedule:

8 (a) From September 1, 1993 through [~~February 28, 1995~~] March  
9 31, 1995, the rate shall be ten percent (10%) of the rental price charged  
10 or paid per occupancy per day;

11 (b) From [~~March~~] April 1, 1995 and thereafter the rate shall be  
12 [~~ten percent (10%)~~] eleven-and-a-half percent (11-1/2%) of the rental  
13 price charged or paid per occupancy [~~per day on rooms rented at a~~  
14 ~~rate of Ninety Dollars (\$90) per day or less, and thirteen percent (13%)~~  
15 ~~of the rental price charged or paid per occupancy per day on rooms~~  
16 ~~rented at a rate of greater than Ninety Dollars (\$90)] per day.~~

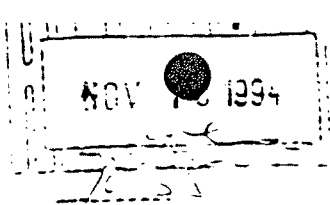
17 [~~Under subsections (a) and (b), if~~] If the room or rooms are  
18 rented more than once within a twenty-four (24) hour period, each  
19 time of occupancy shall be subject to the tax for such accommodations.

1  
2  
3  
4

This tax applies and is collectible when the sale is made, regardless of the time when the price is paid or delivered. It shall be paid by the consumer to the operator or owner of the hotel or rooming house facility."



Guam Visitors Bureau  
*Setbision Bisitan Guahan*



Commonwealth Now!

October 31, 1994

The Honorable John Perez Aguon  
Chairman, Committee on Tourism & Transportation  
22nd Guam Legislature  
155 Hesler Place  
Agana, Guam 96910

Dear Chairman Aguon:

As mandated by P.L. 22-32, transmitted for your review is a report on the temporary lowering of the Hotel Occupancy Tax (HOT) and the impacts of that action.

On Friday, October 28, 1994, the Guam Visitors Bureau (GVB) Board of Directors deliberated on the contents of the report, as well as a position paper presented by the Guam Hotel & Restaurant Association (GHRA), and subsequently adopted three (3) recommendations. These recommendations are:

- 1.) That the HOT be a single-tiered tax;
- 2.) That the tax rate be set at the level of 11.5%; and,
- 3.) That this new rate structure be effective April 1, 1995.

It was the Board's contention that a single-tiered tax would be easier to administer with a minimum of additional costs for adjustments to existing software. A two-tiered tax, by contrast, would result in more costly adjustments to existing software for each hotel to implement such a structure, not to mention the increased difficulties in administering such a structure.

Deliberation on the percentage at which to set the HOT centered around two (2) concerns. One that sufficient revenues be collected to meet the existing fiscal year's obligations. These obligations were identified as the annual bond debt service, the GVB operating budget, the continuing beach cleaning project, and funding for Guam Community College's Tourism Program. Based upon figures contained in the enclosed report, this figure was listed as \$16.1 million. The second concern was that there be some funds which would be set aside for improving Guam's physical plant over and beyond the beach cleaning. A recent visit to Puntan Dos Amantes, Guam's most-visited scenic site, revealed a serious need for a major facelift. Representatives from the Department of Parks and Recreation (DPR) cited a lack of funding as the major obstacle to initiating such a facelift. DPR officials also listed the recent loss of 14 FTEs as a contributing factor.

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A review of the various HOT levels indicates that if the 11% level were applied to the 1,080,000 visitors at a rate of \$15.13/visitor, \$16.34 million would be generated. A similar calculation at the 11.5% level works out to \$17.15 million to be generated.

The Board noted that it was not too long ago when the Tourist Attraction Fund was awash with tax monies. Now that many of Guam's scenic and historic sites are now in need of attention, whatever surpluses which may have existed have been utilized for government of Guam budget obligations. If the HOT would be raised to 11.5%, or back to the 13% level, what safeguards could be put in place to guarantee that the taxes collected would be dedicated towards product improvement?

Towards this end, it was suggested that the first 11% of the tax be dedicated to the fiscal year obligations listed previously. The remaining .5% of the tax would be deposited in a special fund which would be created and made available to the GVB for product improvement as authorized by its Board of Directors. This special fund would be subject to the same requirements as similar funds, including the conducting of annual audits and the filing of annual fiscal reports on the fund's activities. The fund's available balances could also be leveraged to increase the opportunities to make the necessary product improvements.

And lastly, all present agreed that the effective date for this recommended tax rate would be April 1, 1995, so as to coincide with the printing and offering of the new six month tour wholesaler product brochures.

The Bureau urges your support of these recommendations. Please contact me, or General Manager Mike Carlson, should you have any questions or comments on the report's contents.

Sincerely,



PETER P. "SONNY" ADA  
Chairman of the Board

enclosures

xc: All Members, GVB Board of Directors



**Financial Impact  
of the  
Temporary Reduction  
of the  
Hotel Occupancy Taxes  
Report**

Submitted by



**Guam Visitors Bureau  
Setbision Bisitan Guahan**

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# TABLE OF CONTENTS

Background .....	1
Impact of Public Law 22-32 .....	4
Future Options .....	7
Option 1: The Two Tier Approach .....	7
Option 2: The Flat Tax Approach .....	9
Other Options .....	12
Recommendations .....	13
Appendix	
A. Forecasting Methodology and Calculations	
B. Public Law 22-32	
C. Minutes of Roundtable Discussion on Public Law 22-32	
D. Schedule of Programs Funded by the Tourist Attraction Fund	
E. GHRA Position Paper	

## BACKGROUND

The development of tourism on Guam was first acknowledged by local government officials in 1952 with the enactment of P.L. 67, an act to encourage the establishment of travel industries on Guam.

It wasn't until 1962, when President John F. Kennedy lifted the security restriction on travel imposed by the former naval administration, that the development of tourism grew.

In 1963, the Government of Guam established the Guam Tourist Commission within the Department of Commerce, via Executive Order 63-10. With a budget of \$15,000, the Commission immediately began aggressive travel-trade promotions in Japan and Southeast Asia, the development of Guam's tourism plant, and lobbying activities to increase air service to Guam from potential market areas.

In July 1970, the Guam Visitors Bureau was formally created, separating and renaming its predecessor (the Guam Tourist Commission). Key legislation (P.L. 10-166, §19650) was approved on July 29, 1970 and effective August 1, 1970 which stated:

*"An excise tax is hereby levied and imposed, which shall be assessed and collected monthly, against transient occupants of a room or rooms in a hotel, lodging houses, or similar facilities located in Guam of ten percent (10%) of the rental price charged or paid for such accommodations. This tax applies and is collectible when the sale is made, regardless of the time when the price is paid or delivered. It shall be paid by the consumer to the operator or owner of the hotel or rooming house facilities."*

**Subsection 19650 was amended by P.L. 11-145, effective July 1, 1972; to read:**

*"(a) from October 1, 1987 through March 31, 1988 at the rate of ten percent (10%) of the rental price charged or paid for such accommodations;*

*(b) from April 1, 1988 through March 31, 1989 the greater of ten percent (10%) of the rental price charged or paid or nine dollars (\$9.00) per occupancy per day, such that if the room or rooms are rented more than once within a twenty-four (24) hour period, each time of occupancy shall be subject to the tax for such accommodations.*

**This was repealed and reenacted by P.L. 19-5:141 to read:**

*"Section 19650. Imposition. An excise tax is hereby levied and imposed which shall be assessed and collected monthly, against transient occupants of a room or rooms in a hotel, lodging house or similar facility located in Guam according to the following schedule:*

*(a) from October 1, 1987 through March 31, 1988: the greater of ten percent (10%) of the rental price charged or paid or eight dollars (\$8.00) per occupancy per day, such that if the room or rooms are rented more*

than once within a twenty-four (24) hour period, each time of occupancy shall be subject to the tax for such accommodations;

(b) from April 1, 1988 through March 31, 1989 the greater of ten percent (10%) of the rental price charged or paid or nine dollars (\$9.00) per occupancy per day, such that if the room or rooms are rented more than once within a twenty-four (24) hour period, each time of occupancy shall be subject to the tax for such accommodation; and

(c) from April 1, 1989 and thereafter the greater of ten percent (10%) of the rental price charged or paid or ten dollars (\$10.00) per occupancy per day, such that if the room or rooms are rented more than once within a twenty-four (24) hour period, each time of occupancy shall be subject to the tax for such accommodations.

This tax applies and is collectible when the sale is made, regardless of the time when the price is paid or delivered. It shall be paid by the consumer to the operator or owner of the hotel or rooming house facility."

**Which was repealed by P.L. 19-09:4 to read:**

"§19650. Imposition. An excise tax is hereby levied and imposed which shall be assessed and collected monthly, against transient occupants of a room or rooms in a hotel, lodging house, or similar facility located in Guam according to the following schedule:

(a) from October 1, 1987 through March 31, 1988: the greater of ten percent (10%) of the rental price charged or paid for such accommodations;

(b) from April 1, 1988 through March 31, 1989 the greater of ten percent (10%) of the rental price charged or paid or nine dollars (\$9.00) per occupancy per day, such that if the room or rooms are rented more than once within a twenty-four (24) hour period, each time of occupancy shall be subject to the tax for such accommodation.

(c) from April 1, 1989 and thereafter the rate of ten percent (10%) of the rental price charged or paid or ten dollars (\$10.00) per occupancy per day, such that if the room or rooms are rented more than once within a twenty-four (24) hour period, each time of occupancy shall be subject to the tax for such accommodations."

**Subsection (c) of 11 Guam Code Annotated §30101 was repealed reenacted effective April 1, 1989 to read (P.L. 19-27:1):**

"(c) from April 1, 1989, and thereafter the rate of thirteen percent (13%) of the rental price charged or paid per occupancy per day, such that if the room or rooms are rented more than once within a twenty-four (24) hour period, each time of occupancy shall be subject to the tax for such accommodations.

This tax applies and is collectible when the sale is made, regardless of the time when the price is paid or delivered. It shall be paid by the consumer to the operator or owner of the hotel or rooming house facility."

Upon review and discussion with the Guam Visitors Bureau, government entities and industry players, the Legislature drafted Bill 588 and held a public hearing. Bill 588 was signed into P.L. 22-32 on September 27, 1993.

*"§30101. Imposition. An excise tax is hereby levied and imposed which shall be assessed and collected monthly, against transient occupants of a room or rooms in a hotel, lodging house, or similar facility located in Guam according to the following schedule:*

*(a) From September 1, 1993 through February 28, 1995, the rate shall be ten percent (10%) of the rental price charged or paid per occupancy per day;*

*(b) From March 1, 1995 and thereafter the rate shall be ten percent (10%) of the rental price charged or paid per occupancy per day on rooms rented at a rate of Ninety Dollars (\$90) per day or less, and thirteen percent (13%) of the rental price charged or paid per occupancy per day on rooms rented at a rate of greater than Ninety Dollars (\$90) per day.*

*Under subsection (a) and (b), if the room or rooms are rented more than once within a twenty-four (24) hour period, each time of occupancy shall be subject to the tax for such accommodations.*

*This tax applies and is collectible when the sale is made, regardless of the time when the price is paid or delivered. It shall be paid by the consumer to the operator or owner of the hotel or rooming house facility."*

*The Guam Visitors Bureau has been mandated by P.L. 22-32 "...to submit to the Governor, to the Speaker of the Legislature, and to the Chairpersons of the Committees on Ways and Means and Tourism & Transportation of the Legislature, no later than November 30, 1994, a report on the financial impact of the provision of paragraph (a) §30101, Title 11, Guam Code Annotated, as enacted in Section 2 of this Act, including in the report the effect such tax reduction has had on the visitor industry."*

## IMPACT OF PUBLIC LAW

In the past decade of the 80's Guam saw double digit growth in terms of visitor arrivals. The hotel industry enjoyed a continuous period of over 80% hotel occupancy levels and healthy market forces generated a construction boom from 1989 to 1992. This boom increased the room inventory from approximately 4,000 rooms in 1989 to the current inventory of almost 6,300-plus rooms.

Whilst this expansion was ongoing, there were 3 years of unforeseen circumstances that plateaued the anticipated growth in visitor arrivals. The year 1991, was witness to a slow down in tourism due to the Persian Gulf War. The years of 1992 and 1993 were impacted by natural disasters. (typhoons 1992, earthquake 1993).

The combined impact of the expansion and the loss of anticipated growth in visitor arrival number created serious economic problems for Guam's hotel industry. Slowly and steadily they saw an alarming deterioration of occupancy levels. By August of 1993 the occupancy rate has plummeted down to 47% and visitor arrivals that month totaled only 53,324. With the August earthquake of 1993 it was almost certain that the entire tourism industry was looking at very poor visitor arrivals in the short term and given this back drop the Guam's Legislature stepped forward to help the struggling industry.

### **Intent and Impact of Public Law 22-32**

The intent of the legislature in public law 22-32 was to assist Guam's struggling visitor industry through a temporary reduction in hotel occupancy tax to make hotel rooms more affordable, to encourage visitors to visit Guam and to enable the industry to get back on its feet.

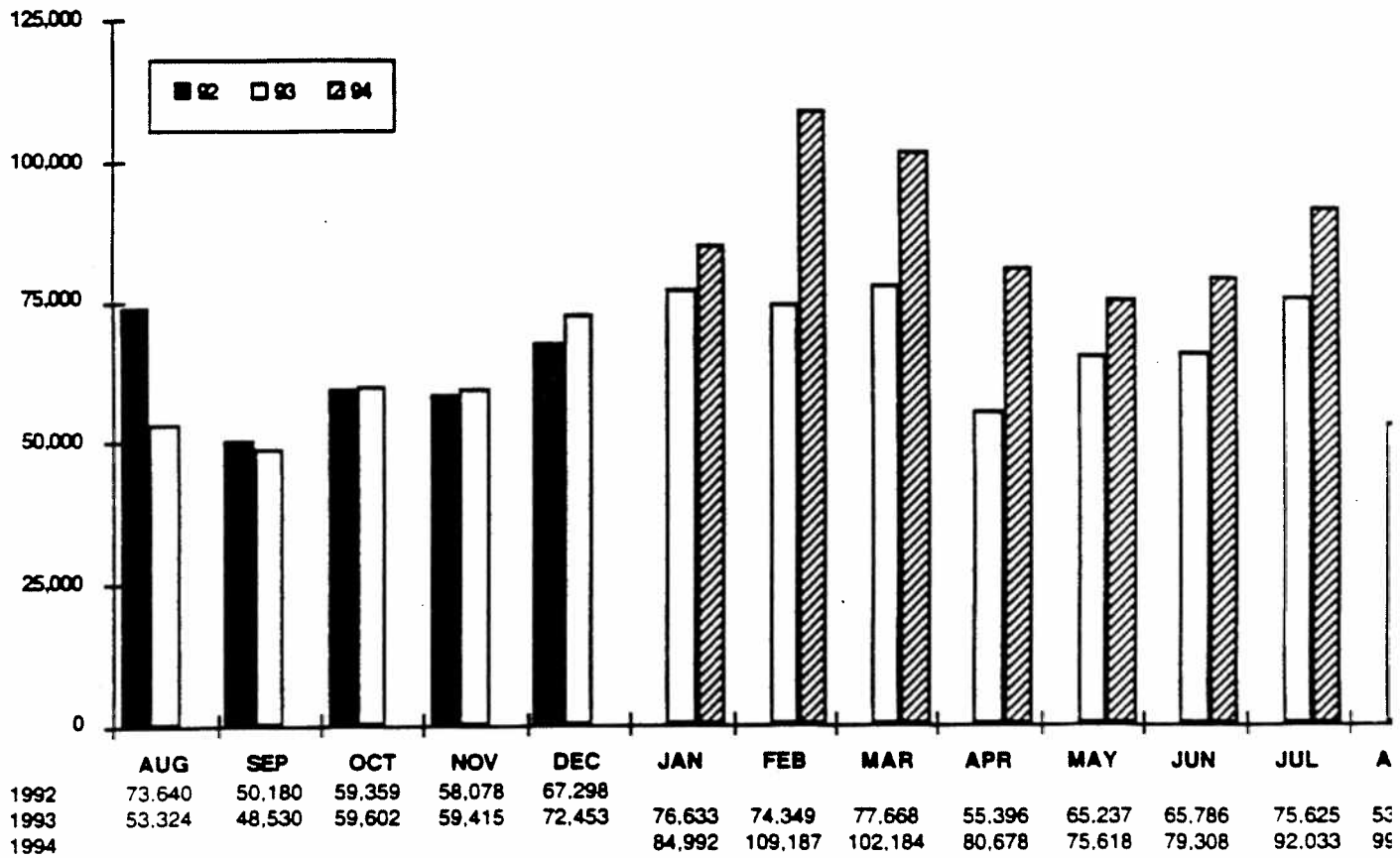
In a round table discussion on P.L. 22-32 held by the Bureau on October 22, 1993, representatives from the airlines industry, the hotel industry, optional tour industry, the retail industry and the tour package industry expressed that this law was a genuine effort on the part of the government to help the industry and that it had made the industry focus on its pricing (see Appendix C).

Public law 22-32, definitely has had a positive impact on the industry. Several other factors discussed below have worked in tandem with the law, to bring back visitors in record breaking numbers and have certainly brought the industry back on its feet.

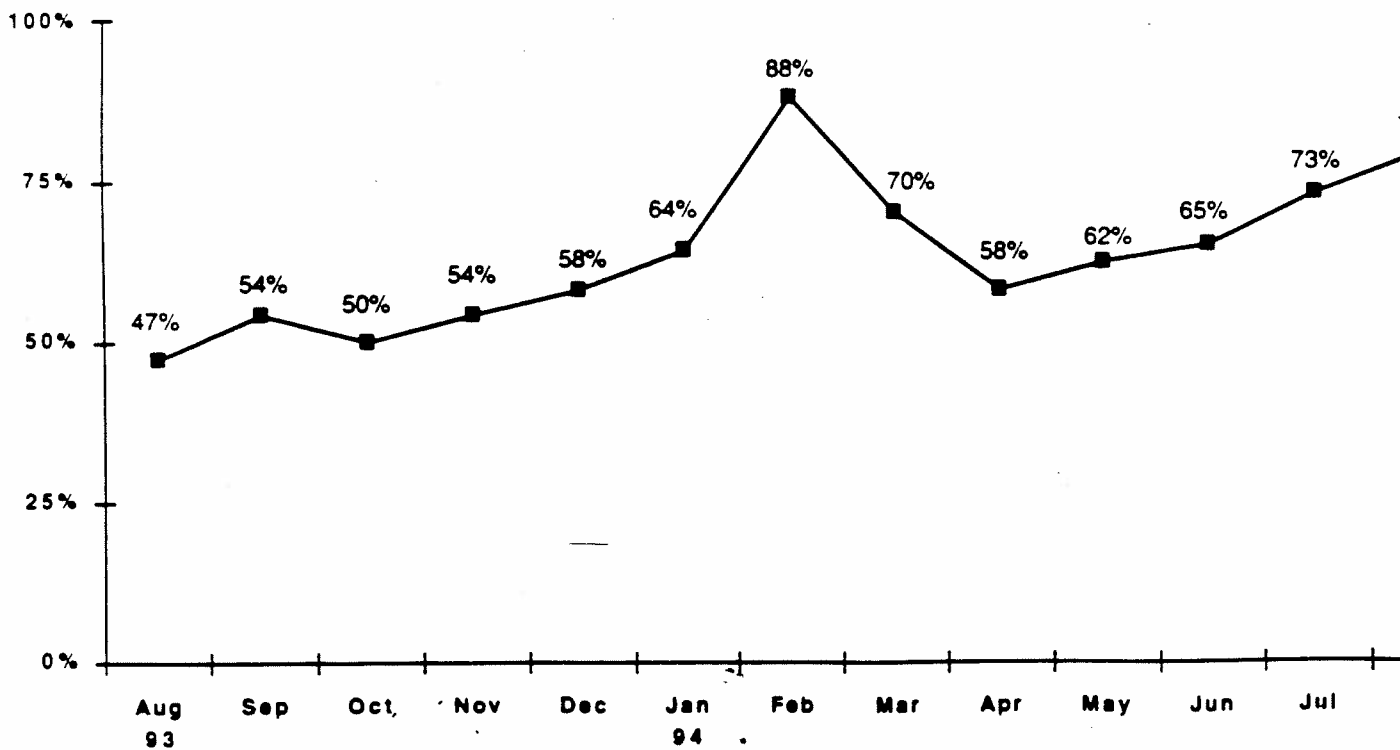
The other contributing factors are as follows:

- 1) The Industry focused on its overall pricing and coupled with the tax relief made visits to Guam more affordable.
- 2) In Japan (our primary market) in spite to the recession, the people expressed their desire to travel. Two factors, namely the appreciating value of the Yen and the change in the psychographic behavior of the Japanese which focused on "Value for Money" in their selection of vacation destinations, definitely translated in a surge of visitors coming to Guam.

**Chart 1: VISITOR ARRIVAL STATISTICS**



**Chart 2: HOTEL OCCUPANCY**



- 3) The Bureau's marketing efforts saw an effective recovery campaign, which wiped away the negative image that were the legacy of recent earthquake and typhoons.
- 4) The industry, the Bureau and the policy makers' aggressive push towards diversifying Guam's tourism base saw Guam reap a bountiful harvest of vacationers from emerging markets of Korea and Taiwan.

Charts 1 and 2 certainly quantifies and clearly shows that the P.L. 22-32 adequately has served its purpose. However there have been some major financial implications. The drop in hotel occupancy taxes in spite of the record breaking visitor arrivals, is projected to collect a maximum of only \$12M for the fiscal year period ending September 31, 1994. The Administration estimates that FY95 collections will only total \$15.4M. Based on these estimates one can understand that in the short term, we will have to tighten the belt and some ongoing programs funded by this revenue stream will have to be sacrificed. Also in the long term, we will lose the ability to put in place the tourism infrastructure and attractions which are vital to the continued success of this industry.

The financial implications of the less than adequate collection has prompted this report to look at some future options to fully explore the needs that this revenue stream must fulfill.

Since the policy makers have been wise to provide a correcting mechanism by mandating this report it is sincerely hope that this report will provide them adequate information to set the tax structure and tax rate that would meet the requirements of current and future funding needs.



## FUTURE OPTIONS

Given the fact that Public Law 22-32 has fulfilled its objective to assist Guam's struggling visitor industry and has enabled the industry get back on its feet, now the policy makers must focus their attention on the future.

As examined in the previous section Public Law 22-32 did have financial impacts on the ability of or enhance areas such as "**Product Improvement**" (Tumon/Island wide beautification, improvements of tourism infrastructure) and "**Marketing**". Even normal activities funded from the hotel occupancy taxes revenue stream such as Guam Community College funding and the Tourism infrastructure bond payments and the GVB budget have been adversely impacted.

Given the above, this report puts forth three future options for consideration, citing the obvious pros and cons for each of the options. The selection of the future option is a major policy decision and would impact Guam's ability to compete both short term and long term. The utmost thought and effort has been made to provide all the necessary information to enable the policy makers to make a well informed decision. For comparison purposes all collection projections are made for a fiscal year period of October 1, 1994 to September 30, 1995 (FY95). The collection projections presented in this report for the various options should not be viewed literally as the current law provides that the tax rate until February 28, 1995; shall remain a flat 10%. For comparative presentation purposes this report has made a theoretical assumption that the options presented below would have been in effect for the complete (normal) fiscal year period.

### OPTION 1: "The TWO TIER APPROACH"

Background: Per Public Law 22-32, "From March 1, 1995 and thereafter the rate shall be ten percent (10%) of the rental price charged or paid per occupancy per room rented at a rate of Ninety dollars per day (\$90.00) or less and thirteen percent (13%) of the rental price charged or paid per occupancy per day on the rooms rented at a rate of greater than Ninety dollars (\$90.00) per day.

Should the above law not be modified then the industry would automatically have to adhere to the above detailed provisions of the law.

Financial Implications of this option: **Collection projection based on the two tier approach mandated by the law, for an assumed normal fiscal year period 1995 (October 1, 1994 to September 30, 1995) would be \$16,712,246 .**

Note: The above projection is based on the following:

- (i) GVB/GHRA estimate, that 55% of Guam's current hotel room inventory is sold at or less than \$90.00 per room and 45% of the inventory is sold at prices greater than \$90.00 per room.
- (ii) The visitor arrival projections for FY95 are estimated by the Bureau to be 1,080,000 visitors.

- (iii) Hotel Occupancy tax collections at 10% tax rate and 13% tax rate are calculated to be \$11.87 per visitor and \$19.88 per visitor respectively based on a time series forecasting model (see Appendix A, Forecasting Methodology and Calculations).

**On the expenditure side, based on FY94 projected (not actual), normal expenditure patterns, the FY95 expenditure projections, is \$16.9M.**

The above projection is determined as follows:

FY94 projected anticipated expenses = \$16.1M (which are based on the historical expenditure patterns released by an Administration official in October 1994, which include the GVB budget, bond obligation and anticipated GCC funding); Multiplied by a +5% adjustment factor. The adjustment factor takes into account the substantial portions of expenditures which need to be annual adjusted for inflation, yen appreciation and anticipated nominal increases in personnel payroll costs.

It is very important to remember that all these anticipated normal expenditure patterns have been adjusted by the policy makers when shaping the real FY95 budget based on the fiscal realities of lower collections. However, for analytical purposes it is necessary to consider that if all normal programs had been kept intact at their status quo levels of activity, the collection projections have been short of the anticipated expenditures from this revenue stream.

#### PROS

- 1) This approach will provide incentive to the industry to price their room at, or below \$90 a day. This would benefit the visitors and entice them to visit Guam v/s our competitors. All three of our core markets namely Japan, Korea and Taiwan have been very responsive to the concept of "Value for Money" and this approach would certainly contribute towards sustaining and growing our accomplishments in terms of visitor arrival numbers. However, one must think also about the flip side that some of the newly constructed hotels carry a sizable debt burden may not be able to maintain profitable margins and compete based on prices alone; as their break-even point would not sustain such a strategy.
- 2) This option would provide us (with a little bit of belt tightening, which has already been accomplished) almost all the funding needed for status quo levels of activities funded by this revenue stream.

#### CONS

- 1) The hotel industry would be subject to a nightmare of accounting problems. They would need to track the taxes they need to collect very closely as the rooms are sold at different rates (package prices versus rack rates) on a daily basis.
- 2) This option will not generate the funding required to bring to life the much needed potential attractions and tourism infrastructure and services that are sorely needed to meet the needs and expectations of the growing numbers of visitors that come to our beautiful island. Given the collection limit, policy makers should examine very closely as to what programs and projects are needed and surely some very worthwhile programs may need to be sacrificed.

- 3) Some tourism industry members (Appendix C) consider this option as potentially discriminatory and this issue may need to be examined closely.
- 4) Guam is geographically located in a potential typhoon zone. One must remember the consequences of the typhoons of 1992 and the earthquake of 1993. In the past, we have recovered well by resorting to recovery campaigns to rebuild our image using high profile and aggressive Marketing "Recovery Campaigns". These campaigns cost a lot and this option probably cannot contribute any surplus funds which could be tapped in cases of such emergencies. This crucial requirement must be remembered now and the appropriate fail-safe mechanism be put in place to ensure that we will have the ability to meet all such future challenges.

### OPTION 2: "The FLAT TAX APPROACH"

Background: An alternate approach to the two tier approach is the flat tax approach. Historically, we have seen this type of approach used universally with some exceptions. The critical factor is the determination of the tax rate which would be considered adequate to meet all the projected expenses, and at the same time not add too much towards the total vacation cost, a visitor would consider prohibitive, as compared to our competitors. Chart 3 shows the projected collection at various tax rates. Below are presented 2 viable options for the policy makers consideration.

#### Option "A": Flat tax rate at 11.5%

Financial Implications for this option: *At this rate of taxation the projected collections are estimated at \$17,150,400.*

**Projected expenditure estimates** given normal historically spending patterns as discussed in Option 1 is **\$16.9M.**

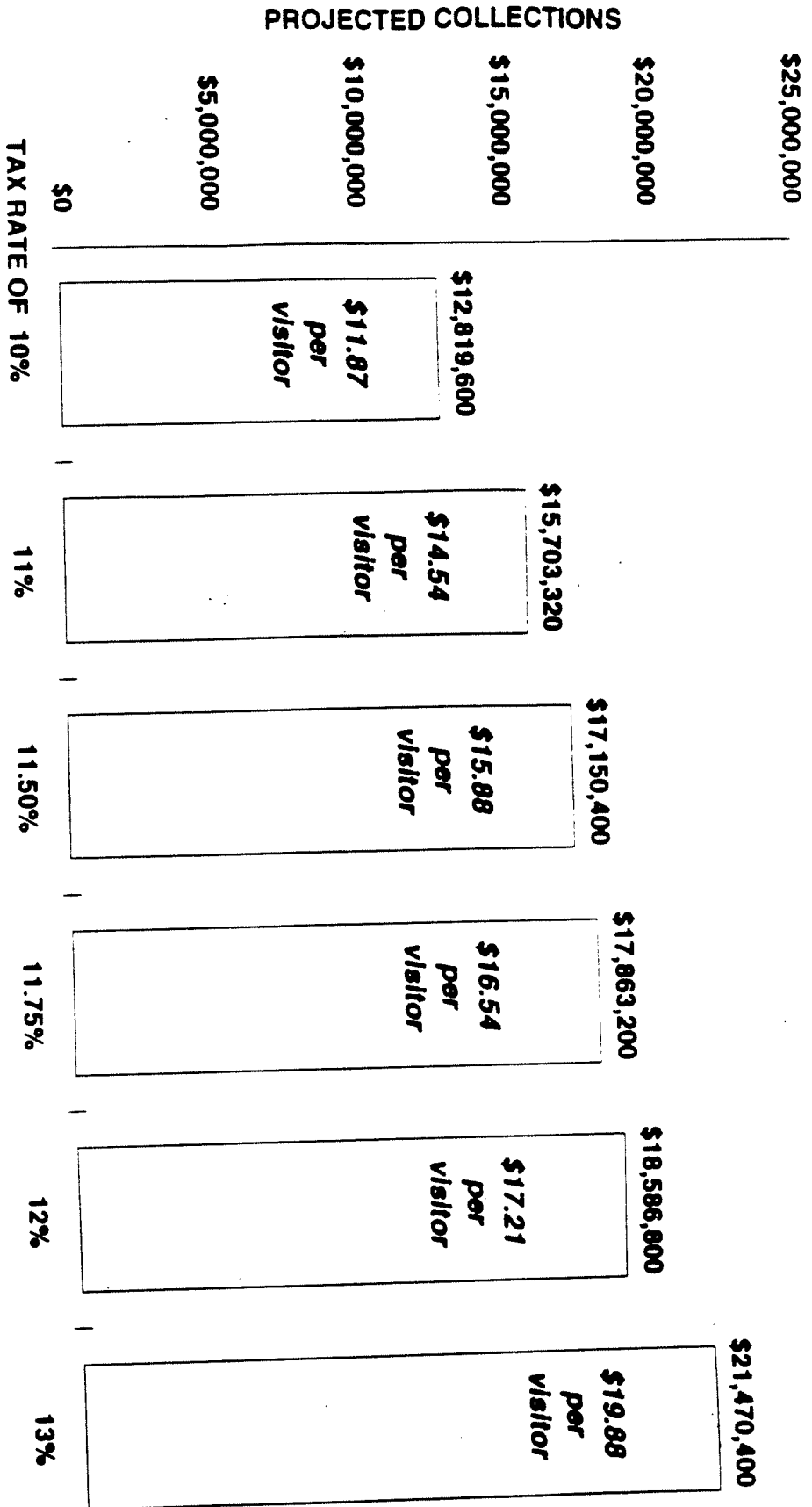
#### PROS:

- 1) Very easy to implement by the hotel industry.
- 2) Adequately meets the status quo levels of normal activities funded by this revenue stream.
- 3) With reprogramming, better utilization of the funding and belt tightening funds may be made available for may be a couple of new projects that need to be executed to help alleviate the needs to service our ever increasing numbers of visitors.
- 4) This is potentially non-discriminatory.

#### CONS:

- 1) This option will not generate the funding required to bring to life many of the much needed potential attractions and tourism infrastructure and services that are sorely needed to meet the needs & expectation of our growing numbers of visitors. Given the collection limit, policy makers would need to examine very closely as to which programs and projects are needed and prioritize them. However, it is inevitable that either some very worthwhile programs may need to be sacrificed or put on indefinite hold.

Chart 3: PROJECTED COLLECTIONS AND INDICATORS



NOTES:

- 1) Hotel occupancy taxes collected per visitor is a statistically derived number. (Refer to Appendix A, Forecasting Methodology and Calculations for details.)
- 2) Projected collections are a function of the tax rate, statistically derived hotel occupancy tax collection per visitor and GVB estimate of FY95 arrivals.

**Option 'B': Flat tax rate 13%**

**Financial Implications for this option:** *At this rate of taxation the projected collections are estimated at \$21,470,400.* As discussed earlier **the expenditures at status quo levels of normal patterns of expenses are estimated at \$16.9M.** This option will provide us with a potential surplus of approximately \$4.5M per fiscal year period.

**PROS**

- 1) This option will generate the funding required to bring to life the much needed potential attractions and tourism services ( see appendix "D") that are absolutely needed to meet the needs and expectations of the growing numbers of visitors that come to Guam. The Bureau would like to highlight that any attempt to mandate this tax rate must also lock in the use of the surplus funds towards the following areas in the order of priority indicated below.

- Tumon Beautification ..... Priority # 1
- Tourism Infrastructure ..... Priority # 2
- Marketing. .... Priority # 3

The reason for priorities one and two is self evident however the importance of the third priority, though obvious, still needs to be understood in two different contexts: 1) Surplus funds must be available to launch **recovery campaigns** in case of downturns due to natural disasters and other events such as recessions or regional wars. 2) Guam, over a period of time has acquired a sizable inventory of hotel rooms. All indicators point to this inventory increasing even more. If Guam seeks to maintain adequate occupancy levels it will have to maintain and keep increasing it's the noise level, as needed, to attract more and more numbers of visitors to our island. The Bureau's research studies have indicated that our current noise level in our core market of Japan is at approximately 2500 GRPs (gross rated points) and the optimum level of the noise threshold in that market is approximately 5000 GRPs. (Beyond which is the area of diminishing returns.)

With the above in mind Marketing should be allowed to tap into the surplus funds to do what it takes to keep our tourism industry healthy.

- 2) The community tax base is currently stretched to the limit. Realistically this option is the only way to raise the funds necessary to accomplish the improvements needed to service the visitors. By raising the money through this mechanism, to provide the visitors a safe and enjoyable vacation, would be a service to them. Failure to do that would be considered very shortsighted and would potentially jeopardize Guam's future as a vacation destination.

**CONS:**

1) It could be argued that the adoption of this tax rate would raise the cost of a vacation on Guam making us less attractive to potential visitors. However given the fact that hotel rates are going upwards and both these nominal increases would be more that offset by the appreciation of the Yen, the argument could be made either way.

**OTHER OPTIONS**

Finally on the flat tax there are other options that may be deemed viable such as 11.75% or 12% tax rate. Please refer to Chart 3 for more details. Independent examination of the other tax rates by the policy makers, to find the tax rate best suited to accomplish the funding of all current and future projects/programs deemed appropriate, is encouraged.

## RECOMMENDATIONS

### Recommendation from the Research Manager :

Provided in this report is all the necessary information to enable policy makers to make a well informed decision on the level and structure of the hotel occupancy tax.

A major shortcoming is the inability to quantify all the future programs/projects that are considered extremely important by the policy makers. Different bodies such as the Bureau, the Guam Hotel & Restaurant Association, Guam's Community at large, the Legislature and the Administration, each one may independently assign importance to one or the other project. Hence, each one may independently conclude as to which rate of taxation is the best suited to meet all the envisioned funding needs.

Hence, my best recommendation is from the Bureau's stand point to look at all the programs that are current and ongoing, scrutinize all the projects/programs that have been mandated but not yet been funded, review potential new programs and projects on the horizon, and then try to most responsibly select the tax rate that would meet or exceed the funding requirements from this revenue stream.

On another related issue, I would like to remind you that it is in the best interests of the industry that the Legislature consider setting April 1, 1995 instead of March 1, 1995, as the effective date of which ever future option it chooses to mandate as law.

### Recommendation of the Board of Directors to the Guam Legislature.

At the Board of Directors meeting on October 28, 1994, the following was recommended by the Board:

- ... The GVB Board of Directors endorsed a single tier tax structure and recommended the tax rate of 11.5%, as detailed below.
- ... The board recommended 11% of the Hotel occupancy tax to fund the following:
  - ... GVB budget
  - ... Tourism Infrastructure bond obligation
  - ... Financial commitment to support the Guam Community College tourism program
  - ... Beach cleaning

and the balance 0.5% Hotel occupancy tax proceeds be directed into a special Tourism Revolving Account to be maintained by the Bureau, with all spending subject to the approval of GVB Board of Directors. The board further

recommended that the use of the funds in this account shall be restricted as follows :

... **"PRODUCT IMPROVEMENT"**

**Examples: Major sightseeing spots and beautification projects. Note :This category is the primary intended recipient of these funds.**

... **"RECOVERY CAMPAIGNS" (in case of emergencies such as natural disasters.)**

... **The two tier approach was unanimously rejected by the board as impractical and cost prohibitive for the industry to implement, with a single tier tax strongly endorsed**

**Recommendation of GHRA:**

**Preliminary indications**

Option 1:	Strongly opposed
Option 2A:	Strong support
Option 2B:	Opposed

Please refer to appendix "E" for more details.



## **APPENDIX A**

### **Forecasting Methodology and Calculations**

## FORECASTING METHODOLOGY AND CALCULATIONS

Predicting the future is a good job for fortune tellers. Forecasting economic activity is similar. Usually it is easy to predict, with some certainty, the results of the next month or the next year with reasonable accuracy however long term forecasting is a little more difficult.

With the objective in mind to provide accurate scenario's, that would result as a consequence of the different options presented in this report, a lot of thought and effort has gone towards constructing a time-series analytical forecasting model. It is sincerely hoped that all results in this report will withstand the acid test of time.

### CALCULATIONS

All calculations are based on the following:

- 1) The base year for data used for all forecasting purposes is FY94.
- 2) Hotel rates in this time period are assumed to be at their historical lows.
- 4) Visitor Arrival estimates for FY95 is calculated as follows:  
CY94 projection = 1,000,000 (GVB high estimate)  
CY95 projection = 1,120,000 (GVB high estimate)  
Since 4 months of CY94 visitor arrivals and 8 months of CY95 visitor arrivals will be the base for all FY95 tax year collections  
FY95 visitor arrivals for all calculation purposes is equal to:  
 $1,000,000 / 12 \times 4 \text{ months} + 1,120,000 / 12 \times 8 \text{ months} = 1,080,000$   
**FY95 Projected Visitor Arrival = 1,080,000**
- 3) All projections are based on a hotel occupancy tax collection per pax as follows:
  - (i) Hotel Occupancy Tax collection per pax at 10% tax rate:
    - Time Period: October 1993 to July 1994
    - Total Actual Tax Collections during the above tax period = \$9,883,778
    - Total Visitors Arrivals from the September 1993 to June 1993\* = 828,291
    - \* Note: Visitor Arrivals totals need to be adjusted as taxes collected always reflect the previous months occupancy**Hotel Occupancy Tax collected per pax at 10% tax rate (FY94) = \$11.87**
  - (ii) Hotel Occupancy Tax collections per pax at 13% tax rate:  
In Fiscal Year 1994 at no time the tax was 13% hence, a hypothetical number has been derived as using historical Hotel Occupancy tax information as follows:
    - Total FY91 Hotel Occupancy Tax collection = \$15,443,343
    - Total Visitor Arrivals from September 1990 to August 1991\* = 726,548

\* Note Visitor Arrivals totals need to be adjusted as taxes collected always reflect the previous months occupancy  
 - Hotel Occupancy Tax collected per pax at 13% Tax Rate (FY91) = \$21.26

- Total FY92 Hotel Occupancy Tax Collections = \$19,130,293  
 - Total Visitor Arrivals from September 1991 to August 1992\* = 908,793  
 \* Note Visitor Arrivals totals need to be adjusted as taxes collected always reflect the previous months occupancy  
 - Hotel Occupancy Tax collected per pax at 13% Tax Rate (FY92) = \$21.05

- Total FY93 Hotel Occupancy Tax collections = \$15,758,350  
 - Total Visitor Arrivals from September 1992 to August 1993\* = 774,139  
 \* Note Visitor Arrivals totals need to be adjusted as taxes collected always reflect the previous months occupancy  
 - Hotel Occupancy Tax collected per pax at 13% Tax Rate (FY93) = \$20.36

Examining the above derived Hotel Occupancy Tax per pax number there is a cumulative trend of an annual 2.2% decline. Note there are multiple factors that are drivers of this downward trend namely hotel room rates, occupancy densities and psychographic changes in the visitors attitude and accommodation patterns. All indicators point that this decline realistically would have intensified or at the least remain of status quo during FY94 given the fact that a global recession and the visitors shift towards a value for money attitude occurred during FY94 time period.

Given the above, the projected Hotel Occupancy Tax collection per pax at the rate of 13% for FY '94 is estimated at \$19.88\*

\* Note: This number reflects a 2.2% decline per annum from FY91 to FY94.

(iii) From (i) we have the value of tax per pax at 10% = 11.87 and from (ii) we have the value of tax per pax at 13% = 19.88

The Hotel Occupancy Tax at 11.5% is calculated as follows:

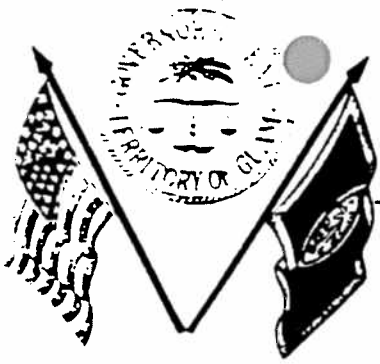
$y = mx + c$                       where       $y =$  Tax collection per pax  
 $m = 2.67$  (statistically derived constant)  
 $c = 11.87$  (statistically derived constant)  
 $n = 0$  for 10% tax rate  
 $n = 1.5$  for 11.5% tax rate  
 $n = 3$  for 13% tax rate

hence if  $n = 1.5$                        $y = 2.67 \times 1.5 + 11.87 = 15.88$   
 similarly if  $n=3$                        $y = 2.67 \times 3 + 11.87 = 19.88$

Hence the projected Hotel Occupancy Tax collection per pax at the rate of 11.5% and 13% is estimated at \$15.88 and 19.88 respectively.

**APPENDIX B**

**P. L. 22-32**



*Territory of Guam*  
*Territorio de Guam*

OFFICE OF THE GOVERNOR  
PUNAN I MAGA LAHE  
AGANA GUAM 96910

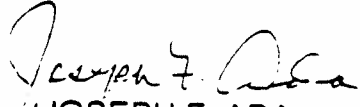
SEP 27 1993

The Honorable Joe T. San Agustin  
Speaker, Twenty-Second Guam Legislature  
155 Hesler Street  
Agana, Guam 96910

Dear Mr. Speaker:

Transmitted herewith is Bill No. 588 which I have signed into law this date as  
Public Law 22-32.

Sincerely yours,

  
JOSEPH F. ADA  
Governor of Guam

Attachment



TWENTY-SECOND GUAM LEGISLATURE  
1993 (FIRST) Regular Session

Bill No. 588 (LS)

As substituted by the Committee on  
Ways & Means and the Committee  
on Tourism & Transportation and as  
further substituted by the Committee  
on Rules

Introduced by:

J. P. Aguon  
J. T. San Agustin  
C. T. C. Gutierrez  

---

J. G. Bamba  
T. S. Nelson  
T. C. Ada  
E. P. Arriola  
M. Z. Bordallo  
H. D. Dierking  
P. C. Lujan  
V. C. Pangelinan  
E. D. Reyes  
D. L. G. Shimizu  
A. C. Blaz  
D. F. Brooks  
F. P. Camacho  
M. D. A. Manibusan  
D. Parkinson  
T. V. C. Tanaka  
A. R. Unpingco

AN ACT TO AMEND §30101 OF TITLE 11, GUAM CODE ANNOTATED, TO TEMPORARILY ENACT A LOWER HOTEL OCCUPANCY TAX TO ASSIST IN THE RECOVERY OF THE GUAM VISITOR INDUSTRY; TO IMPLEMENT A GRADUATED HOTEL OCCUPANCY TAX THEREAFTER; TO REQUIRE THE GUAM VISITORS BUREAU TO REPORT ON THE PROGRESS OF THE INDUSTRY; AND TO ALLOW THE BUREAU TO UTILIZE UNENCUMBERED AND UNEXPENDED FUNDS, INCLUDING THE AMOUNT OF

REDUCTION MANDATED BY PUBLIC LAW 22-08, FOR  
EMERGENCY PURPOSES.

1 BE IT ENACTED BY THE PEOPLE OF THE TERRITORY OF GUAM

2 Section 1. Legislative findings and intent. The Legislature finds th  
3 the massive earthquake of August 8, 1993, has created problems with  
4 Guam's critically important visitor industry, reducing the number of visito  
5 choosing to come to Guam and also reducing the ability of industry business  
6 to survive. The Legislature further finds that the earthquake follows a ser  
7 of setbacks suffered by the industry, including the Gulf War, an econom  
8 recession in Japan, a number of devastating typhoons, and recurring pow  
9 generation problems. Additionally, the Legislature finds that Guam has be  
10 competing with numerous other destinations for visitors who have becom  
11 very price conscious. The high rate of Guam's Hotel Occupancy Tax  
12 combined with the high average cost of Guam's hotel rooms, may be having  
13 negative effect on the overall pricing of Guam as a destination, the high  
14 rates making Guam less competitive and therefore attracting fewer visitors

15 It is therefore the intent of the Legislature to assist in the recovery  
16 Guam's struggling visitor industry through a temporary reduction in th  
17 Hotel Occupancy Tax to make rooms more affordable, to help encourag  
18 visitors to visit Guam, and to enable the industry to get back on its feet. It  
19 additionally the intent of the Legislature to convert the Hotel Occupancy Tax  
20 to a graduated tax to insure that collections meet the minimum amount  
21 necessary to fund the debt service of the infrastructure bonds, the annu  
22 budget of the Guam Visitors Bureau ("GVB"), the annual budget of the Guam  
23 Community College's tourism training unit, and a reasonable surplus to  
24 provide the government of Guam the opportunity to pursue visitor industry  
25 related projects. GVB shall be required to submit a report on the condition c

1 the industry and the effects of the tax reduction so that a determination ca  
2 be made by the Legislature regarding possible rescission of the conversion  
3 a graduated tax, or keeping it at a level of ten percent (10%).

4 Section 2. §30101 of Title 11, Guam Code Annotated, is amended  
5 read:

6 "§30101. Imposition. An excise tax is hereby levied and imposed  
7 which shall be assessed and collected monthly, against transient occupants  
8 of a room or rooms in a hotel, lodging house, or similar facility located in  
9 Guam according to the following schedule:

10 (a) From September 1, 1993 through February 28, 1995, the rate shall  
11 be ten percent (10%) of the rental price charged or paid per occupancy per  
12 day;

13 (b) From March 1, 1995 and thereafter the rate shall be ten percent  
14 (10%) of the rental price charged or paid per occupancy per day on rooms  
15 rented at a rate of Ninety Dollars (\$90) per day or less, and thirteen  
16 percent (13%) of the rental price charged or paid per occupancy per day on  
17 rooms rented at a rate of greater than Ninety Dollars (\$90) per day.

18 Under subsections (a) and (b), if the room or rooms are rented more  
19 than once within a twenty-four (24) hour period, each time of occupancy  
20 shall be subject to the tax for such accommodations.

21 This tax applies and is collectible when the sale is made, regardless  
22 of the time when the price is paid or delivered. It shall be paid by the  
23 consumer to the operator or owner of the hotel or rooming house facility."

24 Section 3. GVB report on financial impact of tax reduction. GVB sh  
25 submit to the Governor, to the Speaker of the Legislature, and to t  
26 Chairpersons of the Committees on Ways & Means and Tourism  
27 Transportation of the Legislature, no later than November 30, 1994, a rep



1 on the financial impact of the provisions of paragraph (a) of §30101, Title 1  
2 Guam Code Annotated, as enacted in Section 2 of this Act, including in the  
3 report the effect such tax reduction has had on the visitor industry.

4       **Section 4. Emergency funds.** Notwithstanding any other provision  
5 law, the board of directors of GVB may utilize as the board deems necessary  
6 for emergency purposes unencumbered and unexpended funds from GVB's  
7 fiscal year 1993 budget appropriation, including the sum reduced through the  
8 provisions of Section 1 (b) of Public Law 22-08; provided, however, that the  
9 board shall submit to the Governor and the Legislature a report detailing  
10 how such emergency funds were expended within thirty (30) days after the  
11 expenditure.

**APPENDIX C**

**Minutes of the Roundtable Discussion  
on P. L. 22-32  
October 22, 1993**

**MINUTES - ROUND TABLE DISCUSSION ON P. L. 22-32**  
**Friday, October 22, 1993, 3:30 PM**  
**GVB Conference Room**  
**Page 1**

**PRESENT:** Joey B. Cepeda, Mike Carlson, Hanif Nensey (GVB), Lennie Anderson (Northwest Airlines), Manfred Peiper (GHRA), Hideo Kobayashi, Mikio Maruyama, Norio Nakajima (JGTA), George Johnson (Wildwest Gun Club), Masaru Komatsu (Sand Castle), Martin Zialcita (DFS), John DeNorcey (DOA), Paul Leon Guerrero (BBMR)

Observing: Jack Guerrero (representing The Honorable Senator J. P. Aguon), Anna Ulloa and Amanda Sanchez (representing The Honorable Senator J. George Bamba), Jim Matanane (Saipan), Debi Phillips (GVB Research Department).

### **CALL TO ORDER**

Mr. Cepeda called the meeting to order at 3:40 PM.

Introductions were made along with a brief explanation of P. L. 22-32 and what is expected from the GVB (Sections 1 & 3).

### **OVERVIEW**

General consensus was the P. L. 22-32 was very welcome and deeply appreciated, however, the graduated tax is too difficult administratively for everyone concerned - hotel, tour operators, airlines. The 18 month period was not enough time to know what the effects are of the reduction in tax.

It was agreed that from these discussions, a report will be submitted to the Guam Legislature reflecting the impact of the tax reduction and also recommendations from various industry representatives.

Expert opinions by the following were presented:

#### **AIRLINE INDUSTRY REPRESENTED BY:**

##### **Lennie Anderson, Northwest Airlines**

No distinct position at this time but recommended historical data collection for hotel rates and airline rates so that trends and projections can be reviewed. Mr. Anderson also stated that although the public law was a genuine effort to improve the visitor industry, it could be potentially discriminatory. He said that he would be in favor of even doubling the tax if the revenues generated could be channeled into increasing (doubling) the visitor arrivals. His assessment of Guam's current lagging in visitor arrivals was due to an image problem. Mr. Anderson stated that 3.5 million Japanese travel to Okinawa and that Guam should try to attract some of those domestic travelers since Guam and Okinawa are similar in weather, activities, etc.

**HOTEL INDUSTRY REPRESENTED BY:**

**Manfred Peiper, GHRA**

Mr. Peiper stated that the legislation was welcome and sees it as a component of a bigger picture. However, he brought up the following points: a) Eighteen months would not be long enough and that April 1994 is probably when we will feel the first effect. Mr. Peiper inquired about the 3% and who would get it. b) Need to improve image. c) Intent of two tier approach is good but would create accounting problems. d) Rooms rates need to be more than \$90 in order to cover operating expense to meet payroll (service) and capital debt service. Cannot lower rates any more. e) If not a 10% tax across the board than a higher tax is acceptable to GHRA (11 or 11.5%). f) 3% could be used by JGTA for special promotions.

**OPTIONAL TOURS REPRESENTED BY:**

**George Johnson, Wildwest Gun Club (optional tour)**

Supports 3% to go to tour packagers. Optional tour industry will try to open new optional tours. (see Attachment).

**Warren Pelletier, Ocean Jet Club**

Mr. Pelletier was unable to attend the meeting, however, views were submitted via facsimile. (see Attachment)

**Masaru Komatsu, Sand Castle**

Need more infrastructure. Guam is considered by many Japanese as a vacation destination that is cheap (inexpensive), close and the travel time is short. Suggested linking these 3 vital features with other features like safety in the Japanese psyche to enhance Guam as a destination for Japanese outbound (see Attachment)

**RETAIL INDUSTRY REPRESENTED BY:**

**Martin Zialcita, Duty Free Shoppers, Ltd.**

P. L. 22-32 has made us look into pricing, which is good. Mr. Zialcita felt that the legislation would create a partnership between the industry and government. Nightmare with two tier approach, prefers one flat rate.

**TOUR PACKAGE INDUSTRY REPRESENTED BY:**

**Hideo Kobayashi, JGTA**

Legislation is welcome and complimented the first step taken by the Government of Guam and is looking for the airlines and GHRA to take the second step. Inquired as to why the hotel occupancy taxes were raised from 10% to 13% in the past. Stated that eighteen months was not long enough. Cannot lower prices of packages already sold (6 month lock in). Refunding the difference would be difficult and costly. For the record, does not like two tier approach.

**GOVERNMENT OF GUAM REPRESENTED BY:**

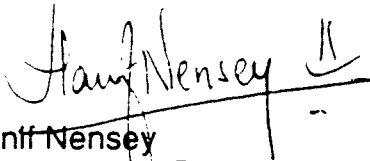
**John DeNorcey, Department of Administration**

P. L. 22-32 was done in good faith in an effort to help the industry but it was a bad decision. Mr. DeNorcey opposed the new rate because it was a reduction in tax revenue and that it would not benefit the industry. Provided a breakdown of what the TAF is spent on (prioritized). Projected a \$4.5M deficit for FY1994 and a projected overall \$14M deficiency due to the tax reduction. Mentioned that there was a \$22M fund balance consisting of funds committed to projects previously appropriated, including the GVB building.

**Paul Leon Guerrero, BBMR**

Would provide a breakdown of how the TAF is actually spent (GVB budget, the debt service, listing of bond projects - status). Mentioned that there was a sizable amount of money in the TAF but The Honorable enator Aguon has resisted requests made by the other senators to use the fund for other purposes.

Respectfully Submitted,



Hanff Nensey  
Administrator, Research & Evaluation

**APPENDIX D**

**Schedule of Programs  
Funded by the  
Tourst Attraction Fund**

**Tourist Attraction Fund**  
**Schedule of Appropriation, Expenditures**  
**and Encumbrances by Agency**  
**July 31, 1994**

Appropriation Account Number	Public Law Number	Program Name	Agency
* 5 208 C0 0200 AP017	20-121	Aviation Policy Task	Governor's Office
<b>Sub-Total</b>			<b>Governor's Office</b>
** 5 208 A1 0880 IB091	BBMF	Accounting Fees	Administration
** 5 208 A2 0880 IB091	BBMF	Accounting Fees	Administration
** 5 208 A3 0880 IB091	BBMF	Accounting Fees	Administration
** 5 208 A4 0880 CI020	BBMF	Accounting Fees	Administration
* 5 208 A4 0880 IB091	BBMF	Accounting Fees	Administration
<b>Sub-Total</b>			<b>Administration</b>
5 208 C1 1010 CI881	21-002	Signal Lights - San Vitores Road	Public Works
5 208 D3 1010 CI870	18-113	Pavillion Pago Bay	Public Works
5 208 D3 1010 CI897	18-120	Street Lights - San Vitores	Public Works
5 208 D4 1010 CI808	22-058	Street Lighting - San Vitores	Public Works
5 208 D4 1010 CI807	22-058	Street Lighting - Route 8 to 81	Public Works
5 208 D4 1010 CI808	22-058	Traffic Signals - Fujita	Public Works
5 208 D4 1010 CI808	22-058	Traffic Signals - Route 1 / 8	Public Works
5 208 D4 1010 CI810	22-058	Traffic Signals - Route 2	Public Works
5 208 D7 1010 CI801	19-027	Const - Artificial Reef	Public Works
5 208 D7 1010 CI802	19-005	Const - Fish Aggreg Dev	Public Works
5 208 C9 1023 MO801	20-038	Maintenance & Operation	Public Works
5 208 D3 1098 CI880	18-113	Pago Bay Road / Street Lights	Public Works
<b>Sub-Total</b>			<b>Public Works</b>
* 5 208 C3 1810 CT002	21-138	Plant Mtl/Ahpaio/Paho	Agriculture
<b>Sub-Total</b>			<b>Agriculture</b>
5 208 C9 1911 TE012	19-030	Tourist Education	DOE
<b>Sub-Total</b>			<b>Education</b>
* 5 208 C1 2500 PB003		Install Buoys w/Red Flags	Parks & Recreation
* * 5 208 C1 2500 WS002		Beach Multi-Lingual Warning Signs	Parks & Recreation
5 208 D2 2500 CI800	18-105	2 Picnic Shelter, Piti	Parks & Recreation
5 208 C3 2510 AP009	22-029	Design/Const Agana Tennis Court Office	Parks & Recreation
* 5 208 C3 2510 AT010	22-029	Portable Bleachers - Agana	Parks & Recreation
** 5 208 A3 2520 MS028	21-138	Memorial Service	Parks & Recreation
** 5 208 A3 2520 PM010	21-138	Parks Maintenance	Parks & Recreation
5 208 A3 2520 PP008	21-138	Parks Protection	Parks & Recreation
5 208 A4 2520 PM010	22-041	Parks Maintenance	Parks & Recreation
5 208 A4 2520 PP008	22-041	Parks Protection	Parks & Recreation
5 208 C0 2520 FA873	20-037	Tumon Beach Maintenance	Parks & Recreation
* 5 208 D0 2520 CI851	20-083	Improvements - Ypao Beach Park	Parks & Recreation
5 208 C3 2582 CT512	18-008	Committee on Tourism to Legislature	Parks & Recreation
5 208 C5 2582 CT513	18-008	Committee on Tourism to Public Works	Parks & Recreation
5 208 C5 2582 CT514	18-008	Tumon Bay Cleaning	Parks & Recreation
5 208 C5 2582 CT518	18-008	Dredging Tumon Bay	Parks & Recreation
5 208 C5 2582 CT520	18-008	Restroom Facilities - Merizo	Parks & Recreation
5 208 C9 2582 SL002	14-153	U O G Scholarship / Stud	Parks & Recreation
5 208 D0 2582 CI830	15-132	Tumon Bay Master Plan	Parks & Recreation
5 208 D0 2582 CI840	15-135	Tumon Beach Improv	Parks & Recreation
5 208 D0 2582 CI850	15-141	Rest Old Governor's Palace	Parks & Recreation
5 208 D2 2582 CI870	18-082	Renov Inarajan Pool	Parks & Recreation
5 208 D3 2582 CI815	18-120	Sentry Post / Arsenal - Umatac	Parks & Recreation
5 208 D7 2582 CI873	19-005	Renov / Repair Village	Parks & Recreation
5 208 D9 2582 CI802	19-049	Baseball Field - Agana	Parks & Recreation
* 5 208 A3 2586 PA002	21-138	Parks Administration	Parks & Recreation
* 5 208 A4 2586 PA002	22-041	Parks Administration	Parks & Recreation
<b>Sub-Total</b>			<b>Parks &amp; Recreation</b>

\*DOA Division of Accounts

\*\*Based on average 1/94 to 8/94 collections

Schedule of Appropriation, Expenditures  
and Encumbrances by Agency  
July 31, 1994

Appropriation Account Number	Public Law Number	Program Name	Agency
* 5 208 D9 2800 CI801	19-042	Const - Yigo Comm Cent	Mayor's Council
* 5 208 C9 2801 IB002	20-082	Agana Beautification	Mayor's Council
* 5 208 C9 2802 IB002	20-082	Agana Heights Beautification	Mayor's Council
* 5 208 C9 2803 IB002	20-082	Agat Beautification	Mayor's Council
* 5 208 C9 2804 IB002	20-082	Asan Beautification	Mayor's Council
* 5 208 C9 2805 IB002	20-082	Barrigada Beautification	Mayor's Council
* 5 208 C9 2806 IB002	20-082	Chalan Pago/Ordot Beautification	Mayor's Council
* 5 208 C9 2807 IB002	20-082	Dededo Beautification	Mayor's Council
* 5 208 C9 2808 IB002	20-082	Inarajan Beautification	Mayor's Council
* 5 208 C9 2809 IB002	20-082	Mangilao Beautification	Mayor's Council
* 5 208 C9 2810 IB002	20-082	Merizo Beautification	Mayor's Council
* 5 208 C9 2811 IB002	20-082	MongMong/Toto Beautification	Mayor's Council
* 5 208 C9 2812 IB002	20-082	Piti Beautification	Mayor's Council
* 5 208 C9 2813 IB002	20-082	Santa Rita Beautification	Mayor's Council
* 5 208 C9 2814 IB002	20-082	Sinajana Beautification	Mayor's Council
* 5 208 C9 2815 IB002	20-082	Talofoto Beautification	Mayor's Council
* 5 208 C9 2818 IB002	20-082	Tamuning Beautification	Mayor's Council
* 5 208 C9 2817 IB002	20-082	Umatac Beautification	Mayor's Council
* 5 208 C9 2818 IB002	20-082	Yigo Beautification	Mayor's Council
* 5 208 C9 2819 IB002	20-082	Yona Beautification	Mayor's Council
* 5 208 C3 2817 CT002	21-137	Umatac MPC Discovery Day	Mayor's Council
* 5 208 C4 2817 CT002	22-041	Umatac MPC Discovery Day	Mayor's Council
Sub-Total			Mayor's Council
5 208 C2 3800 CL003	21-101	Village Public Hearings	Chamorro Language
Sub-Total			Chamorro Language
** 5 208 C0 4000 ZF012	20-174	1990 Culture Fair Long Beach	Coun for Arts & Humanities
** 5 208 C1 4000 CT001	20-221	Skip Int'l Star Search	Coun for Arts & Humanities
Sub-Total			Coun for Arts & Humanities
5 208 C3 8200 HD012	18-087	Hotel Dev Fund	Guam Economic Dev Auth
5 208 C2 9962 CT001	21-101	Guam Aquarium Project	Guam Economic Dev Auth
Sub-Total			Guam Economic Dev Auth
5 208 A4 7000 CD029	22-041	Community Develop	Guam Visitors Bureau
5 208 A4 7000 CH030	22-041	Cultural & Heritage Programs	Guam Visitors Bureau
5 208 A4 7000 GA001	22-041	General Administration	Guam Visitors Bureau
5 208 A4 7000 FD002	22-041	Research Department	Guam Visitors Bureau
5 208 A4 7000 TI028	22-041	Tourism Industry	Guam Visitors Bureau
5 208 A4 7000 WP021	22-041	Promotions	Guam Visitors Bureau
5 208 A4 7000 WP022	22-041	Japan Opns & Promotions	Guam Visitors Bureau
5 208 A4 7000 WP023	22-041	North America & Europe Promotion	Guam Visitors Bureau
5 208 A4 7000 WP024	22-041	Europe Marketing	Guam Visitors Bureau
5 208 A4 7000 WP025	22-041	Asia ( Korea / Taiwan ) Marketing	Guam Visitors Bureau
5 208 A4 7000 WP028	22-041	Pacific ( Australia ) Marketing	Guam Visitors Bureau
5 208 A4 7000 WP027	22-041	Printing & Promotion Marketing	Guam Visitors Bureau
5 208 D4 7000 CI005	19-027	Office Construction	Guam Visitors Bureau
5 208 C1 9970 CT003	20-221	Computers	Guam Visitors Bureau
5 208 C1 9970 CT005	20-221	Office Construction	Guam Visitors Bureau
5 208 C1 9970 CT007	20-221	Print Bl - Lingual	Guam Visitors Bureau
5 208 C2 9970 CT005	21-100	Salary Increase	Guam Visitors Bureau
5 208 C4 9970 CT001	22-085	Landscaping & Beautifications	Guam Visitors Bureau
5 208 D1 9970 CT008	21-024	Nimitz Beach Park	Guam Visitors Bureau
5 208 C2 9979 CT003	21-097	Office Construction	Guam Visitors Bureau
Sub-Total			Guam Visitor's Bureau

\*DOA Division of Accounts

\*\*Based on average 1/94 to 8/94 collections



**Tourist Attraction Fund  
Schedule of Appropriation, Expenditures  
and Encumbrances by Agency  
July 31, 1994**

Appropriation Account Number	Public Law Number	Program Name	Agency
5 208 C0 7842 ZA620	20-041	Improvement Southern Waterlines	P U A G
Sub-Total			P U A G
** 5 208 C2 7900 YS001	21-062	Yachting / Board Sailing Facilities	Port Authority of Guam
Sub-Total			Port Authority of Guam
5 208 C0 8100 VU012	20-128	Visitor Industry Training	Guam Community College
5 208 A4 9981 CT004	21-138	Contribution to G C C	Guam Community College
Sub-Total			Guam Community College
5 208 C2 9987 CT001	21-117	Purchase GPA Generator	Guam Power Authority
Sub-Total			Guam Power Authority
5 208 A4 9208 CT354	20-14	Transfer Out	Debt Service Fund
Sub-Total			Debt Service Fund
<b>TOTAL PER FINANCIAL MANAGEMENT SYSTEM</b>			
<b>Financial Statement Adjustments</b>			
5 208 A4 0860 CI020	BBMR	Accounting Fees	Administration
5 208 D9 2800 CI181			Mayor's Council
5 208 A4 9208 CT354	20-14	Transfer Out	Debt Service Fund
5 208 C2 9982 CT001	21-101	Guam Aquarium Project	Guam Economic Dev Auth
<b>Total Financial Statement Adjustments</b>			
<b>T O T A L</b>			

\*DOA Division of Accounts

\*\*Based on average 1/94 to 8/94 collections

**APPENDIX E**

**GHRA POSITION PAPER  
(on P. L. 22-32)**



# GUAM HOTEL & RESTAURANT ASSOCIATION

## GUAM HOTEL & RESTAURANT ASSOCIATION POSITION PAPER 94-1 AS AMENDED OCTOBER 27, 1994

Whereas, the visitor industry is Guam's primary industry and is subject to economic and social forces from both within and outside the territory; and

Whereas, Guam Public Law 22-32 temporarily lowered the Hotel Occupancy Tax as means to rejuvenate Guam's visitor industry which was negatively impacted by the 1991 Gulf War, economic conditions in Japan, the typhoons in 1992 and the earthquake in 1993; and

Whereas, the Government of Guam and members of the private sector have worked successfully as partners to allow for the recovery of the visitor industry over the last 13 months; and

Whereas, the visitor industry's recovery is still at a volatile stage, subject to external conditions beyond the partnership's control; and

Whereas, Public Law 22-32 mandated the Guam Visitors Bureau to report on the financial impact of the tax reduction mandated by said law; and

Whereas, the majority of hotels in Guam are members of the Guam Hotel & Restaurant Association and will be most affected by said public law.

Now, Therefore, be it resolved that the Guam Hotel & Restaurant Association wishes to express its position relative to Guam's hotel occupancy tax structure as follows:

### NEED FOR A SINGLE TAX RATE

Current law provides for a two-tiered tax structure in 1995, i.e., "the rate shall be ten percent (10%) of the rental price charged or paid per occupancy per day on rooms rented at the rate of ninety dollars (\$90) per day or less, and thirteen percent (13%) of the rental price charged or paid per occupancy per day on rooms rented at a rate of greater than ninety dollars (\$90) per day."

Many hoteliers find this portion of the law difficult, if not impossible, to follow. Computer programs are largely written to assess set fees for hotel occupancy tax charges. However, a specific room may be rented one night at a discounted rate (e.g. below \$90 per night) and at the rack rate on the next night (e.g., above \$90 per night). To charge a 10% tax on one night's stay and 13% on the next would require extensive and cost prohibitive reprogramming.

Many hoteliers, as part of their contribution to the recovery of the visitor industry, have over the last 13 months lowered their hotel room rates and sustained losses to be more competitive with other destinations. The lower room rates coupled with the flat tax of 10% has played a major role in the recovery of Guam's visitor industry. To mandate a two-tiered tax structure would force many hoteliers to unnecessarily increase their cost of operations to comply with the law. This increase would ultimately result in increased room rates to local residents as well as off-island guests.

The two-tiered tax structure would also be discriminatory against those hoteliers who have been encouraged by the Government of Guam to build luxury facilities to attract visitors to Guam and are not in a position to offer room rates at \$90 or below due to debt service requirements.

**GHRA Hotel Occupancy Tax Position Paper**  
**Page 2**

A single tax rate would minimize cost of operations for hoteliers and relieve any unnecessary room rate increases that would result from a two tiered tax structure. A single tax rate would also allow a clearly defined tax rate that could be established to meet the obligations of the Tourist Attraction Fund.

The Guam Hotel & Restaurant Association, therefore, requests support in a movement to amend the Guam Code Annotated, Section 30101, to require a single tax rate.

**ANALYSIS OF GUAM VISITORS BUREAU REPORT ON IMPACT OF PUBLIC LAW 22-32**

The Guam Hotel & Restaurant Association is steadfast in its support for the continued marketing and promotional efforts touting Guam as a destination for visitors. GHRA is unwavering in its commitment and support in improving the infrastructure and beauty of our island through its partnership with the Government of Guam. These commitments translate into a healthy and viable visitor industry for our community.

The Tourist Attraction Fund has been the primary source of funding to allow Guam the opportunity to grow its visitor industry. The report prepared by the Guam Visitors Bureau as mandated by Public Law 22-32 is critical in determining the fate of the Tourist Attraction Fund, and ultimately, the long term viability of our visitor industry. The report must be thoroughly examined and critiqued so that sound policy is developed and implemented for the long term.

The report provided by the Guam Visitors Bureau on the impact of Public Law 22-32 is informative from an historical perspective. However, the analysis fails to recognize two (2) critical areas that are necessary for a balanced and objective review. They are as follows:

**1. IMPACT OF INCREASED TAXES:** A recent study by the Travel and Tourism Research Association found that total U.S. tax on rooms averaged 9.2% of sales (end date, January 1, 1990), with 5.9% being general sales tax and 3.9% being lodging specific taxes. In general, states impose sales taxes while local governments assess the lodging specific taxes. **The results of the study specifically showed that taxes have a definite and negative impact on occupancy rates. For example, an assessment of the median tax level of 9.2% would result in 4.1% fewer rooms being rented on any given night.**

The analysis prepared by the Guam Visitors Bureau fails to establish the relationship between increased taxation and the potential for decreased visitor arrivals. To make any adjustment to the current single tax rate would, without question, have a negative impact on the current visitor industry recovery.

**2. HOTEL ROOM RATES:** The analysis makes the assumption that current room rates are representative of what room rates will be in the future. As mentioned earlier, many hoteliers, as part of its partnership with the government of Guam, have lowered room rates over the past thirteen (13) months and have sustained economic losses to make Guam competitive with other destinations vying for the same markets. As the recovery continues to solidify, hoteliers must recover losses sustained over the past three years by making slight upward adjustments to its current room rates. Therefore, the total amount of Hotel Occupancy Taxes collected per passenger based on GVB's projections are clearly understated for Fiscal year 1995.

**TOURIST ATTRACTION FUND OBLIGATIONS/PROJECTED COLLECTIONS**

According to the Guam Visitors Bureau, the immediate obligations of the Tourist Attraction Fund are:

1. GVB Fiscal Year 1995 Budget	\$11,270,000
2. Bond Obligation	2,725,000
3. Beach Cleaning Contract	567,000
4. GCC	<u>1,500,000</u>
Total	\$16,062,000

The Guam Visitors Bureau contends that an additional 5% must be added to this budget for inflationary factors and Yen appreciation. The Guam Hotel & Restaurant Association disagrees that a 5% inflationary factor should be included in the calculation as the TAF obligations are fixed budget items over a period of one year and should already take into consideration inflationary factors for this period.

Using the same methodology applied by the Guam Visitors Bureau to determine the appropriate single tax rate for the Hotel Occupancy Tax, the Guam Hotel & Restaurant Association's findings are as follows:

Projected Visitor Arrivals in FY 1995	1,080,000
Projected Tax Collected Per Pax with Conservative 5% increase in Hotel Room Rates for 1995 at 11% Hotel Occupancy Tax Rate	\$15.13 Per Pax
Total Projected Collections for FY 1995	\$16,340,400

The above represents the most conservative estimate of projected Hotel Occupancy Tax collections based on all information supplied to GHRA by the Guam Visitors Bureau and the members of GHRA. The projected revenues for the Tourist Attraction Fund in fiscal year 1995 will meet its most critical and immediate obligations with a surplus at the end of the fiscal year. The above analysis does not even take into consideration the lapse funds of the Guam Visitors Bureau's budget during fiscal year 1994 (estimated at approximately \$400,000) that will be continued through fiscal year 1995.

**NEED FOR A SINGLE TAX RATE OF NO MORE THAN 11%**

The Guam Hotel & Restaurant Association recognizes the need to maintain current efforts between the Government of Guam and the private sector to sustain our tourism economy over the long term. However, GHRA is greatly concerned about the future of the hospitality industry in Guam because of the negative impact of relatively high lodging taxes. The government of Guam presently assesses a 4% Gross Receipts Tax and a 10% Hotel Occupancy Tax for a total of 14% on all room sales. Guam's taxation of the hospitality industry is already 4.8% higher than the national average.

In the final analysis, the government of Guam and the private sector must maintain its partnership if Guam is to see sustained growth in the visitor industry over the long term. The Guam Hotel & Restaurant Association believes that a one percent (1%) increase from the current hotel occupancy tax level, albeit substantial, is necessary to continue our efforts locally as well as internationally. This recommendation

**GHRA Hotel Occupancy Tax Position Paper**  
**Page 4**

will increase total contribution of the hospitality industry to the government of Guam to 15% in taxes paid.

The government of Guam must recognize, that as our visitor numbers grow over the long term, total contribution to the Tourist Attraction Fund as well as the government of Guam's general fund will increase commensurably. Thus, funding projects over the next several years necessary for the growth of the visitor industry can be programmed with the growth of visitor arrivals.

The Guam Hotel & Restaurant Association, therefore, recommends that Section 30101 of the Guam Code Annotated be amended to increase the Hotel Occupancy Tax from 10% to 11%.

Introduced

TWENTY-SECOND GUAM LEGISLATURE  
1994 (SECOND) Regular Session

NOV 29 '94

Bill No. 1227(19)

Introduced by:

J. P. AGUON 

F. E. SANTOS 

AN ACT TO AMEND 11 GCA §30101 RELATIVE TO THE  
HOTEL OCCUPANCY TAX.

1 BE IT ENACTED BY THE PEOPLE OF THE TERRITORY OF GUAM:

2 Section 1. 11 GCA §30101 is amended to read:

3 "§30101. Imposition.

4 An excise tax is hereby levied and imposed which shall be  
5 assessed and collected monthly, against transient occupants of a room  
6 or rooms in a hotel, lodging house, or similar facility located in Guam  
7 according to the following schedule:

8 (a) From September 1, 1993 through [~~February 28, 1995~~] March  
9 31, 1995, the rate shall be ten percent (10%) of the rental price charged  
10 or paid per occupancy per day;

11 (b) From [~~March~~] April 1, 1995 and thereafter the rate shall be  
12 [~~ten percent (10%)~~] eleven-and-a-half percent (11-1/2%) of the rental  
13 price charged or paid per occupancy [~~per day on rooms rented at a~~  
14 ~~rate of Ninety Dollars (\$90) per day or less, and thirteen percent (13%)~~  
15 ~~of the rental price charged or paid per occupancy per day on rooms~~  
16 ~~rented at a rate of greater than Ninety Dollars (\$90)] per day.~~

17 [~~Under subsections (a) and (b), if~~] If the room or rooms are  
18 rented more than once within a twenty-four (24) hour period, each  
19 time of occupancy shall be subject to the tax for such accommodations.

1           This tax applies and is collectible when the sale is made, regardless  
2 of the time when the price is paid or delivered. It shall be paid by the  
3 consumer to the operator or owner of the hotel or rooming house  
4 facility.”