

August 27, 2018

Dear Commissioners,

I am pleased to submit this 2017-19 budget and revenue forecast update. We are not seeking authorization to increase spending or move resources identified in the budget from one department to another, subsequently, we are not seeking formal Commission action to modify our budget at this time. In August we closed the books on the 2017-18 FY and included recognition of final Transient Lodging Tax (TLT) received from the Department of Revenue accrued to the period.

This document represents our formal proposal on use of revenues that have come in ahead of forecast for the year, but still within the forecast for the biennium, and serves to provide background and context for the Budget Update discussion and Commission review of financials during our meetings on Sept. 12 and 13th at the Pendleton Convention Center.

Budget Update - Revenue:

As noted above, we can confirm that we have received \$38,017,086 in TLT revenue for 2017-18 FY against an adopted biennial budget of \$75,340,000. The forecast presented for discussion prior to adoption of our biennial budget included an estimate of \$36,790,000 in TLT revenues during the first year. Our actuals for the period represent a positive variance of \$1,227,086. Further, our forecasting for the biennial budget anticipated a year-over-year increase of 4.8% such that the revenue estimate for 2018-19 FY was \$38,550,000. While revenues have not exceeded the adopted biennial budget forecast, it is worth noting that using our year-one actual TLT revenues as basis and assuming the same YOY growth rate of 4.8% were applied, we would expect to end the biennium having received \$77,858,993 in TLT.

If TLT receipts during the current 18-19 FY continue on pace such that actuals exceed \$37,322,914 necessary to meet our budget, or in the event revenues fall short of that amount, staff will bring forward a request for formal Commission action on the 2017-19 budget at that time. It is unlikely any budget modification will be sought prior to April 2019.

Unanticipated Revenue Allocation:

The recommended allocation of \$1,227,086 in unanticipated year-one revenue considers four primary components: Operating Reserve, Regional Program, Grants Program and Travel Oregon IOF.

1. Operating Reserve – the Commission currently has adopted a policy of retaining 5% of total revenue from all sources (except beginning balances) in an operating reserve as cash on the balance sheet. This 5% reserve fund is approximately equivalent to three months of

operating expenses. As the operating reserve is based on a percentage of actual revenues, an increase to the reserve is necessary.

The recommendation is to recognize the formulaic 5% increase to the operating reserve, and to move an additional \$587,897.78 such that a total of \$649,252.08 will move from unanticipated revenue on our P&L to our balance sheet. This recommended increase is in anticipation and preparation for the tax rate change from a 1.8% rate to a rate of 1.5% that will occur in 2020.

Budget required (5% of \$1,227,086): \$61,354.30

Additional amount for reserve: \$587,897.78

2. Regional Program – State law requires that 20% of every dollar of TLT revenue received by Travel Oregon after June 2, 2016 go toward the Regional Cooperative Tourism Program (RCTP). Travel Oregon “banks” future program funds for the RCTP to be expended. It is our recommendation that we continue this practice of setting aside 20% of the increase received during the 2017-18 FY to be included for future RCTP distribution. This timing ensures that the regional entities designated by the Commission are given actual pro rata shares and dollar amounts, rather than preliminary estimates. More importantly, this treatment puts increases in revenues into the RCTP program appropriately.

Budget required (20% of \$1,227,086): \$245,417.20

3. Grants Program – State law requires that 10% of every dollar of TLT revenue received by Travel Oregon after June 2, 2016 go toward the Competitive Grants Program (CGP). As noted previously, the Commission has historically “banked” future program funds in one fiscal year to be expended in the next and the recommendation is that we continue this practice and set aside 10% of the revenue received during the 2017-18 FY to be drawn upon for the 2018-19 CGP program.

Budget required (10% of \$1,227,086): \$122,708.60

4. Travel Oregon program enhancements are recommended as follows:
Funds placed into immediate opportunity fund (IOF) re-establishes the available IOF balance to \$600,000 and provides for strategic investment as determined by the Travel Oregon CEO. These funds have been used most recently to support wildfire impact research.

Budget required IOF: \$209,708.34

Total Allocation Proposal: \$1,227,086

Staffing:

Of the positions identified when the Commission adopted the budget in June 2017, Travel Oregon has (4) positions remaining to be filled. We do not anticipate, nor are we recommending any increase in staffing due to unanticipated revenues.

I look forward to our discussion during the Sept. 12th and 13th Commission Briefing and Meeting. In the meantime, please don't hesitate to contact me with any questions you may have in advance of our time together.

Best regards,



Todd