OFFICE OF COMPTROLLER

ORANGE COUNTY FLORIDA

Phil Diamond, CPA
County Comptroller
201 S. Rosalind Avenue
PO Box 38
Orlando FL 32802
Telephone: (407) 836-5690
Fax: (407) 836-5599
Web page: www.occompt.com

DATE: August 17, 2023

TO: Mayor Jerry L. Demings
-AND-
Board of County Commissioners

FROM: Phil Diamond, CPA, County Comptroller PAD

SUBJECT: Tourist Development Tax Finances

BACKGROUND

General. As the Board prepares to discuss the Tourist Development Tax (TDT) Citizens Advisory Task Force recommendations, I have received many inquiries regarding the County's capacity to shoulder additional TDT expenditure obligations. By way of background, the Task Force received 55 interest indicator forms[1] totaling $3.8 billion in TDT funding requests.

The Recent Past. These TDT discussions have occurred against the backdrop of our community's shared experiences over the past three years. Looking back, it is clear that we have experienced the 'best of times and the worst of times' for our tourism economy since March 2020.

Most recently, we have enjoyed the best of times. Our tourism industry set monthly TDT records for 14 straight months and, established a new single year collections high of $336 million in FY 2021-22. We are on pace to eclipse that record this fiscal year with the County projecting over $350 million in TDT collections. That is very encouraging news.

However, we experienced the worst of times just three years ago when the worldwide Pandemic shutdown our tourism industry. Unimaginably, all three of our major theme parks shut their doors in March 2020. As a result, our TDT collections plummeted by an unprecedented (and unthinkable) 97% in April 2020. We were forced to use $145 million in TDT reserves to simply pay for our ongoing financial commitments through the Pandemic.

In addition to depleting TDT reserves to pay its bills, the County was forced to take other measures to conserve cash. For example, the County also cancelled the ongoing Convention Center master plan expansion project and, postponed other Convention Center capital improvement projects.

[1] 55 Interest indicator forms were received, but 3 were deemed to be ineligible.

The Less Recent Past. While the Pandemic is the most recent example, the TDT has faced significant ups and downs over its existence. For example, the TDT suffered large decreases after two other major stress periods-the Great Recession in FY 2008-09 and the September 11 terrorist attacks in FY 2001-02. So, in the twenty year period between 2001 and 2020, there were three large-and unexpected-reductions in TDT collections. Or, in other words, an average of every seven years.

Current TDT Trends. Despite the record level of collections earlier this fiscal year, we are starting to see a growing downturn in TDT collections. Over the last few months, year-over-year TDT collections have been trending down. Specifically, collections in April, May and June were down by -3.5%, -6.7% and -7.3%, respectively. This trend is consistent with numerous news reports about the "summer slowdown" in tourism in Orlando. [2]

TDT FINANCIAL RECOMMENDATIONS

General. There is certainly much to be optimistic about regarding the outlook of the County's tourism industry. However, it is essential to remember that TDT is (and always has been) a volatile revenue source. As such, we would strongly recommend taking a conservative approach to leveraging or committing TDT collections based on unknown future collection levels. Strong fiscal discipline and prudence from this and past Boards have allowed the County to weather all of the TDT challenges over the years and maintain our high bond ratings. I would urge the Board to continue to stick to the fiscal playbook that has served the County and the taxpayers so well over many years.

Specific Recommendations. As far as committing to additional future TDT obligations, here are our specific recommendations and comments:

1. The County's Financial Model: Given the volatility of TDT, we recommend that the County continue to take a conservative approach to TDT growth assumptions in connection with any additional future funding obligations. For next fiscal year, we would suggest projecting that TDT will decline by approximately 7.5%-consistent with the actual recent monthly collection trends we have been experiencing. For FY 2024-25 and going forward, we would then suggest a 2% growth rate. The 2% growth rate is consistent with the financial modeling that the County used before agreeing to support the construction of three major projects in 2007. Should the actual TDT growth rate exceed this amount, the Board can always increase or establish funding for any eligible projects and/or eligible outside organizations. In other words, spending future surpluses will be far easier than dealing with future budget deficits. On the other hand, if future collections do fall short for a period of time, the County can "tighten the fiscal belt" on some expenditures and use our healthy reserves to weather the downturn.

---

2 Some reasons given for the slowdown point to the extremely hot weather, a waning of the post-pandemic travel boom, and the political environment.

2. Funding Capacity-Debt: Just like homeowners will take out mortgages to buy homes, debt provides an opportunity to fund large projects when cash funding isn't practical. However, debt also locks you into required long term debt service payments and reduces your flexibility to make adjustments during downturns. It is therefore fiscally prudent not to over-leverage the County. Under the financial model assumptions outlined above, we believe the County could issue a maximum of approximately \$800-\$900 million of bonds in FY 2026 for large project funding depending on market conditions and collections. The County can also revisit these assumptions in a few years to determine if additional capacity exists to do other large project(s).

   To put this level of debt in perspective, this is more than the \$685.2 million of existing TDT debt the County had on September 30, 2022. Also, \$800 million is more funding than the County contributed for the Amway Center, Dr. Phillips Center for the Performing Arts and Citrus Bowl combined.

   Funding Capacity-Annual Spending: If the Board chose to use all the available debt capacity described above, there would be approximately \$15 million a year in additional annual pay-as-you-go funding that the County could allocate to ongoing programs like arts, Application Review Committee projects (ARC) and/or sports. To the extent that the Board chose not to use that debt capacity, there would be more funding available for pay-as-you-go funding.

3. Option to Provide Funding for Additional Project(s): As an option to fund additional capital project(s) above the recommended funding capacity outlined above, the Board could utilize a strategy from the 2007 Venues Agreement, which provided funding for the Dr. Phillips Center for the Performing Arts and Camping World Stadium. Specifically, funding could be provided to any eligible outside organization on a contingency basis if collections exceed certain threshold levels in each fiscal year. This concept would allow the County to retain the necessary collections to meet its financial obligations while providing some surplus funding to the outside organization(s) for their capital project(s).

Should you have any questions or wish to discuss any of these issues, please contact me.

PD/jc

C: Byron W. Brooks, AICP, County Administrator
Roseann Harrington, Chief of Staff