MEMORANDUM
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To: General Government Subcommittee of the Joint Committee on Ways and Means

From: Kim To, Legislative Fiscal Office, 503-986-1830

Date: Thursday, April 25, 2019

Subject: Oregon Tourism Commission
Informational Hearing

The Oregon Tourism Commission (OTC) is here today to for an informational hearing on the use of state transient lodging tax. The Commission, doing business as Travel Oregon, was created in 1995 and became a semi-independent agency in 2003, operating under Chapters 284 and 320 of the Oregon Revised Statutes (ORS).

The Oregon Legislature first looked at the semi-independence model in 1991 and granted the Oregon Film and Video Group and (the now defunct) Oil Heat Commission this semi-independent status. In 1997, a few small professional licensing boards, including the Board of Optometry and the Landscape Architect Board were granted semi-independent status. The Oregon Tourism Commission, Oregon Patient Safety Commission, and Oregon Wine Board were added in 2003. These semi-independent agencies budgets range from $455,523 (Landscape Architect Board) per biennium to $6 million per biennium (Oregon Wine Board). Most semi-independent are self-funded mostly from licensing fees. The Oregon Wine Board is funded primarily through an assessment on grapes harvested for wine production and a privilege tax imposed on manufacturers and distributors of wine.

The Tourism Commission is funded with state transient lodging tax. However, as a semi-independent agency, the Commission's budget is not subject to Executive Branch review, or approval or modification by the Legislature. Employees of the Commission are included within the Public Employees Retirement System, but the Commission is exempt from statutes regulating state agencies in the following areas:

- Public contracting and purchasing.
- Interagency services.
- Financial administration.
- Disbursing and investing of funds.
- Personnel relations.
- Salaries and expenses of officers and employees.

ORS 248.118 requires the Commission to adopt personnel policies, along with contract and purchasing policies. These policies are to be submitted to the Department of Administrative Services for review and approval to make certain the proposed policies comply with applicable state and federal laws and collective bargaining contracts. However, statutes do not specify a timeline for the submission of these policies and procedures, so they are submitted at the discretion of the Commission.

ORS 284.126 requires the Commission to adopt budgets on a biennial basis using classifications of expenditures and revenue required by state agencies in submitting their agency requested budget to the Governor. The budgets that LFO has received from the Commission are posted in your meeting materials on

OLIS as part of the Commission's most recent Annual Report and Strategic Plan. Note that these budgets are presented using high level budget categories, not at the detailed level required by state agencies in submitting their agency requested budget to the Governor

ORS 284.134 requires the Commission to enter into agreements with the Secretary of State to set an appropriate financial review schedule. The Commission has been contracting with private accounting firms to comply with the financial review requirement. The latest 5-page financial review of the Commission's $50 million budget is in your meeting materials on OLIS. The last time the Commission was audited by the Secretary of State's Audits Division was over 10 years ago back in April of 2008 when the Commission's total assets was listed at a little over $3 million.

HB 2267 (2003) established a state transient lodging tax imposed at a rate of 1% to provide funds for the promotion of Oregon's tourism programs. ORS 320.335 authorizes the Department of Revenue (DOR) to collect and retain up to 2% of gross tax for administrative expenses. DOR reports and distributes revenues to the Tourism Commission monthly. In addition to the transient lodging tax, the Commission also receives revenues from the Governor's Conference on Tourism attendee registration and sponsorship fees, and the Welcome Center Brochure program.

HB 4146 (2016) increased the transient lodging tax rate from 1% to 1.8% for the period July 1, 2016 to July 1, 2020. On July 1, 2020, the rate goes to 1.5%. According to the Legislative Revenue Office, the new higher rate was expected to generate an additional $12.7 million in the 2015-17 biennium and $27.4 million in the 2017-19 biennium after allowance for collection costs.

Prior to the 2017-19 biennium, ORS 284.131 required the Tourism Commission to spend transient lodging tax revenue as follows:

- At least 80% must be used to fund state tourism marketing programs.
- As much as 15% must be distributed to regional cooperative tourism programs using a regional allocation formula that distributes revenue to regions in proportion to the amount of lodging tax revenues collected in each region.

Starting with the 2017-19 biennium, ORS 284.131, as modified by HB 4146 (2016), requires the Tourism Commission to spend transient lodging tax revenue as follows:

- At least 65% must be used to fund state tourism programs. HB 4146 (2016) removes the provisions that funds can only be used for marketing programs.
- 10% must be used for a competitive grant program which may include tourism-related facilities and tourism-generating events, including sporting events.
- 20% must be used to implement a regional cooperative tourism program using a regional allocation formula that distributes revenue to regions in proportion to the amount of lodging tax revenue collected in each region. The Tourism Commission is mandated to base grant awards on demonstrated return on investment, geographic equity, and community support.

To provide some predictability to the regional entities designated to develop and execute plans for use of state lodging tax dollars, the Tourism Commission determines regional cooperative tourism program amounts based on prior calendar year transient lodging tax collections and disburses the state lodging tax during the following fiscal year.

SB 442 (2011) created the Wine Country License Plates. After the Oregon Department of Motor Vehicles collects payment for the cost of production of the wine country registration plates, including administrative marketing expenses, the balance of all sales for each month is transferred to the Tourism Commission. Sales of Wine Country License Plates began during the 2013-15 biennium, and the award programs launched in May 2015. The Tourism Commission is directed to distribute these funds as follows:

- 50% to be used for a matching grant program to tourism promotion agencies for the promotion of wine and culinary tourism.
- 50% to be distributed to tourism promotion agencies. Distribution of funds are required to be in proportion to the amount of acreage in each region used for wine grape production.