

BUREAU OF STATISTICS AND PLANS

(Bureau of Planning)

Government of Guam



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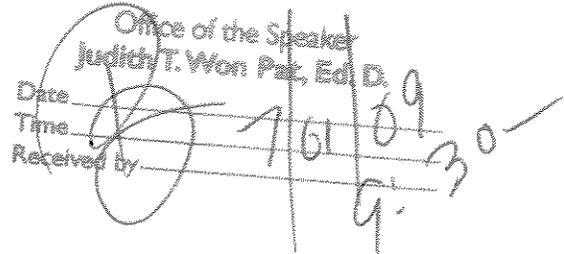
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Alberto "Tony" Lamorena V
Director

JUL 01 2009

The Honorable Judith T. Won Pat, Ed.D.
Speaker
I Mina' Trenta Na Liheslaturan Guåhan
155 Hesler Street
Hagåtña, Guam 96910



Dear Speaker Won Pat:

Subject: REPORTING REQUIREMENT PURSUANT TO PUBLIC LAW 29-113

I hereby transmit the report pursuant to Public Law 29-113, Chapter 13 of Title 2, Guam Code Annotated Section 13109(a)(2) in coordination with the Guam Department of Labor the impact of both military and non-military federal expenditures on Guam's economic growth, employment, tax revenues, and other variables for the next year compared with the previous five years. This report is approved for transmittal by a majority of the members of the Special Economic Service. It will be posted on our website shortly.

Please contact me at 472-4201/3 should you require more information.

Sincerely,

ALBERTO A. LAMORENA V
Director

Enclosure

Public Law 29-113, Chapter 13 of Title 2, Guam Code Annotated Section 13109(a)(2) Summary Report as certified by a majority of members of the Special Economic Service

RECEIPT ACKNOWLEDGED BUREAU OF STATISTICS AND PLANS	
By _____	(Signature)
Print Name _____	
Date: _____	Time: _____

Public Law 29-113, Chapter 13 of Title 2, Guam Code Annotated Section 13109(a)(2)

Summary Report

FEDERAL CONTRIBUTION	2004	2005	2006	2007	2008	2009	2010
Federal Expenditures ¹	\$1,249,430,179	\$1,412,772,522	\$1,380,351,038	\$1,478,875,722	\$1,567,194,760	\$1,660,788,246	NA
DOD Federal Agency Transactions ²	\$356,531,477	\$426,612,264	\$423,264,817	\$495,581,623	\$412,664,157	\$432,493,549	NA

ECONOMIC IMPACT

Economic Growth	2004	2005	2006	2007	2008	2009	2010
Construction Permits ³	\$100,925,000	\$149,697,000	\$195,431,000	\$323,330,000	\$210,295,000	NA	NA
Employment ⁴	57,310	57,710	57,960	59,570	60,970	NA	NA
General Fund Revenues ⁵	\$408,972,598	\$443,295,703	\$432,525,481	\$514,392,108	\$513,190,329	\$536,783,739	\$585,537,460
Tourism Arrivals ⁶	1,156,199	1,210,147	1,217,111	1,223,290	1,179,246	1,061,321	1,114,387
Average Annual Percent Change in							
Price Level ⁷	6.1%	7.7%	11.6%	6.8%	6.2%	NA	NA
Population Projection ⁸	166,090	168,564	171,019	173,456	175,877	178,287	180,692

Footnotes:

- 1) Source: Department of Labor, Review of Federal Expenditure Trends Release #2009-01, January 14, 2009 (FY 2008-09 are estimated)
- 2) Source: Guam Economic Development Authority, Federal Transactions for Work Performed in Guam 2000-2008 Draft (FY2009 is estimated)
- 3) Source: Department of Public Works
- 4) Source: Guam Department of Labor CY2004-08 September Report
- 5) Source: Department of Administration, FY2004-8 (Deloitte Touche Tohmatsu audited), FY2009 (PL29-113 Budget Act as adjusted given actuals thru March 2009), FY2010 Revenue Projection updated June 26, 2009.
- 6) Source: Guam Visitors Bureau Fiscal Year Totals (FY2009-10 are estimated)
- 7) Source: Bureau of Statistics and Plans
- 8) Source: Guam 2000 Census of Population and Housing

Certified by Special Economic Service members

Bertha Duenas, Director BBMR

Date

4/30/09

John Camacho

Date

7/1/09

Albert Perez, Chief Economist BSP

Date

Albert Perez
6/30/09

Gary Hiles, Chief Economist DOL

Date

Gary Hiles
6/30/09



EXECUTIVE BUDGET

FISCAL YEAR 2010

JANUARY 2009



ECONOMIC OUTLOOK

The revision in Rating Outlook to Positive from Positive from Stable reflects GWA's substantial progress to date in meeting regulatory requirements stemming from a stipulated order (the order). The Outlook revision also reflects the progress management has made with regards to capital and financial planning, which provide a blueprint for continued success in returning the system to regulatory compliance and ensuring financial integrity.

Because of its strategic location, U.S. military operations historically have been the main economic engine of the island, and over the next six to eight years the military's economic impact is expected to increase substantially more as the island undergoes a massive buildup of military personnel from relocation of troops from other parts of the globe and consolidation of operations.

The ratings upgrades for the Government of Guam's and well as two of the larger autonomous agencies, Guam Power Authority and Guam Waterworks Agency reflect increasing confidence in the financial management of these organizations as well as the outlook for the economy of Guam.

Federal Policy:

The first non-construction buildup contract in the amount of \$100 million was awarded October 3, 2008 to Pacific Program-Design Management Services Joint Venture, of Pasadena, California, the Program Support Services contract for the Guam military buildup. The company is a joint venture led by Parsons Corporation. The contract involves:

Various projects covered by the Defense Policy Review Initiative and other projects in the [Naval Facilities Engineering Command] Pacific area of responsibility.

The primary project locations for work on this contract are in Guam, (80%), Hawaii (10%), and may include work in the Northern Mariana Islands, (7%), and locations anywhere in the Pacific and Indian Oceans (NAVFAC Pacific's AOR) (3%), and is expected to be completed by September 2013.

The Consolidated Natural Resources Act of 2008, in addition to the visa-waiver provision excludes Guam and CNMI from the numerical limitations on Nonimmigrant workers during the transition period effective on the first day of the first full month commencing 1 year after the date of enactment [June 1, 2009] and ending December 31, 2014. This is one of a number of steps to ensure availability of the workforce necessary to complete the facility construction for the Marines relocation to Guam.

Economic stimulus efforts in the coming year through tax rebates, tax reductions, federally funded infrastructure or federal state and local bond financing guarantees could significantly affect Guam's economy depending on the timing and nature of these policies. The FY 2010 budget authorizations could include substantial funding related to Marine relocation activities. If projects are contracted early in the fiscal year, they could still have significant impact in FY 2010. Such funding could also support confidence in Guam's economic future and support additional private sector financing and projects.

Gary Hiles
Chief Economist
Department of Labor

ECONOMIC OUTLOOK

Employment:

Employment trends have been generally showing slight growth in both the number of employees and wages, resulting in combined moderate growth in total payroll. Over the last few years, construction employment increases have dominated and driven increases in total payroll. Payroll is important as one of the largest revenue categories for income tax including withholdings. The increase in minimum wage schedule has and will further increase hourly earnings in some occupations and industries. The federal and corresponding Guam minimum hourly wage increased from \$5.85 to \$6.55 on July 24, 2008 and will increase again to \$7.25 on July 24, 2009. The prevailing wage rates for H-2 workers made effective October 6, 2008 will increase the rates paid to construction workers over time. The new rates apply to new and renewal employment which time varies by employee. The increases will continue to affect the average construction pay levels over the next year. Limited Government of Guam increases have been or are in the process of being implemented but a general classification and compensation study has been authorized by Public Law 29-52.

Tourism related retail and hotel employment is expected to decline somewhat to be consistent with the first quarter's 15 percent reduction in arrivals; although the employment declines are expected to be less than 15 percent in tourist related businesses, they will not be inconsequential. New establishments with announced openings in FY 2009 include Chili's in Tamuning, Payless Markets Mangilao, Hooters and Burger King, Tumon Bay. This newly created employment should continue through to the FY 2010 employment totals. A new tower for the Outrigger hotel is under construction with scheduled completion for late 2010.

Bond Issues:

Bond financing authorized in PL: 29-113 for payment of COLA and income tax returns could inject \$92.0 million and \$112.0 million respectively, into the economy. When the current financing hurdles, brought about by the market decline, stabilize the Government is poised to approach the market and the proceeds of these funds could shortly thereafter be distributed and available for residents' disposal. Other authorized and proposed bond funding would substantially increase the amount of construction activity and funds in circulation. These include funding for projects of: Guam Memorial Hospital, Guam Public School System (JFK High School), Guam Waterworks Authority, Port Authority of Guam, Department of Land Management, and the landfill construction under federal receivership. The total amount and timing of these financing may occur within the upcoming months and will inject additional construction activities and funds into Guam's economy.

Credit ratings are an important factor in the availability of bond financing and the cost of financing. Standard and Poors (S&P) raised the Government of Guam's existing general obligation bonds from 'B' to 'B+' with stable outlook in October 2008, citing an improved balance sheet that resulted from "greater political consensus to enhance revenue and control expenditure growth". The rating action "affects about \$236.7 million of outstanding general obligation debt as of September 30, 2007. Standard and Poors also noted that fiscal year 2007 for Guam marked the "first ever financial audit with an unqualified opinion, as well as the third consecutive time the audit has been completed on a timely basis. In December 2008, Standard & Poors raised the Guam Power Authority's existing revenue bonds to an investment grade of 'BBB-' from 'BB+' with stable outlook. The rating agency cited several factors in its upgrade, including better operational and financial performance and continued support from the Public Utilities Commission. In January 27, 2009 in the course of routine surveillance, Fitch Ratings affirms the 'BB' rating and changed the Rating Outlook to positive on Guam Waterworks Authority's \$99.3 million in outstanding water and wastewater system revenue bonds, series 2005. Fitch press release noted:

ECONOMIC OUTLOOK

A 2007 report by Global Insights for the Guam Visitor's Bureau found that travelers total economic impact on Guam ranges from 20 percent to over one-third of the total island economy. In terms of employment, tourism is the catalyst for 15,177 jobs, or 35.5% of the private (non-governmental) employment base. As tourism is a significant component of the economy of Guam, arrival reductions will be measurable on the economic bottom line.

In forecasting the short term future of tourism arrivals from Japan a report from Japan's Central Bank may be insightful. A January 23, 2009 statement reported in Bloomberg that:

"Japan's economic conditions have been deteriorating significantly," the central bank said in a report in Tokyo today, using the most pessimistic language to describe conditions since January 1998, when they started publishing the report. The global slowdown has spurred record declines in exports and factory output in the world's second-largest economy and the central bank expects the slump to deepen. Governor Masaaki Shirakawa and his policy board said they expect gross domestic product to shrink 1.8 percent in the year ending March 31 and two percent the following year. Japan's exports plunged 35 percent in December, the most on record, from 27 percent in November. Factory output dropped 8.5% in November, the most in more than 50 years. Weakness in Japan's economy makes a quick rebound in tourism to Guam increasingly unlikely.

In the longer term, the possibility of visa-free entry for nonimmigrant visitors from eligible countries to Guam for business and leisure travel could be expanded to additional markets by including such entry for persons from Russia and China. Tourism officials have indicated that could mean an additional 200,000 to 300,000 Chinese arrivals within several years of implementation as well as higher spending visitors from Russia who currently vacation in Saipan. Issues of security and travelers overstaying are issues of concern that need to be addressed in an ongoing efforts to seek expanded visa-waiver inclusion of China and Russia.

Section 702(a) of the Consolidated Natural Resources Act of 2008, signed into law May 8, 2008, extends U.S. immigration laws to the Commonwealth of the Northern Mariana Islands (CNMI). Section 702(b), which is implemented by the interim final rule, establishes a new Visa Waiver Program for Guam and the CNMI which extends visiting time from 15 to 45 days. The program is scheduled for implementation June 1, 2009 subject to a provision authorizing requests for delay in implementation. The new visa waiver program adds Hong Kong to the list of countries authorized for the program. Travel industry leaders hoped China and Russia would have been included in the interim final rule but additional steps remain for that to occur. The existing visa waiver program implemented in October 1988 included the United Kingdom as well as those with British National Overseas (BNO) passports. On July 1, 1997, Hong Kong, under British rule for 156 years came under the control of China. As the passports of Hong Kong residents with BNO passports expired, the number of persons eligible for travel to Guam under the current visa-waiver program dwindled. Specific inclusion of Hong Kong with a population estimated to exceed seven million could reinvigorate Hong Kong as a visitor market for Guam in its' own right. Furthermore, it could facilitate reestablishment of direct flights from Hong Kong as a gateway for mainland Chinese travelers. In 2007, the U.S. Embassy and Consulates in China issued 417,146 B1/B2 visas (visitors for business and pleasure) to the United States. Convenient direct flight schedules could supplement the Hong Kong to Guam market with Chinese who already have visas for travel to the U.S. or who could obtain one under current regulations.

ECONOMIC OUTLOOK

In addition to the appropriations funding specifically for Guam projects, a contract was awarded as part of a \$4 billion Sustainment, Restoration and Maintenance Acquisition Task Order Contract (SATOC) with the Air Force Civil Engineer Support Agency (AFCESA) as follows:

- \$50.7 million to Perini Corporation awarded September 27, 2008 for repairs to the South Runway at Andersen Air Force Base, Guam which includes removal and replacement of an existing runway as well as runway and approach lights. The project is expected to take approximately one year, with an estimated completion date of April 2010.

Major private and public scheduled for FY 2010 construction include:

- The consent Decree Financial Impact statement lists cash requirements for dump opening of just over 71 million in FY 2010 of the estimated total project cost of 160 million. This should translate into roughly corresponding construction expenditures and activity.
- Emerald Ocean View Park project construction is scheduled for FY 2009 – 10. The \$100 million dollar project will include 260 condo units and 20 villa-style luxury homes.
- Outrigger Hotel Tower Bayview Projects Phase V. Addition scheduled for completion late 2010. \$60 million

Real Estate:

The decline in real estate transactions from \$686.8 million in 2007 to about \$350 million in 2008 as well as the decline in building permits was exasperated by the moratorium imposed on developers by the Guam Waterworks Authority in May 2008, due to sewer system capacity constraints. While the moratorium is expected to be lifted in April 2009, some of the sales and construction previously planned has since been cancelled or is on indefinite hold due to business and financing issues. Real estate buyers are taking a wait and see approach due to global economic and financial uncertainties. Weakness in sales may translate into reduced future construction.

Tourism:

The number of tourist arrivals had been on an upward trend almost continuously since 2003 following the recovery from the events of 9/11, and subsequent SARS and typhoon Pongsona. In September 2008 the levels fell by around 20 percent in comparison to prior years monthly figures. It appears that a trend is emerging indicating a significant reduction in tourism which could persist throughout 2009 and 2010 based on statements from leading economists, which predicted that an economic recovery could take several years. Tourism is related to Gross Domestic Product (GDP) and Japanese travelers have indicated in exit surveys that economic concerns are a factor in their decision to embark on travel. As this trend is recent with approximately five months experience, it could exhibit some volatility as time goes on. Also some businesses such as hotels, restaurants and retail trade may have held off making business and employment downsizing decisions to some extent until after the Christmas and New Year holiday travel and shopping. There has been recent anecdotal information on a number of employers who had reduced staff, hours or other employment benefit in recent months which has not yet been fully reflected in the monthly or quarterly economic statistics. Additional reductions are in tourism related employment as business continues to adjust to reduced tourist levels over time.

ECONOMIC OUTLOOK

construction contracts for calendar year 2008 was \$506 million, a 14 percent increase over calendar year 2007. The House of Representatives passed the FY 2009 Defense Authorization Act authorizing \$180 million in military construction funding for Guam. These projects are listed as follows:

- \$62.4 million for construction of Bachelor Enlisted Quarters on Naval Base Guam;
- \$50.0 million for completion of the Kilo Warf Extension;
- \$30.0 million for construction of a new central utility plant at the Naval Base Guam;
- \$26.1 million for upgrades to the wastewater collection system at Naval Base Guam;
- \$5.4 million for the realignment of Arc Boulevard on Andersen Air Force Base; and
- \$5.2 million for construction of a combat communications maintenance facility at Andersen Air Force Base.

Historical experience indicates construction activity, employment and revenues in the industry follows changes in permit and contract levels with a lag of one to two years. Based on this high level of permits and contracts construction activities should remain strong throughout 2009 and 2010. While the Department of Defense decline in construction funding authorizations in Public Law No: 110-417 for FY 2009 of \$180 million in comparison to \$345 million in FY 2008 was severe, \$165 million, a 48% drop, a number of major projects awarded in FY 2008 are of such a scale that the construction from the FY 08 contracts will continue through FY 2009 and FY 2010. These include:

- \$24, 588,717 Phase I of potable water system recapitalization at Naval Base Guam to DCK Pacific, LLC, Honolulu, Hawaii expected to be completed by April 2010.
- \$40,000,000 Extension and necessary dredging to the Kilo Warf at the Commander Naval Region Marianas Main Base expected to be completed in May 2010.
- \$52,587,000 Helix Electric, Inc. Harden Electrical System, Main Base, Agana, Guam expected to be complete July 2010.
- \$33,150,728 DCK Pacific, LLC design and construction of a fitness center at Naval Base Guam expected to be completed by December 2010.
- \$15,399,603 DCK Pacific Guam, LLC, Repair and alteration of existing facilities to administrative offices for the Joint Region Marianas Headquarters at Nimitz Hill expected to be completed by March 2010.
- \$43,838,018 IBC/TOA Corp., extension and necessary dredging to the Kilo Warf at the Commander Naval Region Marianas Main Base, Guam. An additional \$43,038,018 will be funded upon the passage of FY 2009 Military Construction Appropriation Bill, making the total amount \$83,838,018. It is expected to be completed by March 2010.

ECONOMIC OUTLOOK

The Fiscal Year 2010 economic outlook for Guam, in the aggregate, appears reasonably likely to experience a temporary flattening of the growth curve established in recent years with accelerating growth in late 2010 expected contingent on commencement of scheduled Marine relocation construction. Recent years have shown consistent annual growth in the Government of Guam General Fund revenues. Based on current trends and available planning information, economic activity may continue near the plateau level reached in 2008 through 2009 and 2010. The previously anticipated growth for Fiscal Year 2010 is expected to be negatively impacted by current economic and financial issues in the U.S. Reduced tourism arrivals and associated employment and revenue in recent months appear likely to continue going forward and may be off-set in the economy as a whole by increased federal defense related and local government construction.

The outlook is somewhat tenuous as a number of issues in the global economic, financial, military, and political situations are currently evolving rapidly and are in a fluid state. How these situations evolve could considerably affect the outlook for FY 2010.

These issues are not limited to the following but these are of special note:

- the international financial situation including banking systems, interest rates and credit
- exchange rates
- recessions in the United States, Japan, a looming recession in South Korea, slashed growth rates in China
- major restructuring, bailout packages, possible bankruptcy in the U.S. automotive industry
- continued foreclosures in the U.S. housing industry
- political situations which could disrupt the production or distribution of oil
- changes in U.S. tax code
- economic stimulus programs in the U.S. and abroad
- leadership changes in the U.S. and Japan
- possible unforeseen natural disasters and health issues
- international military and political situations

External flows of funds to Guam could change considerably through the forecast period due to volatility in tourism, investment and federal and local government expenditures.

Key issues on the table that could significantly alter this path include:

- Dump Closure – Federal Consent Decree – construction and financing.
- The outcome and timing of legislative authorized and other proposed bond issuance
- Major changes in tourist arrivals or expenditure levels
- Federal budget authorizations for Guam for FY 2010 including those related to Marine relocation
- Policy decisions and timing regarding construction for the Marine relocation – construction scheduled to commence in late FY 2010.

Construction:

Building permits had been on an upward trend until 2008 when they declined considerably. Total building permits for FY 2007 were \$320 million but declined 34 percent for FY 2008 to \$210 million. DOD construction contracts exceeding \$5 million dollars reached a record high in 2008 at \$295 million for the calendar year and \$252 million for the fiscal year. The total combined value of building permits and

ECONOMIC OUTLOOK FY 2010 - Updated June 30, 2009

The FY 2010 Economic Outlook for Guam prepared in January 2009 as a component of the FY 2010 Executive Budget request noted that it appears reasonably likely for there to be a temporary flattening of the growth curve established in recent years, with accelerating growth in late 2010 contingent on commencement of scheduled Marine relocation construction. That assessment appears to continue to be an appropriate description of the economic outlook for this time period, although a temporary dip could occur preceding the buildup should tourism arrivals remain at current levels or further declines.

A number of the issues for which there were decisions or actions pending which would affect the economy in FY 2010 and contributed uncertainty to the outlook have since been made or have moved forward in the process. These include decisions or actions on the U.S. Budget for FY 2010, a federal economic stimulus package, bond financing issues, and issues regarding financing for the federal consent decree on closure of the Ordot dump and opening of a new sanitary landfill.

The presidents' budget request for FY 2010 included an unprecedented level of planned expenditures for capital construction projects on Guam beyond expectations of \$787 million dollars. While it remains in the process of becoming law, recent history of such military construction requests for Guam have been included in the final budget law. A schedule of the expected impact upon tax revenues from this expenditure beyond the levels in recent years has been included as an economic adjustment to the Five-Year General Fund forecast of revenues and expenditures. Delay in the process of appropriations, contract awards, and commencement of construction could affect the amount of construction activity that will occur in FY 2010 and in subsequent years and, therefore, it's forecasted impact on the economy.

The American Recovery and Reinvestment Act (ARRA) economic stimulus package signed into law February 18, 2009, contained both income tax and expenditure components that will have an impact on Guam's economy in FY 2009 and FY 2010. The stimulus package included a tax credit of \$400 for individuals and \$800 for couples. The cost of the tax credit is being reimbursed by the federal government to the Government of Guam. The effect on direct tax revenues will be neutral. There will be a small positive impact on the economy from this tax credit arrangement as the reimbursement reflects additional federal expenditures and the tax credit leaves residents with greater disposable income. Economic stimulus funding for Guam has been estimated to reach \$140 million. Expenditure of these funds will commence in FY 2009 and continue through FY 2010. ARRA funding has also been received for Department of Defense projects on Guam to the tune of \$43 million. An assessment of the impact of those projects has been included as an economic adjustment to the Five-Year General Fund forecast.

Proposals and legislative authorization for bond issuance existed in late 2008, but given the uncertainty in the financial markets it was difficult to predict the timing or amount that bond issuance would yield and the subsequent effect on the economy. Eventually,

two bond issues were closed on June 18, 2009, one for the dump closure and new landfill and one for the payment of cost of living and income tax refunds and other purposes. The construction schedule associated with the closure of Ordot dump and construction of a new sanitary landfill was already considered in the January 2009 outlook. The consequences of a February 13, 2009, order from District Court Chief Judge Tydingco-Gatewood requiring weekly payments of nearly a million dollars beginning March 1, 2009, on the general fund and the likelihood of other budgetary actions such as furloughs and the concurrent economic consequences was not known. With the issuance of the bond, this risk to the budget and economy has been eliminated.

A schedule of the forecasted impact on tax revenues from the tax and cola disbursements were also included as an economic adjustment to the Five-Year General Fund forecast. Due to the bond issuance and expeditious disbursement of the proceeds in June 2009, it is now likely that a greater portion of the tax impact will occur in FY 2009 than in FY 2010 as projected. Withholdings for income tax from the COLA payments totaled in excess of \$7.8 million and should be reflected in the June 2009 revenue statement. The Government of Guam's application with the U.S. Department of Agriculture to cover the cost of building a new landfill is still pending, however, Mr. Joseph M. Diego, USDA Area Director said that Governor Felix Camacho will be notified of the result by June 2009. Approval of this request, of \$120 to \$125 million, would free up bond financing for the landfill to be used for other purposes.

Marine relocation construction activities and the associated tax revenues for construction planned for commencement in late FY 2010 were viewed as too uncertain to include in the January 2009 outlook to be a basis for the revenue forecast but its' importance was noted. Due to approval by the Japanese government and recent statements by Department of Defense officials indicating that this will move forward, an estimate of the projected impact on tax collections associated with construction for Marine relocation has been included in an economic adjustment to the Five-Year General Fund forecast. Commencement of such construction is contingent on the record of decision following completion of an environmental impact statement and it is expected in January 2010. The projected revenues for FY 2010 from this will be sensitive to the timing of the commencement of such construction. Delays in construction could move some of the associated tax projected for FY 2010 forward to FY 2011. As a prediction on the side of caution only 25% of the military construction activity is factored into FY 2010 in the Five-Year General Fund forecast. As the major tax benefit of such construction would be from an increase in personal income taxes paid to construction workers. Wage increases to Hawaii levels as approved by the House committee could also result in substantially higher marginal tax rates applied with existing graduated tax rates and could result in substantially higher income tax receipts than originally projected.

Tourism is one of the two major sources of revenues for Guam along with federal expenditures. In January tourist arrivals were down about 10 percent from the prior year and an assumption was made for forecasting purposes that arrivals would continue at a similar level through FY 2010. It was noted that the situation was somewhat volatile and unpredictable due to instability in the financial markets and the economics of the United

States and Japan. The effect of Japan's difficult financial and economic situation on tourist departures for international destinations was worsened by fears of Swine Flu. A June 24, 2009 report by Bloomberg noted that:

Japan's export slump deepened in May, casting doubt on the nation's growth prospects as the economy struggles to emerge from its worst postwar recession. Shipments abroad dropped 40.9 percent from a year earlier. ... A worldwide stock market rally stalled this month on concern that the global recession will deepen.

The World Health Organization (WHO) declared the novel H1N1 virus as a pandemic June 11, 2009. While no cases have been identified on Guam, it is a concern for Japanese travelers and has caused a number of cancellations of existing travel plans. It is difficult to predict the spread of the virus as well as the timeframe for a recovery to occur in the travel sector.

Tourist arrivals to Guam held up remarkably well through April 2009 and appeared to be stable and predictable albeit at a level below the previous year. In May and June 2009 the arrival numbers began a rapid deterioration. May's numbers were down 20 percent from the prior year. Visitor arrivals as of June 22, 2009, dropped to a level 33 percent below the prior year. This reduction in arrivals and total visitor expenditures is increasingly affecting the General Fund. In draft revenue statements for the 2nd quarter ending April 2009, Gross Receipts Taxes as an indicator of economic activity fell below estimates by 4%. And while for the same period gross receipts remain above the prior year actual collections, if arrivals continue to remain low or further deteriorate, the year's growth could be further impacted. The simulative effects of bond disbursements for tax refunds and COLA payments as well as ARRA projects will be positive for the remainder of Fiscal Years 2009 and 2010, the net effect of changes in tourist arrival trends and these disbursements will be better documented and accessed in the coming months.

In summary and in consideration of continuing fluctuations of military buildup timelines as well as the volatility of visitor arrivals, the adjusted revenue forecast for FY 2010 is estimated at 9% above that originally projected in January 2009. However, cautious optimism remains an imperative as we continue to monitor and solidify military buildup activities and their direct impact.