

# BUREAU OF STATISTICS AND PLANS

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Government of Guam

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**Eddie Baza Calvo**  
Governor of Guam

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Lieutenant Governor



**Thomas A. Morrison**  
Director

JUN 28 2011

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

Office of the Speaker  
Judith T. Won Pat, Ed. D.  
Date 6-28-11  
Time 11:35 AM  
Received by [Signature]

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, and input from the majority of members of the Special Economic Service, 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 will be posted on our website shortly.

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

Sincerely

  
Thomas A. Morrison

Enclosure:

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

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

	Summary Report				
	2007	2008	2010	2011	2012
<b>FEDERAL/MILITARY CONTRIBUTION</b>					
Federal Expenditures <sup>1</sup>	\$1,478,875,722				
DOD Federal Agency Transactions <sup>2</sup>	\$515,756,577	\$629,943,631	737,700,000	826,224,000	NA
Gross Value of Military Transactions <sup>3</sup>			\$524,000,000	\$1,302,000,000	\$2,213,000,000
Military Impact on Guam GIP <sup>4</sup>			\$185,000,000	\$455,000,000	\$755,000,000
<b>ECONOMIC IMPACT</b>					
Construction Permits <sup>5</sup>	\$323,330,000	\$210,295,000	\$278,245,802	\$304,122,662	NA
Employment <sup>6</sup>	59,570	60,970	62,180	NA	NA
Military Employment Demand <sup>7</sup>			6,041	14,440	22,701
General Fund Revenues <sup>8</sup>	\$514,392,108	\$513,190,329	\$540,218,638	\$600,811,600	\$677,400,000
Military to Guam Tax Revenues <sup>9</sup>			\$65,404,000	\$163,088,000	\$269,192,000
Tourism Arrivals <sup>10</sup>	1,223,290	1,179,246	1,170,857	1,030,354	1,081,872
Average Change in Price Level <sup>11</sup>	6.8%	6.2%	3.0%	NA	NA
Population Projection <sup>12</sup>	173,456	175,877	180,692	183,080	185,434
Military Population Increase <sup>13</sup>			11,038	27,835	44,301

**Footnotes:**

- 1) Source: Department of Labor, Review of Federal Expenditure Trends Release #2009-01, January 14, 2009
- 2) Source: Guam Economic Development Authority, Federal Transactions for Work Performed in Guam 2000-2009: January 2011 Draft; FY2010 Governor's 2011 Budget Proposal, FY2012 is estimated
- 3) Draft EIS Overseas Environmental Impact Statement: Guam and Military Relocation November 2009: Table 4.3-35 Unconstrained
- 4) Draft EIS Overseas Environmental Impact Statement: Guam and Military Relocation November 2009: Table 4.3-39 Unconstrained
- 5) Source: Department of Public Works Fiscal Year Totals, FY 2011-12 are estimated
- 6) Source: Guam Department of Labor September Employment Report
- 7) Draft EIS Overseas Environmental Impact Statement: Guam and Military Relocation November 2009: Table 16.2-11
- 8) Source: Department of Administration, FY2006-8 (Deloitte Touche Tohmatsu audited), FY2009 (PL29-113 Budget Act as adjusted given thru September 2009), FY2010 (PL 30-55 Budget Act), FY2011 (PL 30-196 Budget Act) & 2012 Governor's Budget Proposal
- 9) Draft EIS Overseas Environmental Impact Statement: Guam and Military Relocation November 2009: Appendix F SIAS Table 4.3-28, 29 & 30 Unconstrained
- 10) Source: Guam Visitors Bureau Fiscal Year Totals, FY 2011 - 2012 are forecasted
- 11) Source: Bureau of Statistics and Plans
- 12) Source: Guam 2000 Census of Population and Housing
- 13) Draft EIS Overseas Environmental Impact Statement: Guam and Military Relocation November 2009: Table ES-1 Unconstrained

**EDDIE BAZA CALVO**  
Governor



**RAY TENORIO**  
Lieutenant Governor

*Office of the Governor of Guam*

April 8, 2011

Honorable Judith T. Won Pat, Ed.D.  
Speaker  
*I Mina Trentai unu na Liheslaturan Guahan*  
155 Hesler Place  
Hagatna, Guam 96910

Dear Madam Speaker,

Transmitted herewith is the Government of Guam's proposed biennial program and financial plan for Fiscal Years ending September 30, 2012 and September 30, 2013. We call this the "Tax Refunds & Fiscal Stabilization Solutions Act of 2011."

Keeping with our promise of governing in a new direction, we are proposing:

1. A biennial budget plan that affords this government the opportunity to plan.
2. Fiscal Year 2012 gross revenue projections of \$677.4 million. This is based on conservative rates that do not include federally-unfunded military buildup activities.
3. Fiscal Year 2012 appropriations of \$561.1 million to fund government services. Priority is given to public schools, colleges, public health, the hospital and public safety agencies.
4. Fiscal Year 2012 provisions for tax refunds in the amount of \$105 million for Fiscal Year 2012 tax refunds alone.
5. A Fiscal Year 2012 reserve of two percent of revenues, amounting to \$11.2 million set aside for deficit elimination.
6. Fiscal Year 2013 gross revenue projections of \$693.7 million. This is based on conservative rates that do not include federally-unfunded military buildup activities.
7. Fiscal Year 2013 appropriations of \$573.2 million to fund government services. Priority is given to public schools, colleges, public health, the hospital and public safety agencies.
8. Fiscal Year 2013 provisions for tax refunds in the amount of \$109 million for Fiscal Year 2013 tax refunds alone.
9. A Fiscal Year 2013 reserve of two percent of revenues, amounting to \$11.5 million set aside for deficit elimination.
10. A \$344 million bond proposal to pay all past due tax refunds by the end of this year, to eliminate almost all of the deficit, and to erase the cash shortfall.

Not included in this biennial budget plan is:

1. Revenue enhancements to begin addressing the structural imbalance of the General Fund caused by the systemic underfunding of mandates. These enhancements will be presented at a later date.
2. A streamlining initiative, based on customer service, which already is underway within the Executive Branch.

events and factors such as the U.S. Department of Defense adjusted plans and programs in Fiscal Year 2010 and Fiscal Year 2011, the Japan disasters and the residual effects of the global recession. In spite of these setbacks, we must not cease our current efforts aimed at growing the economy. We will continue to invest resources in the areas which would yield the highest returns for Guam in the local and regional economic arena.

Rising costs continue to diminish the government's ability to provide the highest standard of services for our people and the solution to this is to increase this government's capacity to manage its tax resources and thus provide the necessary financial resources to address this challenge. This is a high priority for my administration and the agencies tasked with this mission are moving in this direction.

We will continue to invest in our people through education programs and manpower development initiatives. This is how we will put them at the front of the line when job opportunities are created. This is how we can help them overcome the financial challenges that are common to most families in our communities.

The island's tourism and construction industries are the mainstay of the economy and will continue to provide the necessary revenues to help Guam through a difficult financial period. The growth in other sectors however, is just as important and should not be subordinate in our economic initiatives. The economic era we are in offers many opportunities. It will also demand allocation of significant amount of resources that belong to our people. As such, it is imperative that we understand and safeguard the community's interests at stake and that we proceed vigorously in the movement to bring about the form of economic prosperity that our people want and deserve. Nothing less will suffice.

We will continue to direct our attention to economic activity that will result in job opportunities in sectors other than tourism and construction. Our people must be the primary stakeholders in all areas of the economic course we are embarking upon. This is how we expect to raise the hopes and aspirations of many of our people especially our children, the leaders of tomorrow. This is how we can help them to overcome the economic plight and the threat of poverty they face today.

A significant financial gap exists between now and Fiscal Year 2014 when revenue levels will begin to rise. This is the primary issue that has compelled us to develop a biennial budget that is comprised of strategies which include a temporary fiscal relief to fund government operations. Moreover, in the current Fiscal Year 2011 budget (P.L. 30-196), twenty million dollars (\$20M) for DOE personnel salaries and benefits were funded by federal ARRA funds. This federal fund source is no longer available in Fiscal Year 2012 and General Fund monies had to be allocated to replace the ARRA funding. This is a major factor that required the restructuring of the debt service payment schedule as proposed in this budget. This results in the release of approximately \$32M in annual debt service payments, for Fiscal Year 2012 and Fiscal Year 2013, which has been allocated to augment the operational funding requirements of the Department of Education (DOE).

The Fiscal Year 2012 budget for the most part, represents a conservative yet optimistic approach for a maintenance level budget that is supportive of this administration's priorities of health, education, and safety. While the administration is currently engaged in the development and implementation of revenue enhancements, cost-containment and cost-reduction initiatives as part of its fiscal stabilization plan, the positive results of many of these initiatives are expected to be realized in Fiscal Year 2013. These results are anticipated to sustain a level of government services that is responsive to the demands of our citizens.

# ECONOMIC OUTLOOK

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## Economic Outlook for Guam Fiscal Years 2012 and 2013

### Economic Factors Influencing General Fund Revenues

#### **Summary**

Guam's economic outlook for Fiscal Year 2012 is positive with modest aggregate growth anticipated. The pace of growth is largely dependent on the timing of scheduled construction activity, recovery in Japan tourism and continued strength in the Korea and Taiwan tourism markets, although a number of other factors will make their contributions. Positive growth is likely, but this outlook is not immune to a variety of risks. Key risks include the volatility in the Middle East and North Africa, which heightens concerns of fuel price spikes and their dampening effect on worldwide economic recovery, expansion and overseas travel as well as the stabilization and containment of leaking radiation from Japan's tsunami damaged nuclear reactors at Fukushima and the related impacts. An increasing accumulation of funds appropriated or available, but not yet contracted, for defense construction and other purposes leads to the conclusion that construction is likely to increase dramatically and economic activity is likely to increase modestly in FY 2012, and moderately, thereafter. The growing federal deficit and calls for federal budget reductions makes it likely that the recent trend of increasing non-defense expenditures on Guam may reverse. However, Section 30 funding is expected to increase moderately in FY 2012 and FY 2013 due to positioning of military support personnel and reconciliation of the Section 30 ledger may yield additional revenue, but this fund source will not peak until full relocation of the Marines is achieved. An unprecedented level of funding, over \$1.6 billion, is available for contractual obligation for defense construction and other infrastructure projects. These are funded by U.S and Japan appropriations as well as bond and American Recovery and Reinvestment Act (ARRA) grants. Substantial additional U.S. and Japan funds may become available in the not too distant future providing upside potential for significantly greater growth rates. Future policy actions of the federal and local governments, as well as Japan's government regarding the buildup, are likely to further influence the pace and direction of Guam's economy in the years ahead.

#### **Defense Buildup Plans**

The Record of Decision (ROD) was announced in September 2010, stating the Department of Defense's decision to proceed with plans to relocate a portion of U.S. Marine Corps forces to Guam from Okinawa. This enacts the blueprint for defense buildup projects on Guam and implementation of these plans will be the major force driving economic changes into the foreseeable future. Implementation has several components: These include: (1) Marine Corps: Relocation of approximately 8,600 Marines and their 9,000 dependents from Okinawa to Guam and development of facilities and infrastructure to support training and operations on Guam and Tinian. (2) Navy: Construction of a new deep-draft wharf with shore-side infrastructure improvements creating the capability in Apra Harbor, Guam to support a transient nuclear powered aircraft carrier, but has deferred site selection. (3) Army: Relocation of approximately 600 military personnel and their 900 dependents to establish and operate an Air and Missile Defense Task Force (AMDTF). As of the

# ECONOMIC OUTLOOK

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There was virtually no economic activity in FY 2010 from the items covered in the Final Environmental Impact Statement (FEIS) since the Record of Decision was not issued until late that year. While a number of contract awards were made in September 2010, the awards were too late in the year to have any impact on FY 2010. Delays occurred in commencing work on the FY 2010 projects for a variety of reasons including resolution of issues necessary to permit signing of the programmatic agreement. Construction is expected to increase substantially in 2012, but as the relocation construction projects will be mostly just starting near the beginning of FY 2012 and ramping up throughout the year, the average for the year will be somewhere in between the start and ending levels.

The largest project of the FY 2010 Military Construction funding is for a replacement Naval Hospital complex in Agana Heights. The groundbreaking ceremony took place about three months after the \$158 million contract was awarded for the project.

The contracting arrangements for the U.S. funded buildup projects were put in place with the Navy's May 11, 2010 \$4 billion contract award selecting seven companies for indefinite-quantity contracts. These firms will be given the bulk of the design and construction work for Marine Corps relocation and other military projects with specific projects to be awarded with task orders.

The Japan Mamizu funds are available but the contracting authority for their expenditure with indefinite-quantity Multiple Award Construction Contracts is not yet in place. The request for proposals for these contracts is due in April 2011. Task orders from these contracts are scheduled for contracting beginning in summer 2011. Construction will lag months until after that so little project activity will occur in FY 2011 but will commence and ramp up in FY 2012.

The largest Government of Guam project currently underway is the new John F. Kennedy High School; it is scheduled for completion by July 2011.

Private sector projects of note include the \$95 million 30 floor Bayview Hotel tower, to be the tallest on Guam, and convention center which is scheduled for completion and opening in spring 2012. Construction of the \$15 million New Harmon Apartments owned by Tanota Partners commenced in January 2010. The \$100 million Emerald Ocean Park condominium construction, started in March 2008, is currently at a standstill. On April 11, 2011, the Guam Healthcare and Hospital Development Foundation announced that it has begun designing Phase 1 plans with 130 acute care beds estimated to cost \$197 million, with plans to expand to 350 beds.

While the projects outlined in the FEIS are proceeding, the timeframes for the activity have been delayed and stretched out over a longer time frame. Measures of growth for population, employment and revenue, provided in the FEIS therefore, will remain largely unachieved in the FY 2012 and 2013 time periods.

It appears that the commencement of substantial growth originally projected in the NAVFAC Pacific Draft Environmental Impact Statement (DEIS) assumptions for population growth and additional revenues from buildup construction in 2010 will be deferred until FY 2012 and increase at a slower rate.

# ECONOMIC OUTLOOK

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and most difficult crisis for Japan". The disaster has been officially named Great East Japan Earthquake. The U.S. Department of State has issued a March 21 Travel Warning discouraging U.S. residents from visiting Japan at this time. The U.S. State Department downgraded on March 21 the Travel Warning and announced specific areas where U.S. Citizens should defer non-essential travel including Tokyo (Tokyo Capital Region). As a precaution, U.S. citizens within 50 miles of the Fukushima Daiichi Nuclear Power Plant are advised to evacuate the area or take shelter indoors if evacuation is not possible. Flights to Guam and the United States from Japan have been reduced somewhat. Commercial flights have resumed at all airports, except Sendai airport which remains closed. All of this is particularly important to Guam's economy as the Japan segment for 2010 comprised 75% of Guam's visitors. Given the magnitude of the disaster, the downturn in Japan arrivals to Guam was expected. Japan daily arrivals have dropped off approximately 20% since the March 11 disaster. For the entire month ending March 31, Japan arrivals are down 9.4% and total arrivals to Guam are down 5.8% compared to figures of one year ago.

The economic ramifications of the earthquake and tsunami include disruptions in transportation, electrical power generation and supply lines, affecting businesses and individuals. The expenditure of private and government resources are likely to be refocused to reconstruction efforts with travel for business and leisure purposes being curtailed. Typically, tourism declines following a natural or economic crisis, and over a period of time, recovers. The expectation is that in 2012 tourism on Guam from outbound Japanese travelers will be in gradual recovery.

The assumption is that tourism levels for FY 2012 will be below those achieved in FY 2010 and will remain above the depressed levels of FY 2009. Since tourism is a much larger component of Guam's economic activity than construction, whether measured by revenues or employment, a larger percentage increase in construction is necessary to off-set any decline in visitor industry expenditures.

## **Outlook for 2013**

The outlook for FY 2013 at this time is continuing recovery, with modest growth in the tourism sector. In the construction sector, activity is expected to continue to ramp up. While the aggregate economic activity in FY 2012 is likely to be positive, the robust growth over the year expected in construction will be somewhat offset by the still somewhat recovering Japanese tourist market. It is possible that by 2013 the Japan tourist sector may have recovered so that the entire amount of increased construction revenue will be added to the base. By then, there is a possibility that tourism from China may continue growth to become a more significant share. The potential is for FY 2013 to be significantly stronger than FY 2012, not only in the tourism sector but also in construction. The beginning construction level in FY 2013 will be the year end high of FY 2012 and is expected to ramp up further, assuming buildup plans and funding remain as currently planned.