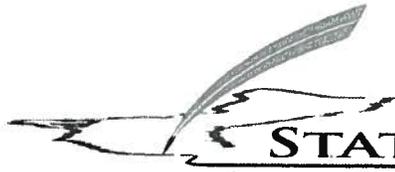


COPY

Eddie Baza Calvo  
Governor of Guam



**BUREAU OF  
STATISTICS & PLANS**  
SAGAN PLANU SIHA YAN EMFOTMASION

Government of Guam

P.O.Box 2950 Hagatna, Guam 96932

Tel : (671) 472-4201/3

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Ray Tenorio  
Lieutenant Governor

Thomas A. Morrison  
Director

JAN 24 2012

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 1/24/12  
Time 1:50 PM  
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	\$1,532,802,274	\$1,395,995,361	\$2,012,457,274	
DOD Federal Agency Transactions <sup>2</sup>	\$515,756,577	\$629,943,631	\$456,769,094	NA	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	\$248,611,000	\$278,245,802	\$238,348,843
Employment <sup>6</sup>	59,570	60,970	60,100	62,180	61,990
Military Employment Demand <sup>7</sup>			6,041	14,440	22,701
General Fund Revenues <sup>8</sup>	\$514,392,108	\$513,190,329	\$499,463,054	\$540,218,638	\$600,811,600
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	1,053,248	1,170,857	1,147,134
Average Change in Price Level <sup>11</sup>	6.8%	6.2%	1.7%	3.0%	3.3%
Population Projection <sup>12</sup>	173,456	175,877	178,287	159,358	NA
Military Population Increase <sup>13</sup>			11,038	27,835	44,301

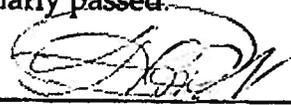
**Footnotes:**

- 1) Source: Department of Labor, Review of Federal Expenditure Trends Release #2009-01, January 14, 2009; and #2011-08, November 22, 2011
- 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 2012 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) & FY2012 (PL 31-77 Budget Act)
- 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, FY2012 is forecasted
- 11) Source: Bureau of Statistics and Plans
- 12) Source: Guam 2000 Census of Population and Housing (2000-2009); Guam 2010 Census of Population and Housing (2010) 2011/12 estimates pending
- 13) Draft EIS Overseas Environmental Impact Statement: Guam and Military Relocation November 2009: Table ES-1 Unconstrained

**I MINA'TRENTAI UNU NA LIHESLATURAN GUÅHAN  
2011 (SECOND) Special Session**

**CERTIFICATION OF PASSAGE OF AN ACT TO I MAGA'LAHEN GUÅHAN**

This is to certify that Substitute Bill No. 1 (2-S), "AN ACT MAKING APPROPRIATIONS FOR THE OPERATIONS OF THE EXECUTIVE, LEGISLATIVE, AND JUDICIAL BRANCHES OF THE GOVERNMENT OF GUAM FOR FISCAL YEAR ENDING SEPTEMBER 30, 2012, MAKING OTHER APPROPRIATIONS, AND ESTABLISHING MISCELLANEOUS AND ADMINISTRATIVE PROVISIONS," was on the 7<sup>th</sup> day of September, 2011, duly and regularly passed.



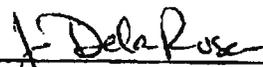
**Judith T. Won Pat, Ed.D.  
Speaker**

Attested:



**Tina Rose Muña Barnes  
Legislative Secretary**

This Act was received by *I Maga'lahaen Guåhan* this 8<sup>th</sup> day of Sept., 2011, at 10:10 o'clock A.M.



**Assistant Staff Officer  
*Maga'lahaen's Office***

APPROVED:



**EDWARD J.B. CALVO  
*I Maga'lahaen Guåhan***

Date: **SEP 20 2011**

Public Law No. 31-77



September 21, 2011

Honorable Judith T. Won Pat, Ed.D.  
Speaker  
*I Mina' Trentai-unu na Liheslaturan Guåhan*  
155 Hesler Place  
*Hagåtña*, Guam 96910

Dear Madam Speaker:

Transmitted herewith is Substitute Bill No. 1(2-S) “**AN ACT MAKING APPROPRIATIONS FOR THE OPERATIONS OF THE EXECUTIVE, LEGISLATIVE, AND JUDICIAL BRANCHES OF THE GOVERNMENT OF GUAM FOR FISCAL YEAR ENDING SEPTEMBER 30, 2012, MAKING OTHER APPROPRIATIONS, AND ESTABLISHING MISCELLANEOUS AND ADMINISTRATIVE PROVISIONS**”, which I have signed into law as Public Law 31-77, simply to avert a government shutdown. If it were not for this reason, I would have vetoed it. Below are some of the reasons that would have compelled me to veto the bill, had it not been for the looming arrival of the new fiscal year:

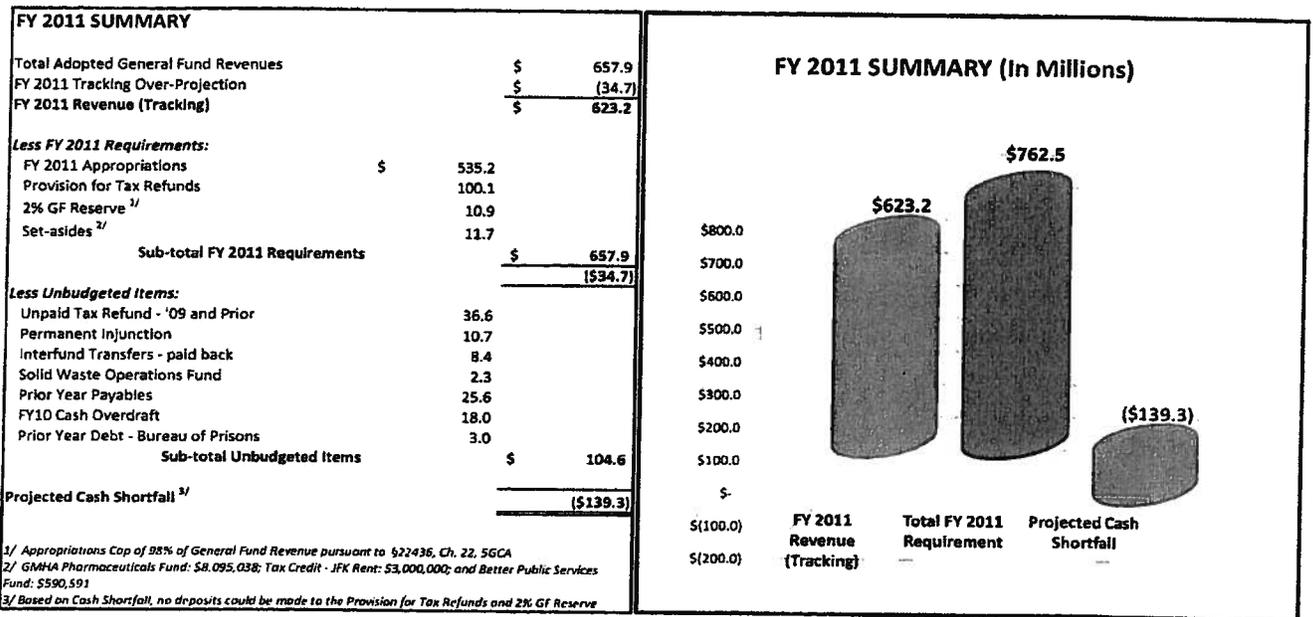
In the FY 2012 Executive Budget Request submitted by my administration, the revenues presented therein were fully allocated to various departments and agencies based on their respective operational requirements. In that proposal was the restructuring of \$32M in debt service to make up the General Fund revenues needed to fund the departmental funding requirements, which included the Supplemental Budget shortfall funding for departments, medical/dental/life insurance, as well as the additional \$20M for DOE personnel that the Legislature funded through a one-time fund source (ARRA/SFSF) in FY11 that now has to come from the General Fund. After all the criticisms received from the Legislature about the \$32M restructuring, the Legislature added new borrowings of \$18M, as a fund source if the GWA revenues are not received, and \$26M for the Retirement Fund for a total of \$44M in additional borrowing. This is \$12M over this administration's restructuring proposal.

## **Phantom Appropriations & Financial Health**

**Chapter I, Section 2(F). Section 2718 Fund.** This Section identifies \$7,545,989 in revenues from the Public Health Services Act and was added into the General Fund revenue section as Section 2718 Fund, which may or may not be received in this fiscal year and in the amount estimated. The appropriations made against this fund source may or may not have the revenues to support implementation of such appropriations. As I have stated, time and again, for the past three years, we cannot count on phantom revenue sources. *This is how we got into this financial mess. This practice of buttering the revenues to adhere to the balanced budget principle is half of the cause of the decades-old structural imbalance of the General Fund.*

**Chapter I, Section 5. Prior Year Obligations and Future Obligation Proposals.** This section is mandating the payment of prior year and future obligations, when monthly revenue collections exceed the monthly revenue budget. *Exactly how do you propose this government will survive with the current cash crisis, when monthly cash collections fluctuate (as opposed to the monthly budget allotments) and fixed operational costs do not? This is unrealistic and will present major cash challenges.* The monthly projection of revenues based on a statistical weighting of historical collections, reflects the monthly cash collections fluctuation. If the projected cash collection in any given month falls below the minimum amount needed for the non-discretionary expenditures, but cash collected exceeds projections, this section mandates the set aside of the excess cash collected. This is unrealistic and irresponsible to implement as payless paydays and unpaid obligations will result. For example, if July's projected revenue collection is \$35M, actual collection is \$39M, ( $\$39M - \$35M = \$4M$  excess) and required fixed costs are \$45M, we will be mandated to set aside the \$4M excess cash received even though the collections for July were \$10M less than what is needed. These fixed costs are the minimum requirements of cash disbursement needed for payroll, DOE allotments, Judiciary allotments, court-ordered payments, utilities, GMHA allotments, debt service, Supplemental Benefits, Supplemental Annuities, nonprofit organization vendors, MIP vendors, and others. This is the primary reason any excess cash over projections should not be prematurely allocated as proposed in Section 5, Chapter I until the financial results have been validated through the audit and other internal control processes. This will ensure the proper cash management of the available funds to account for the peaks and valleys in collections that occur during the year. Additionally, this section does not address how we will be able to pay all valid FY2011 payables, accruals and other liabilities, with FY2012 Cash Receipts since "excess" collections must be used to pay 50% COLA, 40% GFT lawsuit and 10% other prior year obligations.

This provision was included in Substitute Bill 145-31 which I vetoed. In my veto letter to the Legislature, I again attempted to direct attention to cash shortfall of the General Fund. This matter cannot be swept under the rug and ignored. The Democrat leadership continues to argue that "provisions for tax refunds" were funded in the budgets they passed and that there should have been funds set aside for payment of tax refunds. To reiterate what the Director of Administration has been explaining, if all the revenues that were adopted in this current year were actually collected and used to pay **ONLY** for expenses authorized in the FY 2011 Budget Act, then the cash available to pay **only the FY 2011 expenses** would still be short by **\$35M** because revenues were again over projected. However, because of over-projection of revenues adopted by the Legislature for the past three years, there are expenditures that were left unpaid and had to be carried forward into FY 2011. These unpaid obligations had to be paid, in addition to the unbudgeted court ordered payments and prior year tax refund payout, with FY 2011 revenues. If the government had indeed "set aside" the provision for tax refunds and the 2% Reserve, this government would have had to cut over \$100M worth of salaries and benefits which equate to an estimated 2,700 GovGuam employees funded by the General Fund. This would have had a catastrophic impact on government operations and services. I am reiterating this issue in an excerpt taken from my veto message of Substitute Bill 145-31 below:



"The FY11 cash shortage of \$139.3M, illustrated in the FY2011 Summary Table above, supports the government's inability to deposit funds into the Tax Refund Reserve Account, let alone pay the Unpaid Tax Refunds of over \$200M it owes to the people of Guam. The cash shortfall is a fact that this Administration has been aggressively *attempting to bring to the attention of Legislature but which has been continually ignored* as though it does not exist and does not have any bearing on tax refunds and the budget. This shortfall is the primary reason why we barely make payroll each pay period and is why we continue to delay payments to vendors. This shortfall is what prohibits me from releasing full allotments to the University of Guam, the Guam Community College, the Judiciary of Guam, the Executive line agencies and the special programs funded by the General Fund. *This shortfall is why this government cannot reserve cash for the Provision for Tax Refunds in which certain Senators continue to point out as being available to pay refunds because it is in the Budget Act. Passing a structurally unbalanced budget does not address the cash shortfall.*" (emphasis added)

**Subsection (b)** requires that we report the General Fund tax revenues on a cash basis. It should be noted that the current revenue report is based on the generally accepted government accounting principles which report revenues on the modified accrual basis of accounting. Revenues are recognized when "available and measureable" as defined by NCGAS1 paragraph 62. Reporting revenues on a cash basis will be tedious and will take a while as a detailed reconciliation to the AS400 will need to be completed.

**Continuing Appropriations.** *This is yet another phantom appropriation provision and, thus, empty promises to these agencies. Considering the important work these agencies do, and the customers they serve, it is disingenuous for the legislature to give the false hope that these agencies will receive the cash to back up the allotments for these continuing appropriations.* Contained in this bill are authorizations for continuing appropriations to the Legislature, United Judiciary, Office of Attorney General, Office of Public Accountability, Mayors' Council, and

many others. FY2011 General Fund actual revenues are tracking \$36M *below the adopted* General Fund revenues. The appropriation lapses of these entities, which are to be carried over into FY 2012 exist because there is not enough cash to remit full allotments in this fiscal year. *This is why the lapse exists in the first place! How can we provide the cash to back up the continuing appropriations if all the revenues for FY2012 are appropriated through this budget act, provisioned for tax refunds or held in the two-percent reserve?* This mandate only exacerbates the deficit and will be analogous to empty promises.

## **Critical, Underfunded Areas**

**Chapter V, Section 1 (g)(2). Residential Treatment Fund.** The Residential Treatment Fund is required to hire seven employees using the RTF funds. The unfunded court ordered positions are expected to severely increase the cost for the RTF. As such, the current appropriations are underfunded.

**Chapter V, Section 1 (g)(3). Government Claims Fund.** The appropriation to the Government Claims Fund is currently underfunded. There is currently a total of \$255,223.95 (see attachment) in government claims waiting to be posted in the accounting system. This \$255K is beyond the \$100K appropriated in FY2011. Appropriation authority ran out on March 18, 2011. We also recommend that the processing be transferred to the Attorney General's Office due to the nature and sensitivity inherent to government claims.

**Chapter V, Section 1 (g)(7). Interest-Only Payments to the Government of Guam Retirement Fund Pursuant to Public Law 28-38.** The Governor requested \$2M to provide for the interest-only payments for the GDOE and GMHA debt to the GGRF, however, Bill 1(2-S) appropriates only \$332,753. Based on current funding, DOA is paying an average of \$81,000 per month and in FY 2012 is expected to pay \$82,000 per month for a cost of \$984,000. There is no appropriation for the remaining \$650K.

## **Contradictory Language**

**Chapter XII, Section 1. Deficit Reduction.** Excerpts from this section state:

*"...shall be paid from the un-appropriated General Fund revenues collected in excess of appropriations and reserved for deficit reduction..."*

This excerpt contradicts the provision in Chapter I, Section 5.

*"...may utilize FY2012 appropriations for the agency, provided that the BBMR imposes a corresponding reserve and reduces the department's current year allotment by the same amount."*

These carryover liabilities are a result of appropriations passed by the Legislature, in excess of revenue collections. This section will require a supplemental bill for FY2012 to appropriate additional funding for these obligations that will be reduced from the departments FY2012 budget.

**Chapter XIII, Section 14. Transfer Authority of *I Maga'låhen Guåhan*.** This section mandates a waiting period of fifteen (15) working days before the Governor can enact a transfer between FY 2012 General Fund Executive Branch base operational appropriations. This affects the Governor's ability to address critical health and public safety emergencies.

## **Unfunded Mandates**

**Chapter XIII Section 19 Government Staffing Pattern.** This section requires the Department of Administration to "post a government wide line agency staffing pattern." All line agencies are required to submit their staffing pattern to the legislature no later than 30 days after the end of each quarter. As the two deadlines are concurrent, DOA will require additional time to compile and verify the data from the line agencies. The legislature provides no funding or human resources support to make this happen, unless of course the legislature believes the men and women of DOA do not already do enough work. As their Governor, I can tell you right now, these men and women go above and beyond their call, and they perform exceptionally. Their staff roll is stretched as it is. This is yet another unfunded mandate.

## **Legislating Inaccurate Financial Reports**

**Chapter XIII, Section 20. Monthly Working Trial Balance and Statement of Revenues, Expenditures and Changes in Fund Balance Report.** This section requires that the Department of Administration provide the General Fund financial statements no later than 20 days after the end of each month. The Department of Administration currently closes the accounting books on a quarterly basis. If we provide the financial statements on a monthly basis, the amounts will be subject to change. Given the time frame and inability to fill vacant positions, this information may not be accurate when presented.

**Chapter XIII, Section 21. Monthly Cash Balance Reports for General and Special Funds.** The Government of Guam currently has 151 bank accounts (60 local, 80 bond and special revenue, and 11 for the solid waste receiver) from various banks (BOG, Bank Pacific, ANZ, Citibank, BOG Trust, US Bank, Bank of New York). Clarification is needed on what is to be included in this report. There are 11 bank accounts that are monitored for the Solid Waste Receiver. DOA does not control the deposits or withdrawals on these accounts and is unclear as to the inclusion of these accounts in the report. Also, there are several bond bank accounts held in trust, both on island and in the continental US and clarification is needed on these accounts also. It would be almost impossible to comply with this requirement of Monthly Cash Balance Reports for General and Special Funds considering all other monthly reporting requirements. This is feasible on a quarterly basis and due on or before 30 days after the quarter ends.

## **Shortfalls in Critical Service Areas**

**Chapter XIV, Section 2. Hiring Freeze.** The government may not have the ability to fill management level positions critical to departments operations when incumbent vacates through resignation, retirement or other separations. This will negatively impact the ability of departments and agencies to provide mandated services with manpower deficiencies.

Certain entities that are projected to have funding shortfalls include:

1. **Veterans Affairs (VAO).** A funding shortfall of \$65,733 has been identified. This shortfall will impact the operations of the Veterans' cemetery in which only one position has been funded out of three positions requested.
2. **Guam Fire Department (GFD).** A funding shortfall of \$2,522,956 has been identified. This shortfall will impact primarily in the salaries and benefits covering overtime and special pay.
3. **Guam Memorial Hospital Authority (GMHA).** The Legislature did not fully fund the Pharmaceutical Fund by \$2,000,000. It is expected that funding covering pharmaceutical requirements will be insufficient during the fiscal year; such shortfall may be covered under the Health Futures Fund miscellaneous appropriation for operation, but such shortfall will contribute to overall funding deficiency of the hospital.
4. **Department of Mental Health and Substance Abuse (DMHSA).** A funding shortfall of \$2,191,825 has been identified. Such shortfall will impact those employees hired in FY 2011 by the Federal Management Team whose salaries and benefits must be paid by the General Fund in FY 2012. Additionally, under the Healthy Futures Fund, a shortfall has also been identified in the amount of \$380,423. Both the GF and HFF shortfalls will also impact on the contractual requirement during the fiscal year based on existing contractual services being provided in FY 2011.
5. **Department of Integrated Services for Individuals with Disabilities (DISID).** A shortfall of \$44,756 has been identified. Such shortfall will impact the salaries and benefits for existing personnel at this agency.
6. **Department of Administration (DOA).** A shortfall of \$783,446 has been identified. Such shortfall will impact management level positions needed in the management of personnel and services of the accounting department. Moreover, these positions are considered necessary for the department to handle the additional reporting and accounting requirements imposed by the substitute bill. Under the Indirect Cost Funds, a shortfall of \$9,468 has been identified. Such shortfall will impact the training opportunities needed by the accountants and other professional employees at DOA accounting to maintain their accounting knowledge current.
7. **Guam Regional Transit Authority (GRTA).** Under the Guam Highway Fund, a shortfall of \$79,143 has been identified. Such shortfall will impact the bus contracts in FY 2012.
8. **Department of Revenue & Taxation (DRT).** Under the General Fund, a shortfall of \$1,169,736 has been identified. Such shortfall will impact the salaries and benefits of those employees hired in FY 2011 under the ACTC program and other miscellaneous appropriations, resulting in an abbreviated collection program in FY 2012.

**Training and Continuing Education Fund.** The Governor's original budget submission requested for \$30,000 for the training and continuing education for accountants and related positions. This was included in the FY2011 budget but subsequently not included in the FY2012 budget passed by the legislature. Training for government accountants is essential and vital for our operations. The accounting, and especially governmental accounting, is a highly dynamic field. The standards are constantly changing and the government must be able to keep abreast with these changes or risk losing our unqualified opinion.

Madam Speaker, I signed the budget bill into law to avert a government shutdown. For the first time in history, appropriations were passed without a revenue level being adopted. There was no assessment, through the hearing process, of the needs of the critical services each agency provides. Not much information was sought from our administration before changes were made to the budget bill. To be clear, the changes were made through substitutions that occurred and were presented during the Committee of the Whole.

Since coming to office, I have continuously explained the cash crisis we have and the need to hold the line on spending. I have done this by first explaining the major difference between the budget and the government's cash flow. This is a grave distinction with an operational deficit as large as the one before us now.

I want to assure the people of Guam that I will use my executive powers to align expenditures with revenues by holding the line on spending. I will move forward with the reorganization of the government, and the cost reductions necessary to bring structural balance to the General Fund. I will make the tough decisions within my authority. ***This budget is only part and parcel to the larger effort to stabilize the government's fiscal health.*** I signed it to keep the government operating in the new fiscal year. I signed it in the spirit of compromise. Otherwise, I would have vetoed it without pause.

Thank you,



**EDDIE BAZA CALVO**