

Economic Adjustment Committee

Guam Socioeconomic Project Needs Assessment (S-PNA) Worksheet

Overview:

Summary of SAI Focus Areas and Projects

The Socioeconomic Areas of Interest (SAI) projects address five key focus areas that have been identified through numerous processes by Guam residents. These focus areas are:

- Health Care,
- Education,
- Cultural Resources,
- Emergency Services,
- Justice.

These focus areas were reconfirmed by the Government of Guam based on the demonstrated needs of the community and their direct link to the impacts resulting from the military buildup.

Health Care. Four projects are included, consisting of a new Mental Health and Substance Abuse Facility, a CDC Lab and Medical Health Care Campus Master Plan, an expansion to the Guam Memorial Hospital, and a new central facility for the Department of Public Health and Social Services (DPHSS) with a Central Health Clinic.

Education. One project is included, consisting of the School Bus Fleet and Maintenance Facility project. This project adds capacity to the Islands' school transportation system and provides a much needed upgrade to the maintenance facility so that it keeps the bus fleet operating efficiently and effectively.

Cultural Resources. One project is included, which is the Cultural Repository. The Repository facility currently used is not adequate to properly preserve historic artifacts that may be discovered as part of construction with the military buildup. This existing facility also does not exhibit the capacity to properly store the existing artifacts in its inventory. There is expected to be an increase in the artifacts curated as a result of the substantial construction related to the buildup. If not implemented,



an increased demand will result, further threatening the Island’s ability to preserve its heritage.

Emergency Services. Three projects have been identified to address the substantial increases in public safety demands: a new Police Department Central Headquarters, upgrades to the Fire Apparatus-Ambulance Fleet, and New Fire Stations and Equipment for Military Growth Areas. The police headquarters will centralize all of the functions of the Department within one building. The fire apparatus-ambulance upgrades will augment existing stations with improvements and ambulance service to reduce response/transport times. The three new fire stations will provide enhanced service to three unserved/underserved areas in the Villages of Merizo, Yigo and Mangilao.

Justice. Similar to Emergency Services, the proposed projects that respond to Justice needs on Guam will also be impacted by the military buildup. Projects to address deficiencies and future growth are: Adult Correctional Facility and Hagatna Judicial Center Expansion. The Adult Correctional Facility will serve the entire Island and the Judicial Center Expansion will add capacity to the existing central court building.

Priority of SAI Projects:

Initial Project Identification Screening Criteria and Process

The initial round of screening of projects critical to Guam focused on a qualitative assessment of project objectives. The objectives and criteria used to evaluate each project are as follows:

- **Objective: Immediate Impact**
How quickly can a proposed project resolve a demonstrated need that has been identified by the public, and what are its impediments for success?
- **Objective: Public Goodwill/Opinion**
How can a proposed project benefit the most people to leverage its capital and ongoing operation and maintenance investment?
- **Objective: Existing Capacity**
How can a proposed project fulfill the demonstrated need, leverage investments made in the past and provide/enhance system capacity?

Approximately 50 projects were initially identified to be evaluated through the screening process, utilizing the criteria identified above to achieve the desired objectives. At its conclusion, a total of 20 projects were identified for initial review by GovGuam, its Advisory Consulting Team (ACT), and its pertinent departments.

In conjunction, an exhaustive secondary source literary search was completed to reconfirm public support provided on pertinent past projects. Upon review of the

collected information and input received, an initial list of nine projects was identified for review and discussion by the Economic Adjustment Committee (EAC)- Socioeconomic Infrastructure Working Group in San Francisco in early August 2010, as shown below:

- Cultural Repository
- School Bus Fleet and Maintenance Facility
- Guam Memorial Hospital Expansion
- Central Public Health Clinic (CDC Lab)
- Mental Health and Substance Abuse Facility
- New Fire Stations and Equipment for Military Growth Areas
- Adult Correctional Facility
- Northern Court Facility
- Guam Police Department-Central Headquarters

The projects identified above met the objectives and criteria identified qualitatively, but did not comparatively rank each potential project. Based on the input received from the EAC and continued refinement by GovGuam and the ACT, the nine projects were ranked by priority and organized into three tiers. Each tier represents several fiscal budget years to realistically stage the implementation of the project list. This ranking not only reevaluated the objectives described previously, but developed a quantitative evaluation tool to assist in the “rack and stack” process. The tool identified the following criteria for ranking, which are organized using the queries below as its foundation. These criteria include:

Immediate Impact

- **Required Concept Design**-Is there a design that is required? How long will it take?
- **Shovel Ready Project**-Are designs/infrastructure in place to allow the project to move forward?
- **Military Linkage**-Is there a direct connection to the military buildup?
- **Land Acquisition**-Is the land held by GovGuam (minimal acquisition cost) or private (full acquisition cost)?
- **Site Constraints**-Are there impediments to development (i.e. slope, infrastructure, access, existing development, etc.)?

Public Goodwill

- **Positive Public Perception**-Has the public identified a need to resolve this issue?
- **People Directly Affected**-How many people are directly affected?



System Capacity

- **Existing Conditions**-Is there capacity in the facility now?
- **Financial Impact**-What is the cost/benefit of the project?
- **Other Funding Committed/Proposed/Contributions**-Have any other funds been committed, proposed that would affect this project?

These criteria are organized in the table below and scored accordingly. The scoring range is in descending order (i.e., 5 is high, 1 is low). The total for each criteria is summed and averaged to produce its final score, which was considered in the final ranking of projects, and the placement of the project in its respective tier for phasing.

Initial Project Prioritizing Criteria

Rank	Project	Concept Design Required	Shovel Ready Project	Military Buildup Linkage	Land Acquisition	Site Constraints	Positive Public Perception	Financial Impact	People Directly Affected	Other Funding Contributions	Total	Average
4	Cultural Repository	1	3	3	4	3	5	4	4	1	28	3.1
1	School Bus Fleet and Bus Maintenance Facility	5	5	3	5	5	3	4	5	1	36	4.0
2	Guam Memorial Hospital (GMH) Expansion	1	4	3	3	5	5	2	5	2	30	3.3
5	CDC Lab and Medical Health Care Campus Master Plan	1	3	3	3	3	4	3	3	2	25	2.8
6	Mental Health and Substance Abuse Facility	1	3	1	3	3	3	3	4	1	22	2.4
3	New Fire Stations and Equipment for Military Growth Areas	5	2	5	3	3	4	3	3	1	29	3.2
7	Adult Correctional Facility	1	1	3	3	1	4	1	4	3	21	2.3
5	Hagatna Judicial Center Expansion	1	2	5	3	3	3	3	3	2	25	2.8
5	Guam Police Department-Central Headquarters	1	2	3	3	3	4	2	5	2	25	2.8

Source: ACT, August 2010

The results of this analysis provided a substantial input in the final “rack and stack” of the projects and the subsequent placement of these in the three tiers to respond to the collective objectives described above (as well as an understanding of the staging of investment needed over the 2012-2020 timeframe) to respond to the military buildup.

In late August, each of these projects was subjected to an intense review and teardown/rebuild process to critically determine the potential for each project's success. The evaluation was conducted with the EAC on the Island of Guam to allow for a "boots on the ground" assessment. Once the assessment was completed, the resulting ranking and tier organization was finalized for preparation of the draft final report. The tier organization is a response to input that the projects should be organized to communicate the intended phasing program. In this manner, a focus now can be made for first tier (FY 2011) projects, and setting the foundation for the later two tiers. Upon completion of the ranking and tiers, the draft report was subsequently transmitted to GovGuam for review. Based on GovGuam's assessment and concurrence with its recommendations, the report was submitted to the federal Office of Management and Budget (OMB) on September 13, 2010.

Final Project Prioritizing Criteria

Tier	Rank	Project	Concept Design Required	Shovel Ready Project	Military Buildup Linkage	Land Acquisition	Site Constraints	Positive Public Perception	Financial Impact	People Directly Affected	Other Funding Contributions	Total	Average
1	1	Cultural Repository	1	3	3	4	3	5	4	4	1	28	3.1
1	2	School Bus Fleet and Maintenance Facility	5	5	3	5	5	3	4	5	1	36	4.0
1	3	Mental Health and Substance Abuse Facility	1	3	1	3	3	3	3	4	1	22	2.4
1	4	CDC Lab and Medical Health Care Campus Master Plan	1	3	3	3	3	4	3	3	2	25	2.8
2	5	Guam Memorial Hospital (GMH)Expansion	1	4	3	3	5	5	2	5	2	30	3.3
2	6	DPHSS Facility and Central Health Clinic	1	3	3	3	3	4	3	3	2	25	2.8
2	7	Guam Police Department-Central Headquarters	1	2	3	3	3	4	2	5	2	25	2.8
3	8	Fire Apparatus-Ambulance Fleet Upgrade	5	4	5	5	5	4	4	2	1	35	3.9
3	9	New Fire Stations and Equipment for Military Growth Areas	5	2	5	3	3	4	3	3	1	29	3.2



Tier	Rank	Project	Concept Design Required	Shovel Ready Project	Military Buildup Linkage	Land Acquisition	Site Constraints	Positive Public Perception	Financial Impact	People Directly Affected	Other Funding Contributions	Total	Average
3	10	Adult Correctional Facility	1	1	3	3	1	4	1	4	3	21	2.3
3	11	Hagatna Judicial Center Expansion	1	2	5	3	3	3	3	3	2	25	2.8

Source: ACT, August 2010

FINAL SAI PROJECT TIER AND RANKING

Based on the qualitative and quantitative criteria presented above, the appropriate tier and rank for each of the 11 identified projects have been carefully considered. Each project is summarized below by tier and includes a description of the findings from the evaluation of each project:

Tier 1 (FY2011-2014)

Cultural Repository

This project is of critical importance to the community’s efforts to preserve its unique culture and documenting its history in a period of significant social and physical change. Moreover, the Government of Guam has not had the financial capabilities to construct and maintain a suitable repository for the Island. This project will have a substantial impact on the community now and in the future as it aids in the effort to preserve and document its culture.

- Immediate Impact: Moderate
The proposed site is vacant, and appears to be served with utilities; no existing design or environmental clearances exist.
- Public Goodwill/Opinion: High
The existing facility is over capacity and does not have the adequate capabilities to properly preserve Guam’s historic artifacts. Some have been shipped out of the Territory.
- Existing Capacity: Low
The existing facility is over capacity.

School Bus Fleet and Maintenance Facility

The Bus Fleet and Maintenance Facility Project is of great importance because it has a direct impact on the social welfare and safety of the community, especially children. The Guam Department of Education anticipates an increase of 6,268 students as a

result of the military buildup, requiring an additional 53 school buses to service this increased demand. This project is of increased urgency due to the current conditions of the bus fleet which is in need of additional capacity and an upgrade to its maintenance facility to prepare for the expected service demands.

- **Immediate Impact: High**
The existing maintenance facility will accommodate the projected improvements.
- **Public Goodwill/Opinion: High**
The ability to transport children to and from school safely, on time, and with age appropriate wait and ride times, is paramount to Guam families.
- **Existing Capacity: Low**
The existing fleet of buses cannot maintain an adequate stock of transportation vehicles.

Mental Health and Substance Abuse Facility

The construction of the new Mental Health and Substance Abuse facility will provide the much needed capacity to manage the existing and future demands on the program. The Department of Mental Health and Substance Abuse (DMHSA) is in urgent need of support with the anticipated increase in military presence on the Island. GovGuam has been looking at ways to engage both the Department of Defense (DOD) and Veterans Affairs (VA) on addressing mental health issues for military-involved persons that have an impact on the public mental health system. The Final Environmental Impact Statement (FEIS) identifies a peak service population increase of 43% to the current baseline population serviced by Guam’s DMHSA. Additionally, 25% of the DOD civilian workers are supported by the DMHSA.

- **Immediate Impact: High**
The existing need is high to enhance behavioral health services within the Island.
- **Public Goodwill/Opinion: High**
The investment in mental well being is needed, especially with increasing civilian and military populations.
- **Existing Capacity: Low**
The existing facility is over its capacity.

CDC Lab and Medical Health Care Campus Master Plan

The Center for Disease Control (CDC) Laboratory is proposed to provide the capability to test, analyze, and confirm the presence of air, food and water borne contaminants that impact human health. This project has a direct impact on the community’s public health and disaster readiness, a wide range of laboratory testing for communicable diseases and food and water borne illnesses cannot be tested on Guam. This is critical to be able to address the large worker immigration expected. The new facility will also serve as the “one stop testing and confirmation hub” for the surrounding Micronesian region.



- **Immediate Impact: High**
This project would provide health care protections for Island residents.
- **Public Goodwill/Opinion: High**
This project is supported by health care interests both on and off the Island.
- **Existing Capacity: Low**
The investment in a Level 2 testing lab will allow the Island to quickly confirm testing for infectious diseases to minimize outbreaks and pandemics.

Tier 2 (FY2012-2015)

Guam Memorial Hospital (GMH) Expansion

The 90-bed expansion of the Guam Memorial Hospital (GMH) serves an immediate public health need that affects the entire population of Guam. The additional beds are urgently needed because GMH is currently operating without adequate capacity, a problem that will be heightened by the increase in population as a result of the military buildup. The 90 bed expansion is approximately 1/3 of the total number of beds required at the peak year and thus, offers a reasonable number of beds that can be supported by the military buildup nexus.

- **Immediate Impact: High**
The existing hospital is the only acute care facility for civilians on the Island.
- **Public Goodwill/Opinion: High**
The existing hospital is frequently over capacity as identified daily in the *Pacific Daily News* newspaper, which identifies available capacity on its front page.
- **Existing Capacity: High**
The hospital needs more beds than is proposed by this project.

DPHSS Facility and Central Health Clinic

This project will encompass the relocation of the Divisions of Environmental Health, Public Health, General Administration and Management Support Services, Public Welfare and Senior Citizens to a new facility. The urgent need for this project is due to the overcapacity and dilapidated conditions of the current central facility and reduced efficiency and functionality that results from Divisions of the Department located in multiple locations.

- **Immediate Impact: High**
This facility will centralize several components of DPHSS and provide additional space.
- **Public Goodwill/Opinion: High**
The existing DPHSS facility is operating over capacity, and other divisions within DPHSS are located at multiple, dispersed locations.
- **Existing Capacity: Low**
The building is not functional and suffers from age, obsolescence, and high maintenance costs. The related population increases during the construction and sustainment phases increases the potential for exposure and contraction of disease.

Guam Police Department-Central Headquarters

The construction of a new Guam Police Department (GPD) Headquarters will provide a centralized Police Headquarters that has the capacity and capabilities to serve the added demand for services that will be placed on the Department as a result of the Buildup activities. Major areas of support that will be required during the Buildup include traffic management, drug prevention and enforcement, vice operations, civil disturbance response, community services, and coordination support to aid in the safe movement of materials and workers on key roadways on the Island. This project is critical because the Government of Guam does not have the funds to provide GPD with the additional assets and resources needed to maintain an acceptable level of public safety, especially when considering the added demands the Department will face as a result of the Buildup.

- **Immediate Impact: High**
The department is time restricted at their existing facilities.
- **Public Goodwill/Opinion: High**
The Department is operating at several buildings which are converted dormitories and approaching 40 years of age.
- **Existing Capacity: Low**
The buildings are not functional and suffer from age, obsolescence, and constant maintenance-they will be removed by the owner to redevelop the existing site upon departure of the Department.

Tier 3 (FY 2014-2017)**Fire Apparatus-Ambulance Fleet Upgrade**

These critical upgrades and expansions are necessary to ensure Department of Homeland Security (DHS) initiatives are met to protect critical infrastructures, but more importantly, for the Guam Fire Department to achieve its goal to respond to citizens' calls for service with the least possible impedance or delay. A lack of financial support and commitment for these new and additional fire and rescue capabilities will place the people of Guam, as well as military operations, at risk.

- **Immediate Impact: High**
The proposed apparatus and ambulances will be accommodated on existing facilities, requiring no structural improvements.
- **Public Goodwill/Opinion: High**
Lower response times for emergency medical calls will save lives.
- **Existing Capacity: High**
These upgrades will be undertaken on existing fire facilities.

New Fire Stations and Equipment for Military Growth Areas

The creation and placement of the three new fire stations, with their assigned fire apparatus and equipment, is directly related to the existing military mission as well as being impacted by the construction phase and sustainment phase of the buildup.



The Guam Fire Department expects the Buildup to result in increases of service delivery to be impacted in the areas of: Fire Prevention, Fire Suppression, Emergency Medical Services (EMS) and Search and Rescue (SAR) with the concentration of incidences in recreational (land and marine) activities, traffic and vehicular accidents, public fire safety awareness and education, and suppression of fires attributed to incendiary and/or accidental determination and cause.

- **Immediate Impact: Moderate**
The proposed sites in Merizo, Yigo, and Mangilao are vacant, but the project will require environmental clearance, design and construction.
- **Public Goodwill/Opinion: High-**
These Stations will provide service to areas underserved and unserved within these Villages.
- **Existing Capacity: Low**
These areas are not currently served, so do not have available capacity.

Adult Correctional Facility

This project affects public safety for the entire community (local and military) because it will replace the only prison on Guam. The Department of Corrections (DOC) currently houses all local and federal inmates and detainees, including those held for immigration reasons. The Department's MOA with the military identifies DOC as the responsible party to house military personnel who are placed in pre-trial confinement, serving short sentences, or who are awaiting transfer to a military penitentiary. The Department must also house all illegal aliens awaiting trial and those serving sentences prior to deportation, which are incidents expected to increase as the buildup activity attracts more immigrants to Guam.

- **Immediate Impact: Moderate**
The proposed site is vacant and is not served with infrastructure; environmental clearances, design and construction have not commenced.
- **Public Goodwill/Opinion: High**
The existing ACF is the only facility serving the Island; of the current facility are not adequate to handle the expected increase in capacity that will result from the buildup activities and the increase in population.
- **Existing Capacity: Low**
The poor physical condition of buildings and reliance on multiple prisoner locations are not cost effective or adequate; the presence of overcrowding now will exacerbate an existing critical condition for prisoners, correctional staff and the community.

Hagatna Judicial Center Expansion

The Hagatna Judicial Center Expansion project will augment the space at the current Central Court facility in Hagatna in order to alleviate the case workload. . The overcrowded condition of the Central Court facility in Hagatna negatively affects operations of the Judiciary of Guam (JOG) and limits its efficiency in serving the

public. The expected population increases and related activities are expected to have an impact on Civil cases, Family Court cases, Traffic court cases, Small Claims court, as well as overall trial caseload.

- **Immediate Impact: Moderate**
This project would alleviate capacity issues at an existing facility.
- **Public Goodwill/Opinion: High**
The case load of the existing central court requires a new and expanded facility in the northern portion of the Island-where the majority of the military buildup will take place.
- **Existing Capacity: Low**
The existing northern facility in the Dededo Mall is too small to accommodate the forecast for the regions' future workload.



Please see the next page.

GovGuam's Financial Condition & Ability to Borrow

Introduction

The Government of Guam ("GovGuam" or the "Government") does not have sufficient capacity to borrow funds to support infrastructure projects related to the military buildup. The Government has nearly reached its debt capacity and has significant long-term liabilities that need to be addressed in the coming years. Although it has improved in recent years with additional fiscal controls, both implemented on legislative and Executive levels, GovGuam still struggles to maintain balanced budget and meet current obligations with current funding sources on an ongoing basis. These factors, as well as several economic factors, are the reasons why GovGuam is rated a speculative rating of B+ (Stable Outlook) by Standard & Poor's and why Guam cannot currently issue debt at reasonable rates compared to some of its state-level peer issuers.

GovGuam Financial Condition

Standard & Poor's ("S&P") in its latest report, on August 16, 2010, continues to state that "Guam has a long history of structural imbalance and very large accumulated deficits that will likely take years to reduce." S&P continues "to view Guam's balance sheet as under pressure, with what we consider substantial long-term liabilities, obligations to retirees, and to a lesser extent payables to other component units and accounts payable."

General Fund revenues have fluctuated in the recent past due to external factors affecting Guam's economy and decreased for Fiscal Year 2009 after having generally trended upward since Fiscal Year 2002. During Fiscal Year 2009, total General Fund revenues amounted to \$483,150,183, a 5.9% decrease as compared to Fiscal Year 2008, reflecting approximately \$25.7 million of revenue adjustments. Tax revenues declined by approximately 3.4%, to \$427,872,690 in Fiscal Year 2009. Business privilege tax collections fell slightly, to approximately \$182.6 million, a 1.7% decrease from Fiscal Year 2008, which had seen the highest level of collection of such revenues since Fiscal Year 1997. Income taxes also declined to \$232.8 million, a decrease of 8.3% from Fiscal Year 2008 to Fiscal Year 2009. Section 30 revenues declined by 3.9% during Fiscal Year 2009, due in part to adjustments made in Fiscal Year 2009 for overpayments of Section 30 revenues to the Government in previous fiscal years.

The two primary sources of General Fund revenues are tax revenues and federal contributions. Tax revenues are comprised of income taxes and business privilege taxes (formerly known as gross receipts taxes), which accounted for approximately 50% and 38% of total General Fund revenues, respectively, during Fiscal Year 2009. Real property tax revenues are required to be deposited in the Territorial Educational Facilities ("T.E.F.") Fund, which is not a part of the General Fund. However, moneys in the T.E.F. Fund are required to be used to reimburse the General Fund for payments of debt service on general obligation bonds of the Government. Audited real property tax revenues totaled approximately \$20.3 million in Fiscal Year 2009.

Federal contributions represent the second largest source of General Fund revenues and in Fiscal Year 2009 accounted for approximately 8.4% of General Fund revenues. Such revenues are comprised primarily of amounts paid to the Government by the United States of America pursuant to Section 30 of the Organic Act of Guam, 48 U.S.C. § 1421h ("Section 30 revenues"). Section 30 revenues include all amounts received by or on behalf of the Government as proceeds of customs duties and federal income taxes derived from Guam, the proceeds of all taxes collected under the internal revenue laws of the

United States on articles produced in Guam and transported to the United States, its Territories, or possessions, or consumed in Guam, and the proceeds of any other taxes which may be levied by Congress on the inhabitants of Guam (including, but not limited to, compensation paid to members of the Armed Forces and pensions paid to retired civilian and military employees of the United States, or their survivors, who are residents of, or who are domiciled in, Guam), and all quarantine, passport, immigration and naturalization fees collected in Guam, and such other taxes as may be collected pursuant to Section 30 of the Organic Act of Guam, and held in account for the Government.

Expenditures of General Fund revenues are made pursuant to appropriation laws. The two largest expenditure categories, public education and protection of life and property (primarily, police, fire and corrections), accounted for 39% and 17% of total General Fund expenditures in Fiscal Year 2009, respectively.

Fiscal Year 2009 Results

The General Fund has previously sustained recurring operating deficits and had a total fund deficit of approximately \$265.4 million at September 30, 2009. While the General Fund's unreserved fund deficit decreased by approximately \$150.1 million largely as a result of the issuance of general obligation bonds in June 2009, the Government did not achieve an operational reduction of the General Fund deficit in Fiscal Year 2009. Instead, the General Fund generated a current year operational deficit of \$92.9 million, attributable to expenditures in excess of actual revenue collections, including certain mandatory expenditures for which no appropriations were authorized and approved by the Legislature.

Fiscal Year 2010 Budget and 2010 General Fund Revenue Update

Commencing with Fiscal Year 2010, Guam law requires that the Legislature appropriate no more than 98% of projected General Fund revenues. This requirement, together with an initiative of the Bureau to cap spending at 97% of budgeted levels, is expected to result in an annual reduction in the deficit. The Bureau also plans to either increase the reserves for other unanticipated contingencies or to include funding for recurring but unfunded mandates in future budgets.

The Fiscal Year 2010 Budget Act (the "2010 Budget") was approved by the Legislature and signed by the Governor of Guam on September 4, 2009. The 2010 Budget provides for total projected General Fund revenue available for operations of \$545.3 million, of which \$468.1 million is derived from fees and taxes and \$42.4 million is derived from federal sources, including Section 30 revenues. Income tax revenues are projected to total \$292.5 million (net of provision for tax refund payments), while business privilege tax revenue is projected to reach \$211.9 million. The 2010 Budget provides for total General Fund appropriations of \$540.2 million.

Preliminary reports indicate that actual General Fund revenue collections for the first nine months of Fiscal Year 2010 were approximately \$357.1 million, an approximate 4% decrease relative to General Fund revenues collected during the same time period in Fiscal Year 2009. These revenues included approximately \$181.3 million of income tax revenues (net of an approximately \$78.9 million provision for income tax refunds) and approximately \$140 million of business privilege tax revenues. Income tax revenues and business privilege tax revenues collectively represent approximately 90% of the total General Fund revenues. Income tax revenues showed a 6.8% decrease in collections during the first nine months of Fiscal Year 2010 compared to the same period in Fiscal Year 2009, while business privilege tax revenues were down 2.1% relative to such period in Fiscal Year 2009. The 2010 Budget incorporates a spending cap of 98% of the adopted revenues and certain limitations on hiring within the executive branch of the Government and certain instrumentalities of the Government.

Another measure of the overall health of the General Fund is liquidity. The latest updates to liquidity metrics were received by GovGuam for FY2008 via the “Perfometer Report” released by the Office of the Public Auditor. The Perfometer stated that for FY2008, “although there was a slight improvement in the current ratio (current assets to current liabilities) of 0.28 to 1, compared to the past three years, the government of Guam has just 28 cents of current assets to pay \$1 of current liabilities. An adequate current ratio is 2.0 to 1. In addition, the government has a quick ratio (total cash and short-term investments to current liabilities) of 0.08 to 1, which indicates that it only has eight cents in cash and short-term investments to pay \$1 of current liabilities. A desirable quick ratio is 1.0 to 1. These unfavorable current and quick ratios are indicators of the government’s cash flow difficulties and distressed financial health. The General Fund struggles daily to fund bi-weekly payroll, vendor payments, tax refunds, and other routine obligations.”

GovGuam Debt Capacity

Section 11 of the Organic Act of Guam provides that no public indebtedness of the Government shall be authorized or allowed in excess of ten percent of the aggregate tax valuation of the property in Guam. On March 27, 2007, the Supreme Court of the United States issued its decision in the case of *Limtiaco v. Camacho*, which, among other things, interpreted “aggregate tax valuation” to mean the assessed valuation (i.e., the amount upon which the property tax rate is levied, as opposed to appraised value). At the time, the assessed valuation of property in Guam was defined by Guam statutes to mean 35% of the property’s appraised value, as ascertained by the Guam assessor. Guam’s property taxation statutes have since been amended so that assessed value is now defined as 90% of appraised value, with related amendments to property tax rates so that revenue impacts were neutral.

The aggregate tax valuation of the property of Guam as of October 2009 was approximately \$8.791 billion, and the public indebtedness of the Government (excluding its autonomous agencies) as of July 1, 2010 was approximately \$775.3 million, which results in approximately \$103.7 million of additional public debt that currently may be incurred by the Government. This does not include additional debt that has already been authorized by law but not yet incurred.

GovGuam has tapped nearly all of its existing revenue sources to fund debt service related to both infrastructure and operational/working capital needs. Standard & Poor’s has consistently characterized Guam’s per capita debt burden as “high” in its previous reports. In addition to this debt burden, S&P considers GovGuam’s \$1.4 billion unfunded accrued pension liability as a significant hurdle the Government must overcome. The Government is currently not funding the contribution rate at the approved actuarial level, but plans to in the coming years. In addition to the unfunded liability, the Government has a \$1.6 billion estimated liability related to other post-employment benefits.

Both General Obligation and Limited Obligation bond categories apply against Guam’s debt limit. Below is a chart of GovGuam’s outstanding indebtedness as of July 2010.

**Government of Guam Outstanding Debt
As of July 1, 2010**

<u>Description of Indebtedness</u>	<u>Aggregate Outstanding Principal Amount</u>	<u>Final Maturity (Fiscal Year ending September 30)</u>
<i>General Obligation Bonds and Other General Obligation Indebtedness</i>		
Guam General Obligation Bonds, 1993 Series A	\$ 34,370,000	2019
Government of Guam Loan (2002) (P.L. 26-84) (1)	3,949,267	2013
Guam General Obligation Bonds, 2007 Series A	151,935,000	2038
Government of Guam Loan (2008) (P.L. 29-82) (1)	7,490,660	2012
Guam General Obligation Bonds, 2009 Series A	271,070,000	2040
Government of Guam Loan (2010) (P.L. 30-55) (1)	<u>30,000,000</u>	2020
<i>Subtotal</i>	\$ 498,814,927	
<i>Limited Obligation Bonds and Other Limited Obligation Indebtedness</i>		
Limited Obligation Infrastructure Improvement Bonds, 1997 Series A (2)	\$ 31,385,000	2018
Limited Obligation (Section 30) Bonds, 2001 Series A (3)	18,620,000	2012
Limited Obligation Highway Refunding Bonds, 2001 Series A (4)	11,250,000	2012
University of Guam Rural Development Loan (2003) (P.L. 26-48) (5)	12,800,852	2044
Limited Obligation (Section 30) Bonds, 2009 Series A (3)	<u>202,425,000</u>	2035
<i>Subtotal</i>	\$ 276,480,852	
<i>Revenue Bonds and Other Indebtedness</i>		
Guam Power Authority Revenue Bonds, 1993 Series A	\$ 66,985,000	2024
Guam Power Authority Revenue Bonds, 1999 Series A	313,700,000	2035
Guam Power Authority Revenue Bonds, 2010 Series A	150,440,000	2041
Guam Power Authority Subordinate Revenue Bonds, 2010 Series A	56,115,000	2016
Guam Airport Authority General Revenue Bonds, 2003 Series	172,725,000	2024
Guam Waterworks Authority Water and Wastewater System Revenue Bonds, Series 2005	97,350,000	2035
Guam Housing and Urban Renewal Authority Loan	1,450,894	2030
Guam Housing Corporation, Various Notes and Loans	4,513,440	2014
Guam Housing Corporation Mortgage-Backed Revenue Bonds, Series 1998	5,045,000	2031
Judicial Building Fund Revenue Note (2006) (P.L. 26-124 & 28-68)	10,253,623	2018
Guam Education Financing Foundation Certificates of Participation (6)	62,470,000	2026
Guam Economic Development Authority Tobacco Settlement Asset-Backed Bonds, Series 2007A and Series 2007B	<u>31,230,000</u>	2057
<i>Subtotal</i>	\$ 972,277,957	
Total Indebtedness	<u>\$1,747,573,736</u>	

(1) Although other sources of revenue are also pledged to these loans, they are subject to the full faith and credit of the Government and are therefore classified herein as general obligation debt.

(2) Payable primarily from transient occupancy taxes.

(3) Secured by and payable primarily from Section 30 revenues.

(4) Payable primarily from liquid fuel taxes and vehicle registration and license fees.

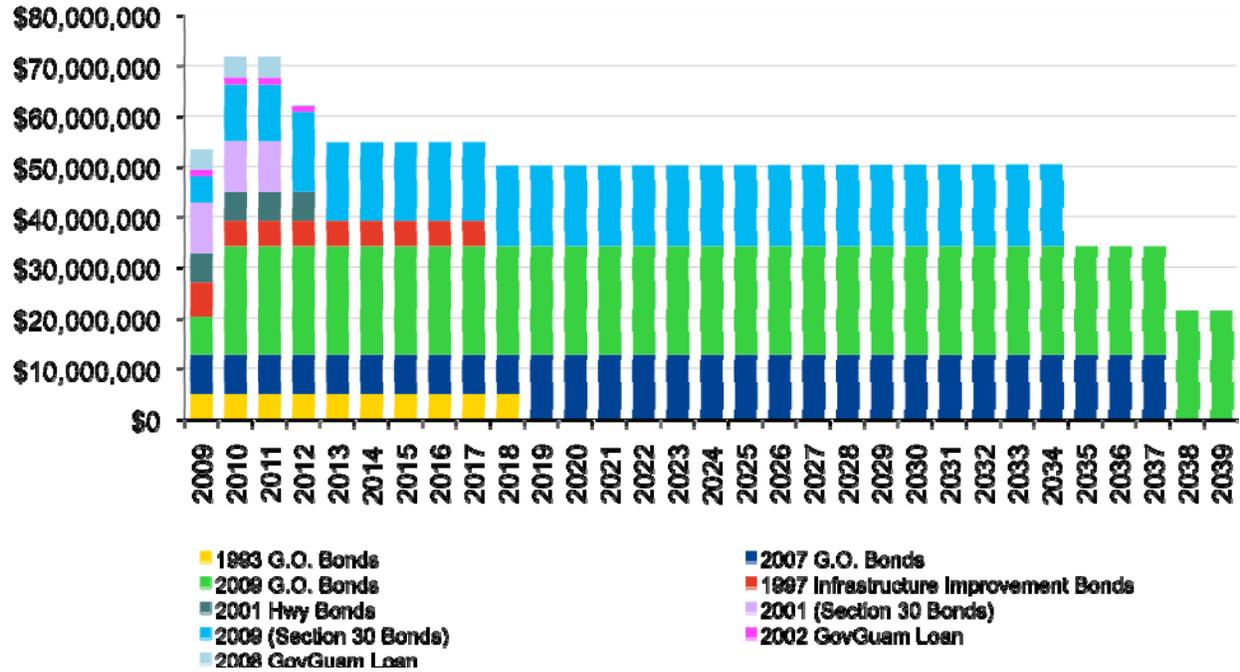
(5) Payable primarily from mass transit automotive surcharges.

(6) Payable primarily from Compact Impact Funds (funds appropriated by the U.S. government to mitigate the impact on Guam of the Covenants of Free Association of the Republic of the Marshall Islands and the Federated States of Micronesia); lease payments due in 2023-25 relating to \$14,015,000 of Bonds are payable from the General Fund, subject to annual appropriation by the Government.

Source: Guam Economic Development Authority.

Below is a pay-down schedule of GovGuam’s debt, not including autonomous agencies. We note that some debt will mature in the next two to eight years, however, that debt capacity is much needed for general infrastructure upgrades unrelated to the military buildup.

Government of Guam Scheduled Debt Service



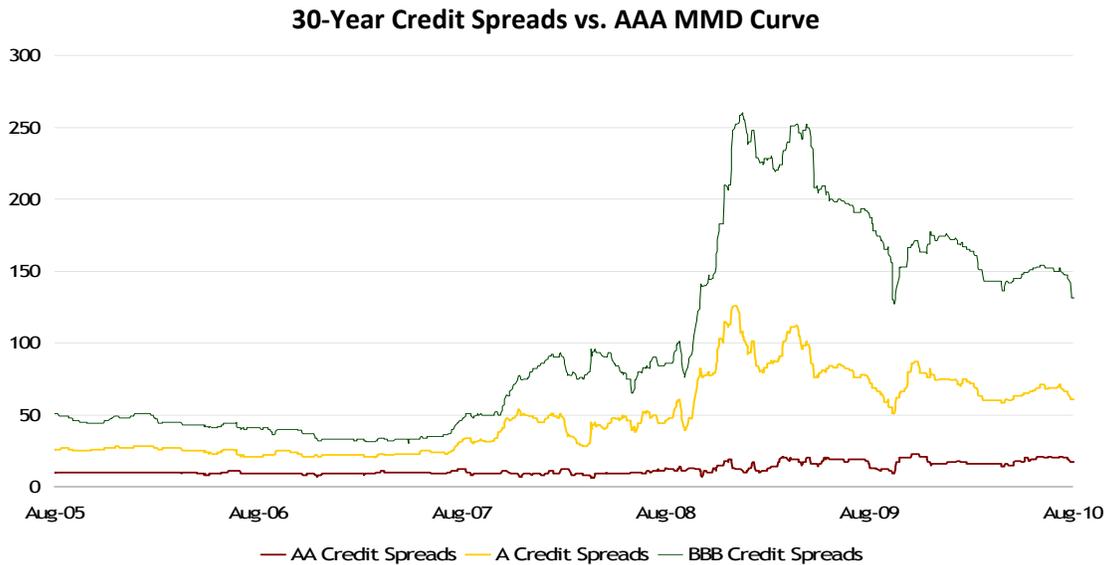
Ability to Borrow

GovGuam’s ability to borrow is extremely limited, given its imposed Organic Act debt limit as well as its limited financial resources to meet additional debt obligations. As mentioned previously, GovGuam’s rating category is speculative. S&P’s definition of a B category investment is as follows: “An obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.”

The importance of an entity’s credit rating is underscored when the entity tries to obtain funding through debt or other investments. All municipal debt generally trades at a spread to the AAA-rated Municipal Market Data (“MMD”) curve. This curve is an index made up of highly rated municipal credits. In recent years, as a result of the credit crisis and waning investor confidence, the spread for lower rated credits such as GovGuam has increased. Note that most state-level governments such as GovGuam are rated in the A-category.

The chart below shows the hypothetical borrowing cost for BBB rated credits versus the AAA-curve. The y axis represents the spread to the AAA MMD curve in basis points (100 basis points equals 1%) and the

x axis represents the spreads over the last five years. Note that Guam's B+ rating would hypothetically trade at higher spreads than the BBB curve, however there is no benchmark B+ rated curve. In addition, at this rating level, the potential investor base is very limited as certain buyers cannot invest in obligations rated below the investment grade category, driving long-term borrowing rates upward.



Conclusion

As discussed above, GovGuam's financial condition continues to be strained, despite major improvements in executive branch control and a political willingness to address long-overdue liabilities. With the limited ability to obtain additional debt, it has been the Government's policy that the remaining debt capacity be used for critical projects or emergency purposes. In fact, Governor Camacho recently declined a loan from USDA due to the Government's limited capacity for additional debt. Rating agencies and investors in the capital markets consider GovGuam to be a speculative investment and therefore assign a lower rating and higher interest rates to its long-term debt. It is clear that GovGuam cannot afford to fund military buildup related projects on its own. In addition, any such borrowing would be at significantly higher interest rates compared to a typical state-level government.

Tier	Project Name	Cost Element	Fiscal Year										Project Total	
			FY11	FY12	FY13	FY14	FY15	FY16	FY17					
2	Guam Memorial Hospital (GMH) Expansion	Design and EA		\$5,400,000										\$5,400,000
		Construction			\$77,200,000									\$77,200,000
		Procurement			\$700,000									\$700,000
		Program Management		\$1,100,000	\$1,100,000	\$1,100,000								\$3,300,000
	Project Total		\$0	\$6,500,000	\$79,000,000	\$1,100,000	\$1,100,000	\$0	\$0	\$0	\$0	\$0	\$86,600,000	
	DPHSS Facility and Central Health Clinic	Design			\$6,100,000								\$6,100,000	
		Construction				\$86,100,000							\$86,100,000	
		Procurement				\$271,000							\$271,000	
		Program Management			\$1,134,000	\$1,134,000	\$1,134,000	\$1,134,000					\$3,402,000	
	Project Total		\$0	\$0	\$7,234,000	\$87,505,000	\$1,134,000	\$1,134,000	\$0	\$0	\$0	\$0	\$95,873,000	
	Guam Police Department - Central Headquarters	Design											\$8,500,000	
		Construction		\$8,500,000									\$121,000,000	
		Procurement				\$3,100,000							\$3,100,000	
		Program Management			\$1,767,000	\$1,767,000	\$1,767,000	\$1,767,000					\$5,301,000	
	Project Total		\$0	\$0	\$10,267,000	\$125,867,000	\$1,767,000	\$1,767,000	\$0	\$0	\$0	\$0	\$137,901,000	
Tier 2 Total			\$0	\$6,500,000	\$96,501,000	\$214,472,000	\$2,901,000	\$0	\$0	\$0	\$0	\$0	\$320,374,000	

Tier	Project Name	Cost Element	Fiscal Year										Project Total	
			FY11	FY12	FY13	FY14	FY15	FY16	FY17					
3	Fire Apparatus-Ambulance Fleet Upgrade	Design												\$0
		Construction												\$0
		Procurement			\$7,935,000									\$7,935,000
		Program Management			\$158,000	\$158,000								\$316,000
	Project Total		\$0	\$8,093,000	\$158,000	\$158,000	\$0	\$0	\$0	\$0	\$0	\$0	\$8,251,000	
	New Fire Stations and Equipment for Military Growth Areas	Design			\$2,000,000									\$2,000,000
Construction					\$26,567,000								\$26,567,000	
Procurement					\$3,310,000								\$3,310,000	
Program Management				\$425,000	\$425,000	\$425,000							\$1,275,000	
	Project Total		\$0	\$2,425,000	\$30,302,000	\$425,000	\$425,000	\$0	\$0	\$0	\$0	\$0	\$33,152,000	
	Adult Correctional -- Facility Phase One	Design and EA			\$6,476,000									\$6,476,000
Construction					\$99,624,000								\$99,624,000	
Procurement					\$7,659,000								\$7,659,000	
Program Management				\$1,517,000	\$1,517,000	\$1,517,000							\$4,551,000	
	Project Total		\$0	\$7,993,000	\$108,800,000	\$1,517,000	\$1,517,000	\$0	\$0	\$0	\$0	\$0	\$118,310,000	
	Hagatna Judicial Center Expansion	Design				\$7,551,000								\$7,551,000
Construction							\$112,600,000						\$112,600,000	
Procurement							\$1,400,000						\$1,400,000	
Program Management					\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000					\$4,800,000	
	Project Total		\$0	\$0	\$9,151,000	\$115,600,000	\$1,600,000	\$1,600,000	\$0	\$0	\$0	\$0	\$126,351,000	
Tier 3 Total			\$0	\$18,511,000	\$148,411,000	\$117,542,000	\$1,600,000	\$1,600,000	\$0	\$0	\$0	\$0	\$286,064,000	
FY Total			\$1,985,000	\$31,614,000	\$171,679,000	\$363,795,000	\$120,443,000	\$1,600,000	\$0	\$0	\$0	\$0	\$691,116,000	

Summary by Cost Element	Cost Element	Fiscal Year										Project Totals	
		FY11	FY12	FY13	FY14	FY15	FY16	FY17					
	Design and Studies	\$1,790,000	\$7,943,000	\$23,076,000	\$7,551,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$40,360,000
	Construction	\$0	\$10,500,000	\$131,900,000	\$333,291,000	\$112,600,000	\$0	\$0	\$0	\$0	\$0	\$0	\$588,291,000
	Procurement	\$0	\$11,000,000	\$9,531,000	\$14,340,000	\$1,400,000	\$0	\$0	\$0	\$0	\$0	\$0	\$36,271,000
	Program Management	\$195,000	\$2,171,000	\$7,172,000	\$8,613,000	\$6,443,000	\$1,600,000	\$0	\$0	\$0	\$0	\$0	\$26,194,000
FY Total		\$1,985,000	\$31,614,000	\$171,679,000	\$363,795,000	\$120,443,000	\$1,600,000	\$0	\$0	\$0	\$0	\$0	\$691,116,000