



# GEDA

## Guam Economic Development Authority

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Subject: Guam Economic Development Authority\_Input / Comment on the  
Draft Supplemental Environmental Impact Statement (SEIS)

The Guam Economic Development Authority (GEDA) wishes to reiterate its assertion offered in previous documented input that there is cause and effect and more importantly, a direct relationship between the impact of the proposed actions on the natural environment and the economic benefits and costs to the community. GEDA's role as an advocate for economic development centers on our ability to promote balanced and sustainable economic programs that will increase opportunities for island businesses and residents. As you will note, our input and comments are based on this central theme.

A major concern that lingers throughout our review of the SIAS is the financial costs of the proposed actions on the people of Guam. For example, the water and power generating utilities, Guam Power Authority and the Guam Waterworks Authority have funded system upgrades in excess of \$300M through bond borrowing that is shouldered by local ratepayers. The SIAS clearly identified the need for these upgrades to support the build-up by increasing infrastructure capacity. What is not clear in this discussion is -- how these front-loaded costs are to be addressed by the DOD and will there be financial relief available to Guam? These costs do not include social service and infrastructure costs in health and medical care, education, public safety and general government services.

The SIAS must provide more detailed discussion of the costs of infrastructure that is needed to support the build-up and how such costs will be addressed by the DOD and the federal government. There is mention of the \$106.4M authorized in the FY2014 Consolidated Appropriations Act however; the SIAS did not specifically elaborate on when and how this funding will filter to Guam. There is also the absence of specific funding strategies that would help clarify the government of Japan's contribution toward the initiative particularly as it relates to work that will occur in Guam.



On the subject of tax revenues, GEDA wishes to stress the importance of eliminating tax leakage that could potentially occur when off-island U.S. and non-U.S. contractors are awarded projects as a result of the build-up. To achieve success in this endeavor, the Guam Department of Revenue and Taxation must work hand in hand with DOD and be afforded appropriate access to DOD contracting information on businesses and individuals receiving military contracts and payments to ensure that awardees are abiding by Guam tax law.

Part of our economic mission at GEDA is supporting existing small businesses, the core industries of tourism and the military, and attracting appropriate businesses to the community, to encourage the creation of jobs and employment opportunities. With that in mind, to mitigate the post build-up period between years 2021 to 2028, the following GEDA initiatives should receive funding support:

- “Buy Local” Incentive and Awareness Program to promote the importance and value of local businesses’ role in growing the island’s economy.
- Marketing program for the “Made in Guam” and the “Guam Product Seal” program.
- Assist in the development of a regional farmers’ cooperative, leveraging the agricultural resources of the island and the region to meet the needs of the projected growth population.

The following general comments are provided for your review and consideration:

#### Impact on Guam Economy

The SIAS consistently indicates that military growth is good for the Guam economy since servicemen and women will spend money outside the military base. The SEIS should project how much spending will occur outside the base as well as on-base by the various industrial categories. This information will allow businesses to have market information required for business expansion and new business introduction.

Companies doing business with the military are required to comply with "doing business in Guam" requirements e.g., business licensing, registration, payment of gross receipts taxes, and other requirements. Current military contracts contain a provision, which identifies these “doing business” requirements, but the contracts also state: "Business registration with the Government of Guam is not considered in determining contractor responsiveness or responsibility." The DOD should recommend that contractors must be registered with the Government of Guam upon contract award so that gains cited in the SIAS projected tax benefit for Guam could be realized.

#### Developing Local Business Opportunities

Funding for the proposed actions are not all DOD source. As such, non-appropriated funds are exempt from small business targets and if funding from the Japanese Government is considered non-appropriated, local small businesses will have difficulty obtaining a share of such funding. U.S. small business programs are not required of or applicable to US contractors abroad, nor can we expect Japanese companies who will use Japanese

government funding to comply with small business programs. The SIAS must consider methods to mitigate against these impacts on small business.

Guam businesses may have franchises to supply certain goods and services to Guam consumers but the military or its contractors can ignore franchises and deal directly with off-island business with the same franchise because Guam is an "overseas" area. The SIAS should evaluate the designation of Guam as an overseas area with respect to franchises and ensure that franchise agreements are respected in the award of contracts.

Local wholesalers are at a disadvantage in competing with off-island wholesalers in cases where the shipping of goods is subsidized by the military. The SIAS should evaluate subsidies provided to off-island suppliers of goods and identify mitigation measures that provide opportunities to local businesses or initiatives that would level the playing field.

The Japanese Government will funnel its financial commitment of over \$6 Billion through "Special Purpose Entities" which will allow the Japanese interests to directly and or predominantly benefit. This method of source project funding will impact on local businesses and financial institutions. The SIAS should discuss how SPEs can be made to provide opportunities for island businesses and residents through partnerships.

The SIAS should consider the application of a local business preference system similar to that afforded US companies that compete against foreign companies for U.S. work. The SIAS could evaluate how military services that are not intrinsically governmental will be performed. For example, if such services will be contracted to the private sector, similar to the Base Operating Support contract for Naval Base Guam, then scopes of work should be tailored to the capabilities of local companies.

The following specific comments with cited pages are provided for your review and consideration:

Page ES-4 Under Relocation of Marines and Associated Population Change

There is a major and perhaps erroneous premise held in this section that military workers and off-island construction workers would return home upon completion of their stay in Guam for work related reasons. Guam has seen and felt the impact from the migration of workers from Micronesia region who arrived years before the build-up with the belief that jobs and a better livelihood would be afforded them. When the delays occurred, these migrating families remained in Guam and have since added to the diverse ethnicity of Guam's population. Some have moved on to the U.S. mainland or Hawaii but for the most part, a majority has stayed on island anticipation of the labor opportunities that would accompany the forthcoming build-up. With families moving to Guam as a unit, they now have increased in size over the years adding to the island's socioeconomic fabric and total population. This effect will be multiplied at compounded levels with the implementation of the build-up as Guam's economy appears to offer the highest potential in the region for families seeking greater opportunities for work, education, healthcare and generally speaking, quality of life. The analysis provided in the SEIS does not reflect this migration pattern or the far-reaching impact it would impose on the community.

Page ES-23

Preferred Alternative option is driven by “operational efficiencies” for the military with minimized regard for the economic opportunities that will be lost for the civilian communities adjacent to military facilities. These foregone opportunity costs are not quantified in the SEIS but simply addressed as having a “SI-M” or “LSI” effect.

Infrastructure – The approach to infrastructure development to support the preferred alternative as well as the other identified alternatives centers on isolating systems for water, wastewater and to some extent, roadways. The added capacities constructed for the build-up are dedicated to military uses thereby depriving any residual or spillover benefits for the communities of Dededo and Yigo where most of the impact will be felt. This is most evident in the tapping of the northern water lens where new wells are confined within military boundaries. Inarguably, the ample supply of water is foremost and essential to any sustained economic development for Guam and our review of the infrastructure projects in the SEIS indicates that the water production and distribution strategy contained therein conflicts with the development paradigm for sustained economic growth for the island.

At the present, Guam is the only American jurisdiction that purchases water from the U.S. Department of Defense as in the case of the Fena Reservoir system. The SEIS must incorporate mitigating solutions to these issues with assurances that long-term adverse consequences will not occur as a result of the construction and utilization of the proposed isolated infrastructure system.

Page ES-27 “Operation Impacts” Potable Water and Wastewater

The SIAS states that the FY 2014 Consolidated Appropriations Act appropriated \$106.4 Million for civilian water and wastewater improvements on Guam. The GWA recently secured bond financing to address some of the issues identified in the SEIS related to wastewater treatment and water production. The EAC can assist Guam in this endeavor by providing funding to offset and alleviate part of this cost borne by residential and commercial ratepayers particularly in the case where systems constructed by the military have direct or indirect adverse effects on civilian water production or wastewater treatment.

The question here is, “How much of this appropriation will be committed to upgrading the island’s utilities rather than dedicating these fund strictly for development of the preferred alternative. This must be clearly addressed in the ROD.

Page ES-28 Socioeconomics and General Services – “Potential Mitigation”

The SIAS recommends no mitigation for the resultant population growth, as “the increase in Guam tax revenues would likely compensate for any increase in demand on public services that would occur.” Such an assessment is found to be inaccurate for the following reasons:

- The vast majority of the workforce participating in the build-up falls in the category at or near the lower level of the tax income brackets. As such, these workers receive the largest share of tax revenues dedicated to tax refunds mandated by Guam and federal law. As evident in many jurisdictions of the U.S. mainland, workers in this tax bracket and their families benefit from public subsidies for medical care, nutrition, and other aid to economically disadvantaged households. Most public assistance agencies in Guam would be able to support the argument that the taxes collected from this population constitute only a fraction of the total financial resources they consume. In the final analysis, any increase in the tax revenues will be allocated to the shortfall in the budgets now allocated to public assistance agencies. Federally mandated tax programs such as the Earned Income Tax Credit (EITC) and the Make Work Pay tax program further diminish the tax revenues collected from households in this tax bracket.
- Subsequent to the passage of the Compact of Free Association between the U.S. government and the Micronesian island governments in 1986, Guam was allocated financial aid to defray part of the cost of Micronesian citizens migrating to the territory. It is estimated that the overall cost to Guam has reached \$125M annually (See Compact Impact Report prepared by the Bureau of Statistics and Plans, government of Guam) inclusive of the \$16M it receives each year for health care, education, law enforcement, welfare and other forms of financial subsidies not covered by federal grants in aid. Over the years, Guam has accumulated more than \$600M in Compact Impact financial expenditure that has not been reimbursed by the federal government. As a result, such costs have been borne by the residents of Guam.

Page ES – 34 Historic and Cultural Resources

- The primary impact from these projects would have direct and indirect adverse effects to historic properties, archaeological sites, and impacts to culturally important natural resources. This diminishes the value of Guam as a visitor destination and every precaution must be taken to mitigate these circumstances.
- A decline in preservation of cultural resources is expected to occur due to the preferred alternative. Vandalism and disturbance or destruction of cultural resources may further diminish the local historic record, thus decreasing the potential of its overall research and aesthetic value. The loss of culturally important natural resources would reduce opportunities for important cultural practices. Reduced access to cultural sites, whether for cultural practices, recreation, tourism, or academic study would also diminish both cultural awareness and research in Guam.

The comments below address findings and information provided in Appendix D of the SIAS.

## Page D-5 “Population Change”

See earlier comment for page ES-4. The new (scaled-down) footprint will significantly reduce the rate of population growth for Guam throughout the build-up period and throughout the steady state. Whether the projection of out-migration after the build-up is valid remains a concern.

## Page D-7 “Civilian Labor Force Demand”

The SIAS estimates 7,031 new full-time jobs created at the peak of the build-up (2021) of which 3,058 or 43% will be held by Guam residents. Workforce training and education programs need to be established and supported by both federal and local agencies to increase the overall gain by the resident workforce. Funding must be allocated for this purpose to assist educational and training institutions with this objective.

GEDA has identified the following concerns as potential impediments.

- Loss of labor to higher paying jobs and pressure for increased wages in existing jobs will adversely affect non-military (civilian) projects throughout the build-up phase;
- Few new federal civil service job opportunities for local residents;
- Fifty-seven percent (57%) of the jobs created will be held by non-residents and as a result, part of the income generated will not remain or circulate in the local economy.

Increasing resident labor participation throughout the build-up is a foremost priority throughout this period of Guam’s development. The desired effect would ensure sustained economic growth for the island and improve standard of living for residents.

## Page D-36 and D-37 “Determining the number of in-migrants who would move to Guam to enter the workforce”

Local workers would include workers from islands in the region who moved to Guam when the build-up was first expected (2006-2010). The SIAS analysis counted such workers as part of the local labor pool for construction. By doing so, it overstated the number of resident workers who benefit from the increase in construction jobs while discounting the fact that accompanying family members add tremendously to the local government’s social and budget related operating costs (education, crime, housing, medical care, public safety, etc.). This is further under-estimated in the use of a factor between 0.2 and 0.35 as an estimate of the number of dependents who accompany in-migrating construction workers. This may be true in the case of the H-2B workers but not of the in-migrating regional workers from CNMI, the FSM, Republic of Palau and the Republic of the Marshalls.

## Page-131 Housing

Excluded in the analysis is “Stay Behind Worker Housing”, housing for active-duty military and dependents and household information for additional Guam residents. In our opinion, these populations have the greatest impact on the housing market; supply and demand

analysis would help Guam better plan for the conditions created by the preferred alternative. The provision for “on-base” or “bordered” housing units for the military does not help sustain the local housing market or the development the housing industry. Again, this “isolationist” approach of constructing military housing areas does not work in favor of building good military-civilian relations nor does it provide any opportunity for local residents (private sector) to participate in filling any void or market niche in this area. The question that surfaces here is, if the SEIS/SIAS estimates that Guam has an excess supply of housing units, what is the rationale behind constructing such housing facilities on-base in connection with the preferred alternative?

Page D 142-145      Estimated Local Government Revenues

As an observation, GEDA noted that Guam’s tax revenues are nominally increased as a result of the proposed action (see Figure 4.3-5 of the SIAS). Current tax revenue collections for Guam have increased markedly in the past five (5) years at about 6% on average without any accelerated military build-up expenditures. With the launch of the build-up at the level of construction expenditure projected over the next thirteen years (2015-2028), Guam is expected to see tax revenues rise at the rate between 1% to 9.5% during this period of time. This reflects several conclusions as follows:

- The tax revenue collections for Guam based on SIAS projections will grow nominally with the proposed action (versus no action).
- Guam’s revenue collection is trending upward but will grow even more with the build-up (civilian induced activity).
- The SIAS projects Guam’s tax revenue to grow about 113% in thirteen (13) years. This reflects an average growth of 8%.

All of the above conclusions drawn from the SIAS allude to the fact that certain sectors of Guam’s economy are growing at a substantial rate, however; this type of growth scenario is not factored into the SIAS as a matter of concern. Revenues at this level are indicative of Guam’s economy growing at an unprecedented level (without the impact of the preferred alternative).

Page D 145-148      Gross Island Product

GEDA finds the GIP projections for Guam to be reasonable during the construction build-up phase. Meeting these growth targets depends heavily upon how much funding is expended for goods and services that can be acquired on island. DOD policies that foster small business and local participation in the build-up will have a significant positive effect on the GIP. This consideration is perhaps equally important at 2028 and beyond when the steady-state operational phase begins efforts to sustain prior levels of economic performance is heightened.

In the event that accelerated development in other sectors of the Guam economy, tourism for instance, resource constraints (i.e., labor, construction materials, equipment, etc.) will affect both the military build-up and private sector projects if the need and demand for limited resources occur during the same period. This in turn may have a dampening effect on the GIP. What contingency plans or mitigation measures are set in place to prevent or minimize adverse effects of such potential scenario that could likely occur?



The SIAS states that the Guam Power Authority (GPA) currently has the generating capacity to provide DOD power needs under the preferred alternative. The SIAS further states that DOD as a customer, is paying for the transmission and distribution upgrades required for the build-up through the current utility service contract (August 2012). The SIAS did not elaborate on these statements to provide assurance that Guam rate-payers are not being burdened with the financial impact of the agreement between GPA and the Navy after having stated that financial outlay is required for DOD transmission and distribution lines as a result of the build-up.

The SIAS provided an over simplified assumption that the “impact of the power customer base would be minimal”. We believe that this requires further analysis as the SIAS states that it does not know what the impact would be on the customer base, civilian and military, as this would according to the SIAS, “require a detailed financial analysis”. In short, the SIAS offered its opinion that the effect or impact on rates “depending on how the terms within the new utility service contract impact the financial condition of GPA, the additional demand from the proposed action could impact rates of other users.”

A determination from further analysis would address GEDA’s concerns regarding the costs local rate-payers would have to bear as a result of the build-up and to ensure that “fair share” investment for system upgrades and equitable rates are set in place.

Water

The SIAS estimates that the demand for water will increase (0.28 mgd) as a result of the proposed action. The DOD proposes to operate water facilities separately from the GWA system. As pointed out earlier in our general comments, GWA is making substantial investment to upgrade its system and this is viewed as a benefit to the DOD and the civilian community as well. It is recommended that an agreement be established to allow GWA to provide water to the military and for the DOD to be a customer of the agency. This would place the development of all water resources and wastewater facilities under the Consolidated Utilities Commission (CCU) and the Public Utilities Commission (PUC) where it can be regulated and protected as a natural resource of the island.

The prudent management and development of Guam’s water resources is essential to sustaining the island’s economy. The SIAS provided analysis that assessed the water requirements of the Marine Corps relocation and noted that this requirement would be fairly modest at the .28 mgd level. However, it is unclear if this demand or consumption rate is computed by using a daily consumption estimate or some other per capita formula. By GEDA estimation, using 70gpd (national average) as a baseline factor, the build-up would require about .67 mgd (9600 x 70 gals.) at the peak year 2012 thus indicating that the build-up water requirement for military, construction workers and their families would be significantly higher. The system would need to accommodate the peak load, as ramping up capacity is neither cost effective nor feasible in this instance. To further validate this



argument, additional water capacity is needed to support construction activity. It appears that this usage volume is not incorporated in the 0.28 mgd estimate. When factored accordingly, the daily system requirement will further increase.

### Wastewater

The SIAS is unclear as to the manner in which the Agana and Northern WWTP will be upgraded to accommodate any wastewater treatment resulting from the build-up. The statement that the issue of secondary treatment for Agana and Northern WWTP is “unrelated to the proposed Marine Corps relocation” is both disturbing and difficult to fathom when in the same report, it is stated that the proposed action is expected to contribute 6.5 mgd and 7.8 mgd to these systems respectively. Both systems have a maximum capacity of 12 mgd according to the most recent NPDES permit. The premise that there is no relationship between the effort to meet NPDES requirements for secondary treatment and the build-up needs reconsideration if GWA is expected to provide services to the DOD.

The issue of cost impact and burden remains a major concern that requires mitigation and financial consideration before the build-up moves forward.

### Power Generation

The exclusion of the Guam Power Authority in the SIAS questionnaire is a concern of GEDA that requires study and further analysis.

In the Integrated Resource Plan prepared by GPA, the DOD is a customer of the power generation agency. Through agreements executed between GPA and the Navy, the Navy facilities and other DOD facilities to include AAFB, Naval Magazine, Naval Hospital, NCTAMs and the Guam Army National Guard (GUARNG) facilities are serviced through the Island-wide Power System (IWPS) grid.

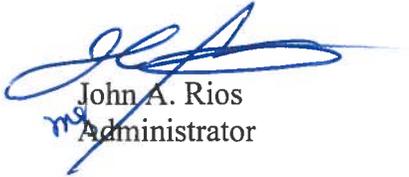
GEDA offers the opinion that there are both positive and adverse impacts to the island power generation capacity associated with the proposed action. GPA, the private sector and the DOD are exploring the transition to new renewable energy resources. The fossil fueled system now in place will require extensive maintenance and in some cases replacement before new renewable energy systems come on line. The long-term implications of this situation will require substantial investment by all the stakeholders DOD included. In the short-term, the cost of upkeep and eventual retirement of outdated units must be addressed. The SIAS must incorporate measures to mitigate this concern. This necessary action cannot be downplayed or kept covert from public scrutiny. The GPA and the DOD need to jointly develop a mutually agreeable approach to address this concern. Without collaboration and a plan that offers effective mitigation, the financial solvency of GPA will be adversely affected and placed at risk.



If you have any questions regarding these comments, please contact the undersigned at [john.rios@investguam.com](mailto:john.rios@investguam.com) or phone 671- 647-4332

We appreciate the opportunity to comment on the SEIS/SIAS.

*Put Respetu,*



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