

EDDIE BAZA CALVO
Governor



RAY TENORIO
Lieutenant Governor

Office of the Governor of Guam

April 8, 2011

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

Dear Madam Speaker,

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

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

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

Not included in this biennial budget plan is:

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

A top priority of my administration was to assess the financial condition of our government and work toward achieving fiscal stability. The Department of Administration, Bureau of Budget and Management Research and the Department of Revenue and Taxation have been performing intensive review to present a more comprehensive state of our finances. To augment these findings, the Office of Public Accountability was requested to validate certain liabilities. The Fiscal Year 2010 General Fund financial statements (unaudited) for the period ending September 30, 2010, indicates that the deficit rose by approximately \$83 million from a level of \$265 million in Fiscal Year 2009 to \$348 million in Fiscal Year 2010. While the impact of this statement may not resonate well, it does confirm our government's inability to make prompt payments for tax refunds, for vendor payables and other obligations. The Department of Administration's Cash Flow Report shows a positive \$2.3 million cash balance for the month of October, however, this is attributed to the receipt of the Section 30 funds. Without such funds, that balance would have been a negative \$18.2 million. The month of November was even more alarming, as the ending cash balance for that month was a negative \$14.3 million and this number would have been a negative \$20 million if it were not for \$6 million of inter-fund borrowings. In addition, this negative amount of \$20 million is after full expenditure of the remaining Section 30 cash. It was also in this month that DOA was advised by the bank to reduce its cash float. For the month of December, the ending cash balance was a negative \$3.2 million. This figure would have been a negative \$12.7 million if not for inter-fund borrowings of \$8.5 million. The lower amount of negative cash shortfall for December as compared to November, is due to the reduced payouts for tax refunds, the limited payments for vendor payables and the significant non-payments of subsidies to semi-autonomous agencies such as the University of Guam and the Guam Community College. The aggregate impact of the negative cash balances has severely restrained our ability to meet current cash requirements and further diminishes our ability to effectively manage our cash resources.

In order to focus our efforts on the planning for the military build-up and beyond, it was necessary to propose a biennial budget which will also allow departments and agencies the time necessary to transition into performance-based budgeting (PBB). The adoption of this budgeting approach will relate government expenditures to results and fosters strategic planning and accountability. An unprecedented spike in economic growth expected from the impending military build-up, necessitates a change in how our government operates. We must leverage the build-up to our advantage and ensure that our people are not left behind in the midst of all the economic flurry. We must plan for these activities and provide opportunities for our people to benefit financially in order to improve their standard of living. We must deliver quality education and healthcare. We must provide a safe environment and a safe island. All this requires careful planning and this is why it is necessary to adopt a two-year budget and move toward performance based budgeting.

Our people are best known for their respectfulness, patience and generosity. The fiscal irresponsibility of the local government as well as the federal government's refusal to acknowledge its debts to us, has tested those qualities. For decades this government has been operating not only on the taxes and fees it imposes on its citizens, but also on their personal funds, through their tax refunds. The deficit of the General Fund is estimated to be \$348 million and was for the most part, funded by tax refunds. Year after year our people wait patiently for their tax refunds and unfortunately, year after year our government spends these refunds to pay for its operations. The time has come for this injustice to stop. This budget contains a financing option which will provide the cash for the payment of most, if not all, of the tax refunds due. We propose a near-total elimination of the deficit with a \$344 million general obligation bond, using instruments that will keep the government within the debt ceiling without raising it.

The economic outlook for Guam during this budget cycle is encouraging. Though modest growth is anticipated, the economy will begin to show early phases of the military build-up and revenue growth is also expected. We recognize and understand that part of our revenue dilemma today is attributed to a number

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

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

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

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

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

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

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

The budget for Fiscal Year 2013 reflects positive yet moderate growth that will provide additional revenues which have been allocated to critical areas in health, education and public safety. As a result, we were able to provide one million dollars for the purchase of new ambulances and other emergency vehicles, one million dollars for the purchase of school buses and another million for medicines and staff at community health centers.

God-speed in your deliberations. My office and my Cabinet are available to you for further information, in the spirit of transparency and accountability of the people's money.

Saina Ma'ase,

A handwritten signature in black ink, appearing to be 'Eddie Baza Calvo', written in a cursive style.

EDDIE BAZA CALVO