



EDDIE BAZA CALVO
GOVERNOR

RAY TENORIO
LIEUTENANT GOVERNOR

Office of the Governor of Guam

May 4, 2011

The Honorable Judith T. Won Pat
Speaker
I Mina'Trentai Unu Na Liheslaturan Guåhan
Thirty-First Guam Legislature
155 Hesler Street
Hagåtña, Guam 96910

Dear Madam Speaker,

Transmitted herewith is the ***Supplemental Appropriations Act of 2011*** – “An Act To Provide Supplemental Appropriations for the Operations of the Executive Branch of the Government of Guam for Fiscal Year ending September 30, 2011; and for other purposes”.

I am submitting a supplemental funding request to enable this government to continue forward with its programs in a manner that promotes fiscal re-alignment, stabilization and transparency. It is also important to stress that the “Supplemental Appropriations Act of 2011”, as presented herewith, is intended to relieve mounting demands placed upon many of our essential government agencies. These agencies play a vital role in the delivery of public services for our people, but are operating under fiscal circumstances brought about by the multitude of challenges facing their agencies. During the transition phase of this administration, we were advised by the Camacho Administration's Fiscal Policy members that budget shortfalls for various programs and agencies are to be expected as the current budgeted levels were lower than requested for operational requirements. Additionally, the previous administration projected a shortfall for Medical/Dental/Life insurance for both the retirees and line-agencies. This funding deficiency was confirmed by the Department of Administration and the Bureau of Budget and Management Research and further affirmed by the Office of Public Accountability. The contract for health insurance was already in effect and providing coverage for government of Guam employees three months prior to the start of this administration. These insurance rates had been negotiated by the Government of Guam Health Insurance Negotiating Team, which included representatives from all branches of the government. The passage of the Fiscal Year 2011 Budget Act occurred in August, and prior to the completion of the newly negotiated rates, thus making it difficult to make budgetary adjustments as all projected revenues available for appropriations had already been allocated. As such, it is necessary to seek a supplemental appropriation to continue providing health coverage to retirees, employees and their families. This will ensure that those

receiving medical coverage will not be placed in a situation that will compromise their health and well-being. Not funding this request will inevitably result in the termination of medical coverage by mid-June.

All projected revenues for Fiscal Year 2011, with the exception of the 2% reserve, had been appropriated in the Fiscal Year 2011 Budget Act. As such, the identification of revenue sources to fund this measure presented a complex challenge. However, the Bureau of Budget and Management Research, the Department of Revenue and Taxation and the Department of Administration explored all potential available funding sources which included non-traditional revenue sources and funding options. The current cash challenge dictates the need for the use of these non-traditional sources.

October of this fiscal year began with a **negative \$2.2M** cash balance. In that month, \$42M in General Fund and Special Funds were paid out for prior year payables. In addition, \$1.7M was paid back to a restricted account and this ended the month with a **negative \$18.3M** cash balance.

November ended with a **negative \$14.3M** cash balance, which prompted the financial institution to advise DOA to reduce its cash float.

December ended with a **negative \$3.2M** cash balance, which included \$8.4M in inter-fund borrowings that, without the borrowing, would have increased the end balance to a **negative \$10.5M**. As a result, the impact was reflected in the substantial non-payment of subsidies to the autonomous and semi-autonomous agencies, limited vendor payables and significantly reduced pay-outs for tax refunds. It should be noted that in December, tax refunds ceased to be paid out two weeks before the end of the month.

January ended with a **negative \$2.8M** cash balance. From revenues collected in this month, it afforded us the opportunity to embark on a new fiscal policy and to restore the inter-fund borrowings of \$8.4M. Moreover, \$4.8M of prior year accounts payable were also paid in order to decrease liabilities.

The major cash management challenges of the previous months and the increasing deficit have limited the cash available for tax refunds. As a result, this government has not been able to keep pace with the required payments for tax refunds. Consequently, it is unfortunate that a limited amount of tax refunds could be paid out. However, this administration recognized the need to resume the payments for refunds and directed DOA to identify funds for payment of this obligation using our limited cash resources.

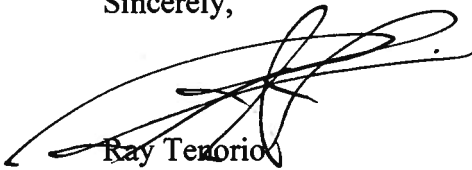
It should be noted that the 9/30/2010 draft financial statements reflect an \$83M FY 2010 deficit for a cumulative General Fund deficit of \$349M. The current cash position dictated the need to find revenue sources with available cash to pay for the additional funding requirements of this proposed legislation. Notwithstanding this concern, I am pleased that the proposed legislation includes language which will provide the tools and the increased flexibility necessary to address critical needs for the operations of the Government of Guam.

The proposed legislation contains a total supplemental request of \$36.6M which includes offsets of \$15.4M and appropriations (\$12.9M) to address funding deficiencies and other requirements of line agencies such as Department of Mental Health & Substance Abuse, Department of Administration, Guam Department of Education and the Guam Fire Department. It also provides for Supplemental Annuity Benefits and Retirees Medicare Premiums. Lastly, the proposed Act appropriates funding to meet the budgetary shortfall for Health/Dental Insurance Benefit Cost for line departments (\$3.3M), Utility Cost Account for Water/Sewer (\$1.3M), COLA judgment interest payments (\$1M) and payments of Prior Year Overtime owed to officers of the Guam Police Department and the Department of Corrections (\$2M). It should be noted that the U.S. Department of Labor is imposing a penalty for non-payment of these overtime expenditures.

The OPA, in their Government of Guam Liabilities Assessment report, found government of Guam overpaid the Retirement Fund of up to \$18.1M. The OPA recommended that such amount be used to offset existing liabilities to the GGRF. Thus, based on the OPA findings, we are proposing this solution to fund the requirements of the outstanding debt of Guam Memorial Hospital Authority to GGRF for a portion of current and prior contributions, and the underfunded retirees' Medical/Dental/Life Insurance cost. By using this funding solution, in accordance with the law, no cash will leave the GGRF.

Madam Speaker, I attest to the importance of moving this proposed legislation forward with the objective of helping our government address its current fiscal year financial requirements. In this regard, I will continue to work in cooperation with *I Liheslaturan Guåhan* and ask for your continued support in the coming months to effectuate lasting and meaningful changes in our government and how it serves our people.

Sincerely,



Ray Tenorio
I Maga'lahaen Guåhan Para Pa'go
Acting Governor of Guam

Enclosure