

FITCH RATES GUAM'S \$108MM BUSINESS PRIVILEGE TAX REVS 'A-'; OUTLOOK STABLE

Fitch Ratings-New York-08 May 2012: Fitch Ratings assigns an 'A-' rating to the following Government of Guam's Business Privilege Tax (BPT) bonds:

--\$108.7 million Series 2012B

The bonds are expected to sell via negotiation on May 23, 2012.

Fitch also affirms the 'A-' rating on \$235 million in outstanding BPT bonds.

The Rating Outlook is Stable.

SECURITY

The bonds are special limited obligations of the government of Guam secured by a lien on 3% of the 4% business privilege tax (BPT) levied on goods and services.

KEY RATING DRIVERS

STRUCTURE PROTECTS BONDHOLDERS: The rating reflects a structure and revenue pledge that insulates the bonds from Guam's strained general fund operations. Bonds have a first lien on pledged business privilege tax revenues, there is strong non-impairment language, and Guam cannot file for bankruptcy protection.

STRONG DEBT SERVICE COVERAGE FROM BROAD BASED TAX STREAM: The business privilege tax base is broad and diversified and revenues, although somewhat cyclical, have been growing. Pledged revenues provide 6.3x coverage of MADS and bondholders are protected by an additional bonds test requiring 3x MADS coverage.

ECONOMY TIED TO TOURISM AND U.S. MILITARY: Although the Guam economy is relatively small and is heavily reliant on tourism, primarily from Japan, some balance is provided by the strategic importance of Guam to U.S. military operations in the Pacific. The military presence on Guam is expected to increase significantly over the next 10 years.

CREDIT PROFILE

The bonds are secured by a portion of the Government of Guam's Business Privilege Tax (BPT), a broad-based and diversified tax that is levied on goods and services. Legal provisions are strong and provide sufficient insulation from general fund operations to result in a rating on the BPT bonds that is significantly higher than would be the case for a general obligation (GO) pledge. The bonds' first lien on pledged revenues, 3% of the 4% BPT, is established upon collection of the tax regardless of whether or not the cash has been transferred to the trustee. The BPT is collected and held outside of the general fund and transferred on a weekly basis to the trustee. There is strong non-impairment language in which the government has covenanted that it will not reduce the rate of levy and collection of the pledged BPT below 3% nor reduce the services or products to which the BPT is applied, nor adjust upward any exemption or exclusion or otherwise impair the pledged BPT. Other legal provisions include a strong 3x additional bonds test based on historical revenues and a flow of funds which results in the debt service fund being fully funded three months prior to the debt service payment date.

Located closer to Asia than to the mainland United States, Guam is the westernmost territory of the U.S. and, although the economy is largely tourism based, the U.S. military is a stabilizing presence. There are approximately 6,200 active military personnel and 8,800 military dependents on Guam (out of a total population of 159,538), a number which is projected to grow significantly over the next 10 years. Although the planned relocation of the Third Marine Expeditionary Force from

Okinawa, Japan to Guam has been delayed and reduced, approximately 5,000 troops are expected to be relocated to Guam. Guam receives over 1 million visitor arrivals annually, with approximately 71% derived from Japan.

The government is working to develop the visitor base and has successfully expanded a visa waiver program to include Russia and is working to add mainland China, an effort that if successful has the potential to significantly increase income to the island. Given its location and small size, Guam is susceptible to natural disasters that can also impact its tourism-based economy. Since 2008 tourism has been negatively affected by the worldwide recession, the spike in H1N1 virus in Japan in 2009, and the tsunami in Japan in March 2011.

As with the first series of BPT backed bonds issued in November 2011, the series 2012B bonds will finance liabilities that have accrued to past general fund budgets, including prior year unpaid income tax refunds, past due COLAs to retirees, and amounts owed to the retirement system for the department of education and Guam Memorial Hospital Authority.

Guam has demonstrated weak general fund operations with a history of operating deficits, a large end-of-year fund deficit, and GAAP deficits. Guam also issued deficit funding general obligation bonds in fiscal 2009. The current administration is taking steps to achieve structural balance in the budget including a hiring freeze, reductions in the use of electricity and vehicles, a rescinding of across-the-board pay increases, 2% budget retention for all agencies and other cost reductions. Although the intention is to utilize the borrowing to finance prior liabilities and balance the budget going forward, the current offering is structured with capitalized interest for two years and a deferral of principal payments for four years to provide further relief.

The tax paying base is not highly concentrated as it is paid by a wide range of small, medium, and large businesses. Almost half of the tax base (43%) is derived from retail trade with the service sector contributing another quarter. Tax revenues are somewhat volatile and collections have fluctuated following typhoons and other natural disasters, as well as health epidemics in Asia, and worldwide economic conditions. Tax revenues have generally been growing since experiencing large declines in the middle of the last decade and experienced only a minor drop-off (1.7% in 2009) during the recent recession.

Fiscal 2011 (unaudited) receipts totaled \$200 million, up 5.5% year-over-year and averaging between \$16 million and \$18 million monthly. These revenues provide ample coverage of projected debt service requirements at 6.3 times (x) coverage of MADS. It is Fitch's expectation that Guam will leverage the revenue stream up to the additional bonds test of 3x when it has capacity under its debt limitation.

Guam's debt levels are quite high with tax supported debt equal to approximately 58% of personal income and \$7,479 per capita. With the current issuance, Guam will be at the debt limit set in the Organic Act, the U.S. law under which it operates, which limits public indebtedness to 10% of aggregate tax valuation of property in Guam. The Guam Supreme Court has interpreted aggregate tax valuation to mean assessed value and statute sets assessed value to 100% of appraised value, recently raised by the legislature from 90%.

Contact:

Primary Analyst
Karen Krop
Senior Director
+1-212-908-0661
Fitch, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Douglas Offerman
Senior Director

+1-212-908-0881

Committee Chairperson

Amy Laskey

Managing Director

+1-212-908-0568

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 15, 2011);

--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 15, 2011).

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648898

U.S. State Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648897

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.