



EXECUTIVE BUDGET

FISCAL YEAR 2011

JANUARY 2010



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Fiscal Year 2011



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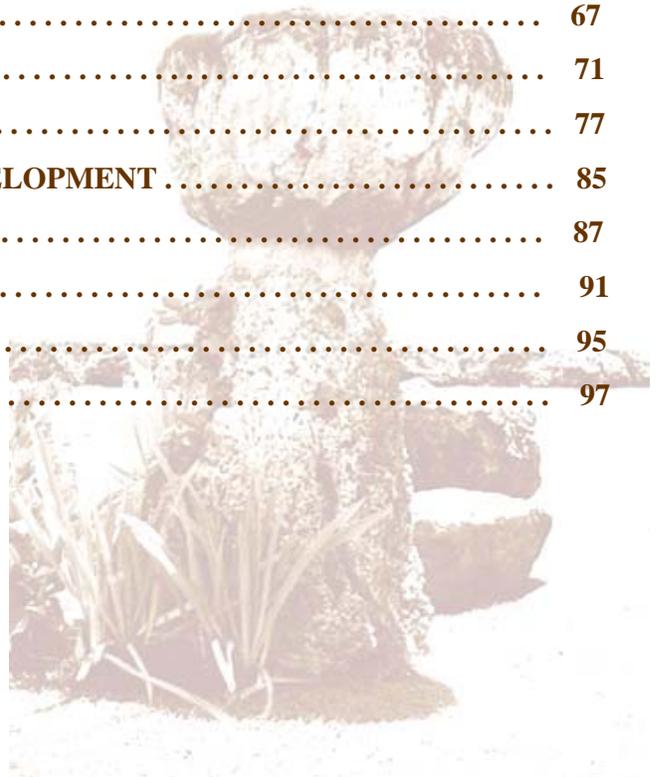
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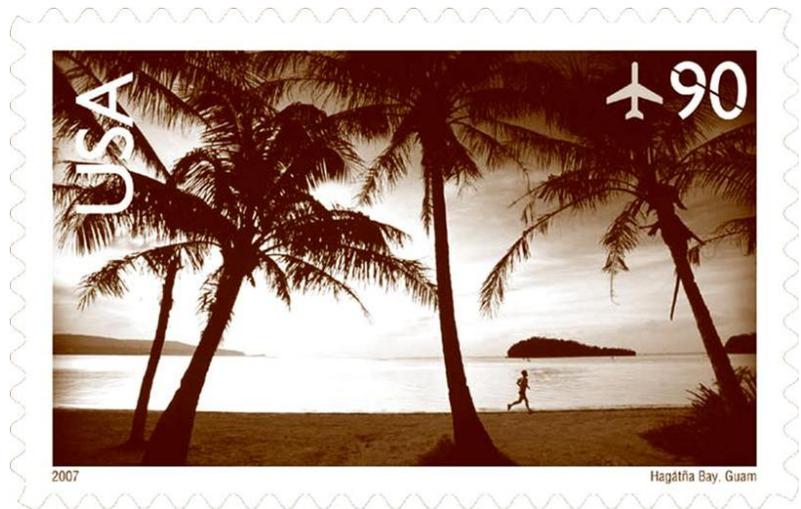
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LEGISLATION



ECONOMIC OUTLOOK



ECONOMIC OUTLOOK

Fiscal Year 2011 General Fund

Summary

The economic outlook for Fiscal Year 2011 is for at least moderately positive increases in economic activity which will be driven by steadily increasing levels of construction throughout the year as Department of Defense projects budgeted in the FY 2010 Defense Appropriation Act commence. If Marine relocation and other projects outlined in the Draft Environmental Impact Study (DEIS) proceed as planned, even allowing for some delays, the expansionary forecast for FY 2011 could be considerably more bullish. Tourist arrivals are assumed to have stabilized around the one million visitor mark as seen in Fiscal Year 2009. With stabilized visitor arrivals forecast for 2011, revenue growth in construction will not be negatively off-set by reductions in the tourist sector as was the case in recent years. The American Recovery and Reinvestment Act (ARRA) will provide additional stimulus with funding for infrastructure and hiring.

Construction appropriations made in the FY 2010 Defense Authorization Act for Guam will be a key component of the projected General Fund revenue growth for Fiscal Year 2011. Of the \$737.7 million in Department of Defense construction appropriated in the FY 2010 budget, \$526.2 million is for budgeted projects which are separate from those contained in the DEIS related to relocation of Marines from Okinawa and are not contingent on the timing or results of the Record of Decision or any possible renegotiation of the agreement between Japan and the United States. These projects, the largest of which is the Navy Hospital with funding authorized for \$259 million, are expected to proceed. Other projects in the FY 2010 Defense Authorization for Guam that are contingent on the Record of Decision include:

Military Working Dog Relocation	\$ 14,070,000
Apra Harbor Wharves Improvement	\$127,033,000
Defense Access Road Improvements	\$ 48,860,000
North Ramp Utilities, Phase I	\$ 21,500,000

It is unclear how, if any, renegotiation with Japan would affect these projects as they are to some extent independent of the issues with Japan regarding the Marine relocation. While Prime Minister Hatoyama on Monday, January 25, 2010, said Japan would completely re-examine its accord with the United States, a January 26, 2010, statement carried by Pacific News Center from Joint Guam Program Office (JGPO) Director and Retired Marine Major General David Bice affirms that there is “no change” in the plans for the military buildup on Guam. It states: “In the mean time, we are planning to award construction contracts for both U.S. and Government of Japan (GOJ) funded projects as soon as the Record of Decision is signed later this year.” The Government of Japan has deposited \$336 million for Japan Fiscal Year 2009. Projects not contingent on the Record of Decision will commence this year, possibly preceding the Record of Decision.

ECONOMIC OUTLOOK

The DEIS shows projected Government of Guam FY 2011 General Fund revenue rising by over 25 percent from appropriated FY 2010 levels. That level of increase is contingent on the project work commencing and being completed according to schedule. The projection also includes indirect construction as well as direct and indirect operations impact. Growth in General Fund revenues above ten percent are possible if the projects in the DEIS are implemented. Higher levels are reasonably possible, but become more speculative as the revenue projections are dependent on planned activities occurring on schedule as there are a myriad of possible reasons the actual construction work could fall behind the current schedule. Timing of the commencement of construction projects has a critical impact on the amount of expansion and work that can be achieved in the budget year. The assumption last year was for a Record of Decision in January 2010. That timeframe has been delayed and is now not expected until August 2010, according to a statement in the January 2010 News Bulletin of the Guam Contractor's Association. Additional time for review and comment on the voluminous DEIS was granted and a request for additional review time has been made, but not granted as of this date.

Since construction activity generally lags appropriations and contracts, the FY 2010 U.S. appropriations and FY 2009 Japan appropriations will largely determine FY 2011 construction activity. The major portion of construction projects for FY 2011 will be funded by the Department of Defense (DOD). However, a sizable amount of non-DOD projects, both private and Government of Guam, are expected to remain steady or increase from the \$300 million dollar level recorded by Department of Public Works building permits in Calendar Year 2009. Major non-military construction projects currently underway include the new Coast 360 Credit Union headquarters in Maite, the Outrigger Hotel Bayview tower in Tumon, the Emerald Oceanview Park condominium towers at Oka Point, and the closure of Ordot Dump and construction of a sanitary landfill.

Projects planned to commence with activity in FY 2011 include:

- Guam Waterworks Authority \$42 million capital improvement plan
- Port Authority Modernization Plan calls for \$100 million in federal grants and loans to fund the first phase of the program.
- Construction of a new JFK High School
- Tanota Partners New Harmon Apartments - 188 Units

Other items which have potential impact on the FY 2011 budget include:

- A Government of Guam pay scale revision based on findings of the Hay study which is expected to be completed this year.
- Use of the proceeds anticipated from the U.S Department of Agriculture for the landfill which may result in the reprogramming of bond funds originally earmarked for this purpose.
- Pending litigation regarding payment of interest on Cost of Living Allowance judgement.

ECONOMIC OUTLOOK

Tourism

While the tourism economy has been challenged in the past two years due, in part, to the global financial crisis and economic contraction, record high fuel prices necessitating airline fuel surcharges and the H1N1 virus scare, the last few months have shown steady improvements in visitor arrival numbers. In addition, while visitor arrivals declined 10.7 percent in Fiscal Year 2009, hotel occupancy tax collections fared better recording a decline of only 7.7 percent, thus, reducing the overall negative impact on the economy.

In a comparison of the monthly arrivals for Calendar Year 2008 to the comparable month in Calendar Year 2007, the downward trend was evident for both Japan and total arrivals. Eleven of the twelve months in 2008 showed a decline compared to the same month of the prior year. The arrivals from Japan showed single digit percentage declines from January to July, and accelerated to double digit percentage declines from August to December 2008. Declines in Japan arrivals continued every month in either single or double digits in Calendar Year 2009 from January through July. However, in August through December 2009, Japan arrivals experienced increases in every month. The trend in the last three months for total arrivals has also been positive.

The recent reversal of the downward arrivals trend, along with other developments in the industry, provides support for the forecast assumption that tourist arrivals and expenditures for Fiscal Year 2011 will remain above the levels seen in Fiscal Year 2009. Guam's share of Japan overseas travelers increased from 4.38 percent last October to 4.61 percent in October 2009, according to the October Guam Visitor's Bureau Statistics report. The decline in Japanese outbound travel to Guam is largely due to economic issues in Japan. Japan's economy emerged from recession in the second quarter last year on the back of solid exports to Asia, particularly China; however, Japan's government warned that deflation and high job losses could hurt a fragile recovery as Reuters reported in a January 20, 2010 article. Analysts expect the economy to slow early this year, but avoid another recession with continued support from strong Asian demand. A stronger Japanese yen and reduced fuel surcharges, combined with lessened H1N1 concerns, strengthens the outlook for increasing Japan travel to Guam. Similarly, a stronger Korean Won will promote increased travel from South Korea.

Increased air service to Guam will expand the capacity for further recovery and expansion in the visitor industry. Continental Airlines opened its Osaka office on October 14, 2009. Continental restored its daily Osaka to Guam service effective December 23, 2009, six years after it suspended service in October 2003. In 2009 Korean Air resumed its three times a week flight from Incheon via Osaka. Jin Air, the low-cost airline based in Seoul begins daily service to Guam in March 28, 2010. Continental Airlines began new twice weekly nonstop service from its Guam Hub to Nadi, Fiji on December 18, 2009. Continental Airlines is to resume non-stop twice weekly flights from Hong Kong to Guam that operated since 1991, but were temporarily suspended in August 2008. Hong Kong is now participating in the Guam/CNMI Visa Waiver Program which started November 28, 2009. Eligible holders of a Hong Kong Special Administrative Region Passport or British National Overseas (BNO) passport can travel to Guam or Saipan without a visa. The number of visitors from Hong Kong increased by 26 percent in December 2009 compared to December last year. More Hong Kong visitors are expected as Hong Kong's economy continues to grow and will increase

ECONOMIC OUTLOOK

further when direct flights resume. Additional Delta Airlines daily service from Osaka has been scheduled from June to August, 2010. Japan Airlines (JAL) applied to be placed under court-administered bankruptcy and reorganization on January 19, 2010. According to a January 20, 2010 Wall Street Journal story, this is the country's largest-ever bankruptcy petition by a nonfinancial company. A third of JAL's workforce will be axed. JAL employees and Japanese embassies around the world have been assuring JAL's global suppliers that the airline's operations will continue as normal. Early reports say that JAL will not cut routes to Guam, but may shift airline seat configuration.

Employment

Employment has been relatively steady on Guam in recent years, but dipped somewhat in 2009 largely due to weak visitor arrivals and the closure of the Aurora Resort Hotel for renovations. Slight increases are expected by FY 2011 due to recovering arrival numbers. Opening of a new Payless Markets in Mangilao in 2010, Tumon Bay Shopping Center and the Outrigger Bayview tower will create jobs outside the construction industry. Construction will lead the additions to jobs for the years ahead. Additional construction is also expected to induce jobs in other industries to support construction activities and additional goods and services for the increasing number of employees and overall population. ARRA will continue to create additional jobs for capital investments and direct job funding.

The Consolidated Natural Resources Act of 2008 excludes Guam and CNMI from the numerical limitations on Nonimmigrant workers during the transition period which became effective in 2009 and ends December 31, 2014. This provision was included to admit Nonimmigrant foreign workers for Department of Defense buildup projects although the exemption from the national caps applies to non-defense employment as well.

Summary Conclusion

The assumption of a stable visitor industry, assisted by moderate fuel costs, a rebound in the financial markets, and an economic recovery in the U.S. and Japan, creates a base of economic activity to which additional construction activities will provide an economic boost for Fiscal Year 2011.

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