



A Case Study of the Government of Guam



A Report to Our Citizens

For the Fiscal Year Ended September 30, 2010

Table of Contents

| | |
|-------------------------------------|---|
| About GovGuam | 1 |
| Performance Measures..... | 2 |
| Revenues and Expenses | 3 |
| Guam's Outlook and Challenges | 4 |

Government of Guam

Governor of Guam

Felix P. Camacho

Lieutenant Governor of Guam

Michael W. Cruz

U.S. House of Representatives Delegate

Madeleine Z. Bordallo

Attorney General

Alicia G. Limtiaco

Public Auditor

Doris Flores Brooks

The 30th Guam Legislature consists of:

- Thomas C. Ada (D)
- V. Anthony Ada (R) *
- Frank B. Aguon, Jr. (D)
- Tina Muna Barnes (D)
- Frank F. Blas, Jr. (R)
- Edward J.B. Calvo (R)
- Benjamin J.F. Cruz (D)
- James V. Espaldon (R)
- Dr. Judith P. Guthertz (D)
- Adolpho B. Palacios, Sr. (D)
- Vicente C. Pangelinan (D)
- Matt Rector (D) *
- Rory Respicio (D)
- Telo T. Taitague (R)
- Ray Tenorio (R)
- Judith T. Won Pat (D), Speaker

(R) = Republican, (D) = Democrat

*V. Anthony Ada was elected under a special election held on March 20, 2010. Senator Ada was sworn in as senator on March 22, 2010 in the 30th Guam Legislature taking the vacated seat of Matt Rector who resigned.

The Judicial Branch is comprised of the Supreme Court of Guam and a Territorial Superior Court. The Guam Supreme Court consists of Robert J. Torres (Chief Justice), and Associate Justices Philip Carbullido and Katherine A. Maraman. The Territorial Superior Court includes Alberto C. Lamorena, III (Presiding Judge), and Judges Arthur Barcinas, Elizabeth Barrett-Anderson, Michael J. Bordallo, Anita A. Sukola, Vernon P. Perez, and Steven S. Unpingco.



The Organic Act of Guam

The Organic Act of Guam (1950) established the Government of Guam. Subject to the laws of Guam, the Governor is responsible for the establishment, maintenance, and operation of public health services in Guam, including hospitals, dispensaries, and quarantine stations. Additionally, the Government of Guam should provide an adequate public educational system.

About the Island of Guam

The island of Guam, best known for its tropical climate, sunny weather and sandy beaches, is a popular holiday destination for its Asian neighbors from Japan, Korea, and Taiwan. The official language in Guam is Chamorro and English. Average day temperature is 85 degrees Fahrenheit.

Guam, the largest island of the Mariana Islands' chain and the Micronesian islands, is the most populous and economically developed Micronesian island in the Western Pacific. Guam is the home of a major institution of higher education, the University of Guam, which is a U.S. land grant institution accredited by the Western Association of Schools and Colleges.

The island of Guam measures to 30 miles long and roughly six to nine miles wide with the closest neighboring state to be Hawaii at approximately 3,300 miles north east of Guam. The island of Guam has a unique relationship with the United States as it is considered to be an unincorporated territory and it maintains an American community, a government system modeled after the U.S., the American dollar as the official currency, and because of Guam's geographic location over the international dateline, the island has earned a distinction as, "Where America's Day Begins."

Selected Demographics

| | 2010 | 2009 |
|---|-----------|-----------|
| Population | 159,358 | N/A |
| Per capita income | \$12,864 | N/A |
| Unemployment rate | N/A | 9.3% |
| Total employees (primary government) | 8,056 | 7,932 |
| Tourist arrivals | 1,196,523 | 1,052,871 |

Sources: Guam Statistical Yearbook 2010
2010 GovGuam audited financial statements

Performance Measures



Prioritizing Education

GovGuam considers education a priority, as it is the largest expense of the primary government. The 27 elementary schools, 8 middle schools, 5 high schools, and an alternative school make up the Guam Department of Education. Dropout rates have decreased to 6%, almost half of what it was 10 years ago. There was improvement in SAT-10 scores across all schools; several schools equaled or exceeded the national rate of improvement.

Sources: *Guam Statistical Yearbook 2010*
Guam Department of Education CCR



Keeping the Community Safe

GovGuam strives for the protection of life and property of its citizens. During FY 2010, there were 310 officers (sworn personnel) of the Guam Police Department. The Guam Fire Department exists to provide quality emergency and non-emergency services. GFD has 264 full-time employees.



How Are We Performing?

The following performance measures show GovGuam's progress in education, public safety, public health, public works, and tourism.

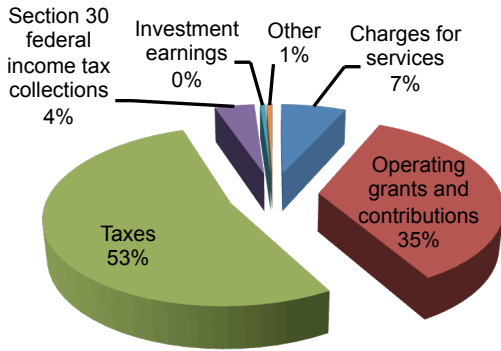
| | 2009 | 2010 |
|---|-----------|-----------|
| Education | | |
| Total school enrollment* | 30,329 | 30,272 |
| Total high school graduates* | 1,838 | 1,547 |
| Cost per pupil* | \$6,730 | \$6,172 |
| Public Safety | | |
| Number of police physical arrests | 3,517 | 2,646 |
| Number of emergency responses | 25,741 | 22,734 |
| Number of fires extinguished | 1,274 | 1,032 |
| Public Health | | |
| Number of hospital in-patients | 11,828 | 11,689 |
| Number of hospital physicians | 161 | 167 |
| Number of accident/ emergency attendances | 590 | 662 |
| Medicaid caseload | 31,466 | 33,867 |
| Medicaid recipients | 6,906 | 7,745 |
| Child Protective Services referrals received | 1,171 | 1,403 |
| Public Works | | |
| Refuse collected (tons) | 47,937 | 82,444 |
| Number of streets | 1,818 | 1,824 |
| Number of traffic signals | 78 | 79 |
| Tourism | | |
| Monthly hotel occupancy rate | 60% | 71% |
| Number of Hotels | 25 | 25 |
| Average flights per week | 775 | 854 |
| Visitors per year (air and sea) | 1,052,871 | 1,196,523 |

*School Year
 Source: *Guam Statistical Yearbook 2010*

Are there specific performance measures you would like to see on this page? Please contact the Department of Administration Director's Office at (671) 475-1101 or (671) 475-1250.

Revenues and Expenses

Primary Government Revenue Sources



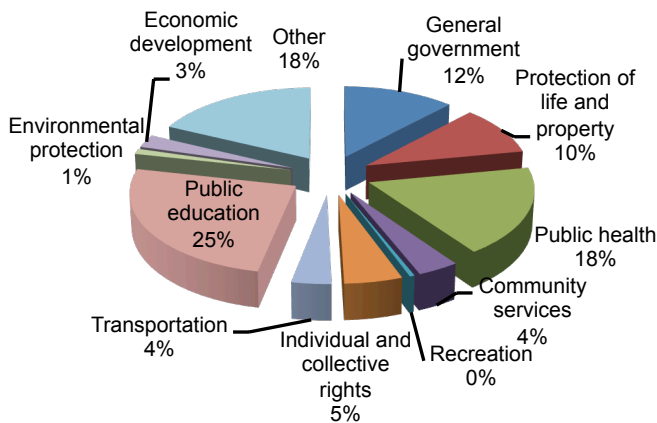
For the Fiscal Years Ended September 30, 2010 and September 30, 2009.
(Amounts in Thousands)

| Revenues | 2010 | 2009 | % Change |
|--|-----------|-----------|----------|
| Charges for services | \$63,783 | \$50,907 | 25.29% |
| Operating grants and contributions | 330,501 | 284,981 | 15.97% |
| Taxes | 499,798 | 485,776 | 2.89% |
| Section 30 federal income tax collections | 39,028 | 38,869 | 0.41% |
| Investment earnings | 5,057 | 4,701 | 7.57% |
| Other | 5,593 | 4,087 | 36.85% |
| Total* | \$943,760 | \$869,321 | 8.56% |

*Amounts may not add due to rounding.

Primary Government Functional Expenses

For the Fiscal Years Ended September 30, 2010 and September 30, 2009.
(Amounts in Thousands)



| Expenses | 2010 | 2009 | % Change |
|---|-------------|-------------|----------|
| General government | \$123,251 | \$106,820 | 15.38% |
| Protection of life and property | 101,709 | 107,940 | -5.77% |
| Public health | 184,881 | 168,891 | 9.47% |
| Community services | 38,216 | 37,471 | 1.99% |
| Recreation | 4,654 | 5,443 | -14.48% |
| Individual and collective rights | 53,551 | 47,452 | 12.85% |
| Transportation | 36,590 | 33,560 | 9.03% |
| Public education | 257,944 | 260,977 | -1.16% |
| Environmental protection | 11,125 | 9,320 | 19.36% |
| Economic development | 26,664 | 15,705 | 69.78% |
| Other | 182,916 | 215,743 | -15.22% |
| Total* | \$1,021,502 | \$1,009,322 | 1.21% |
| Change in net assets | \$(77,743) | \$(140,000) | -44.47% |

*Amounts may not add due to rounding.

Other expenses consist of unallocated interest expense (\$42.7 million), payments to autonomous agencies (\$98.8 million), COLA interest expense (\$1.3 million), capital-related expenses (\$23.2 million), interest payments on tax refunds (\$3 million), and miscellaneous payments (\$14 million).

Primary Government Functional Expenses

- Due to the additional expenses for streetlights (\$1.2 million), power and water (\$7 million), and employee insurance benefits (\$3.9 million), the Department of Administration's expenses increased by \$11.7 million to \$28.2 million.
- The Department of Public Health and Social Services' expenses increased by \$1.7 million to \$5.3 million due to carry-over of lapses from the prior year.
- At the end of the fiscal year, GovGuam had \$723.1 million in long-term liabilities. This consists of general obligation bonds (\$443 million), limited obligation bonds (\$258.8 million), and short-term bonds (\$21.3 million). Accordingly, GovGuam paid \$74.5 million in annual debt service for these obligations during the year.
- There was a 41.6% increase of \$6.6 million in community services net expenses from the previous fiscal year because of an increase in expenditures incurred under the Medically Indigent Program administered by the Department of Public Health.
- Due to the settlement and payment of a majority of the COLA settlement in fiscal year 2009, COLA interest expense decreased by \$16.6 million from the previous fiscal year.
- There was an increase of 15.5% or \$11.3 million from the previous fiscal year in payments to component units' net expenses attributable to a one-off appropriation to the Guam Memorial Hospital Authority for the purpose of paying down certain delinquent retirement fund contributions.

Guam's Outlook and Challenges



Guam's Outlook

Tourism

Guam's tourism industry is off to an encouraging start in 2010, with 579,163 visitors to Guam through June, a 14.6% increase from the same period of 2009.

Military Build Up Optimism

Since the military build-up was first announced, a surge of mixed feelings came up within Guam's civic, policy makers, and local business communities while it created more optimism with Guam's economy.

The residential real estate market continues to grow and is expected to improve with the future military build-up, which will increase the demand for real estate.

Improved Credit Ratings

Credit ratings have improved for the territorial government. Improved credit ratings reflect the confidence of local and foreign investors concerning future economic developments on Guam.

Inflation

Guam's consumer price index (CPI)-based annual inflation rate in 2009 was 1.7%, the third year of decreasing inflation since 2006, when the rate was 11.6%.

Job Stabilization

Employment is showing signs of stabilization and expected to continue to improve. Guam Bureau of Labor Statistics' Current Employment reports total job growth was 3.23% compared to the same period in 2009. Private sector jobs increased 2.86% from one year earlier while job growth in the public sector, in both Federal and Government of Guam units, was 4.3%.

Source: First Hawaiian Bank 2010 Economic Forecast

We want to hear from you! Did you find this report informative? Is there other information you would like to see? Please contact the Department of Administration Director's office at (671) 475-1101 or (671) 475-1250.

Economic Challenges

Although Guam continues to face many economic challenges, the island continues to remain optimistic about its economic future. Its economy primarily depends on tourism, installations by the Department of Defense, and locally owned businesses. Some of the challenges include:

Low Revenue Collections in Three Years

Guam has experienced a downward economy for the past three years. In FY 2007, revenues of \$514.8 million were collected. By FY 2010, revenues decreased to \$491 million. Revenues increased slightly from FY 2009 to FY 2010 (from \$483.2 million to \$491 million). However, actual collections were \$34.5 million less than budgeted revenues of \$525.5 million.

Military Construction Projects Not Materialized

Construction projects, in the Draft Environmental Impact Statement, to relocate the U.S. Marines and ancillary services from Japan to Guam have not yet materialized. In the latter part of FY 2011 and FY 2012, expected economic growth is dependent on the timeline adjustments agreed to by the U.S. and Japan to finance the infrastructure requirements of the buildup through 2014. Additionally, Guam is not immune to and may experience volatile crude oil prices or sequential local and national debt challenges.

Permanent Injunction Against DMHSA

As a result of the permanent injunction against DMHSA and the appointment of a Federal Management Team to force compliance, the agency's expenses increased by \$1.4 million to \$11.8 million. In November 2010, the Court approved the Federal Management Team's plan to bring DMHSA into compliance at a cost of \$16 million. Of this amount, only \$1.5 million of the \$16 million was recorded in FY 2010; the remaining \$14.5 million will be recorded in FY 2011.

Over-Expenditures of \$71.1 Million

The Government of Guam continues to spend more than it collects. Expenditures totaled \$562 million for line agencies, the Legislature, and the Judiciary, and subsidies to autonomous entities, such as the University of Guam and Guam Community College. It exceeded actual revenues of \$491 million by \$71.1 million and increased the cumulative General Fund deficit, as of September 30, 2010, to \$336.4 million.

Make Work Pay Tax Credit (MWPC)

The MWPC, a provision of the American Recovery and Reinvestment Act, provided tax relief up to \$400 for eligible working individuals and up to \$800 for married taxpayers filing jointly in tax years 2009 and 2010. The U.S. Treasury advanced the cost to local governments and expects unused funds to be returned by January 30, 2013 or to be offset against future payments.

Source: Guam Office of Public Accountability General Fund of the Government of Guam FY 2010 Financial Highlights

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