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GovGuam Continues 5-Year Trend of Overspending Its Income

A just completed financial audit of the Government of Guam General Fund for fiscal year 2001 shows that GovGuam overspent its income by \$34 million. Revenues totaled \$447 million, while expenditures were \$481 million.

GovGuam has spent more money than it has collected in each of the past five years

The audit was prepared by CPAs Deloitte Touche Tohmatsu under the oversight of Public Auditor Doris Flores Brooks.

With one exception over the past five years revenues have steadily declined, dropping from \$516 million in FY 1997, to \$504 million in 1998, sliding to \$469 million in 1999. The exception was 2000 when there was an upward tick to \$481 million. The 2001 revenues of \$447 million marked a resumption of the downward trend.

Collectively expenditures exceeded revenues by \$79 million over the past five years. On a year-by-year basis the over spending amounted to \$10 million in 1997, \$19 million in 1998, \$14.5 million in 1999, \$1.6 million in 2000 and the staggering \$34 million for 2001.

Even such cost reduction efforts as the early retirement act passed in 1999 have had little appreciable effect in reducing expenses. For the last three years total expenditures remained level, going from \$484 million in 1999 to \$482 million in 2000 and \$481 million in 2001.

On the other hand, the early retirement law had a dramatic adverse impact on the Retirement Fund. Nearly 600 retirees were added to the Fund's annuity rolls, increasing the annual payout for those who took the early out option by \$27 million annually. The full adverse effect of the early out is greater than the \$27 million currently being paid because several hundred people were allowed to buy the five years of retirement credit but then remained on GovGuam payrolls. Those persons deferred their retirement until 2002 and the cost of their annuities will be a further burden on the program.

Another law that adversely impacted revenues was the Dave Santos Act, which exempted from the 4 per cent gross receipts tax the first \$50,000 of income by businesses that had gross revenues of less than \$500,000. GRT revenues in 2001 were \$137 million compared to the \$184 million the government collected in 1997. While a portion of the decline can be attributed to the overall drop in general economic activity on Guam, a substantial portion of the reduction is the result of the expansion of the GRT exemption for all businesses with gross sales of less than \$500,000. Among the professionals who were granted the exemption specifically in 1999 were lawyers, doctors, dentists, accountants, consultants and engineers, as well as those who earned money on commission sales and from insurance premium fees.