

Guam
Comprehensive Economic
Development Strategy
Annual Report
May 2004



Government of Guam

Prepared by
Guam Economic Development and Commerce Authority
and
Bureau of Statistics and Plans

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Annual Report on the
Guam Comprehensive Economic Development Strategy
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Introduction

In April 2003, the Government of Guam developed and received approval of the Guam Comprehensive Economic Development Strategy (CEDS) in compliance with 13 CFR Part 303 which requires the development of a strategy in order to remain eligible for assistance from the Economic Development Administration (EDA), U. S. Department of Commerce. While a new or revised CEDS must be submitted every 5 years, 13 CFR Part 303.2(d) requires that “Each year thereafter (after initial approval), the planning organization must submit an annual strategy report, acceptable to EDA.” This annual report is submitted in compliance with EDA requirements and is intended to inform the public, decision makers and EDA on progress in implementing the Guam CEDS.

EDA guidance provides that “the annual report documents the progress achieved on economic development activities, regardless of the source of funding, and reports on changing economic conditions.” The annual report should:

1. “Adjust the CEDS as needed.
2. Report on the previous year’s economic development activities and any significant changes in the region’s economic conditions.
3. Evaluate the effectiveness in meeting goals.
4. Schedule achievable goals for the coming year.”

Current Economic Conditions

In 2003, Guam faced dire economic conditions that resulted in deterioration of public service, infrastructure and quality of life of the community at all levels. Thousands of jobs were lost the years prior to 2003, bankruptcies were on the rise and investor confidence diminished. Today, Guam’s economic conditions are improving and the outlook for expansion in the economy, increase in jobs and increase in public revenue is bright, given the initiatives being implemented by the Government of Guam and the private sector. Statistical collection efforts show the following apparent trends:

Total employment increased by 1,830 jobs from 2002 and total employment increased by 310 jobs this past quarter. Job losses have stabilized with the private sector replacing government jobs lost through downsizing of the Government of Guam and the federal civil service system.

The unemployment rate dropped from 11.4% in March 2002 to 7.7% in March 2004.

Visitor arrivals are rebounding to previous levels;

New building construction and renovations are on the rise, with the total value of permits issued on the rise as well.

Surface and air cargo movements are increasing;

More military personnel and dependents are coming to Guam while more dollars are being spent on military construction.

Dramatic real estate price declines have stabilized, giving investors a chance to buy and sell properties and signaling a resurgence of interest from foreign investors.

Total Government of Guam General Fund revenue increased by 2% for FY 2003 and 15% for 2004, primarily due to the 2% increase in gross receipts taxes which have since been rolled back.

The Consumer Price Index has increased by 3.23% from FY 2002.

The amount of public assistance expenditures decreased by 57% from 2002 to 2003.

However, the number of food stamp recipients increased by 6.4% during the same period.

Generally speaking, these statistics show that Guam's economy has somewhat stabilized, and that signs of an economic rebound are everywhere. Tourist arrivals are returning to and exceeding previous year's level, military spending has increased and is expected to continue increasing with the home porting of additional military units, expansion of existing units and increased port visits. Foreign investment is also expected to rebound, given the lowering of land prices in Guam and instabilities in various geographic regions within the Pacific Rim. As a result, Government revenues are expected to increase, possibly even with the return of gross receipts taxes to the 4% level (from 6% over the past year), enabling the public sector to fund improvements to basic services and encouraging private sector investments.

Living costs for the average Guam resident, however, are rising with salaries not keeping pace with increases in the cost of living. Tourists are not spending as much money as they used to while visiting Guam. These apparent trends continue to point in the direction of the need to diversify the Guam economy and diversify the Guam tourist market, which continue to be the emphasis of the Governor's Ten Strategic Initiatives To Grow the Guam Economy and the Guam Comprehensive Economic Development Strategy.

A status report on the efforts to diversify the economy and the tourist market based upon the projects identified in the Guam Comprehensive Economic Development Strategy approved by EDA in 2003, is provided below. Effectiveness in Meeting Goals - Status of Projects

New Wharf and Land Reclamation - The Port Authority of Guam is administering a federal grant from the Economic Development Administration, U.S. Department of Commerce for “Architectural and Engineering Design and E.I.S. for Deep Wharf in Apra Harbor. Total amount awarded is \$1.5 million (\$1.2 million federal funding, with \$300,000 local match). The grant duration is from July 2002 thru June 2007. The purpose of the grant is to prepare an architectural and engineering design and environmental impact statement for a new deep wharf in outer Apra Harbor. The A&E design is for the proposed construction of 2,900 lineal feet of new wharfage and 3,000 lineal feet of reclaimed land. It is estimated that this project would require approximately 500,000 cubic yards of fill material for land reclamation. A request for proposals for design services has been publicized, a professional A&E firm was selected and contract negotiations are underway. Funds have also been provided to the U. S. Army Corps of Engineers for preparation of the Environmental Impact Statement for the project. The House of Representatives recently passed HR 3550, which appropriates \$5 Million for this project over a three year period (\$1.6 Million for FY05, \$1.65 Million for FY06 and \$1.75 Million for FY07). However, the House bill needs to be reconciled with the Senate version before submission to the President for enactment.

Tumon Business Improvement District – Legislation has been drafted which will soon be introduced for review and passage by the Guam Legislature.

Regional Recycling Opportunity (Regional Solid Waste Facility) – Legislation to adopt Rules and Regulations for Recycling and Shipping Qualifying Certificate has been introduced with public hearing held on September 17, 2003. Rules and Regulations have been approved by GEDCA Board in November and to be submitted to the Legislature in January. Bill 180 to adopt Rules and Regulations and amend PL 25-127 to correct inconsistencies will be taken up in an upcoming Legislative session.

Immigrant Investor Visa Pilot Program – The Immigrant Investor Visa Program (EB-5 Visa) offers a immigrant visa to investors who make an investment of \$1million dollars and create 10 jobs. Guam has been designated a “targeted area” because of our high unemployment meaning that the minimum investment is \$500K. GEDCA is looking to apply for Regional Center Status with the INS that would allow more flexible standards for investment here. GEDCA is currently working with Government Economists to identify statistical needs. RFP for professional consultant to assist in preparation and processing of application to Bureau of Citizenship and Immigration has been drafted and will be issued upon approval of funding by the GEDCA Board of Directors.

Emerging Money Manger Program – GEDCA has drafted legislation in conjunction with private sector input to establish Guam program with legal review in March. GEDCA will seek introduction as soon as final review is completed.

Fishermen Coop Building Complex – This project was earlier withdrawn from EDA consideration. An application has been submitted by the Coop under the American Natives Act for funding to design the facility and prepare the environmental studies required. The intent is to resubmit the application for construction funding in EDA's next funding cycle.

Military Positioned Ships – Discussions have commenced with private industry in which political, labor and technical obstacles in the creation of this industry have been identified.

Tumon Infrastructure Improvements – Phase 2 of the project will be completed in July 2004. While funding has yet to be identified for phase 3, a portion of the required improvements may be funded privately, should the private development of Ypao Point materialize.

Call Centers – Inquiries have been received regarding the establishment of call centers on Guam however, little action has been taken in this area. It is expected that action will be undertaken in the upcoming year.

Captive Insurance – Work resumed with the Guam Captive Insurance Association to incorporate a new Protective Cell Captive law into the Guam Captive Insurance Program. Public Law 27-54 was enacted, separating the Office of the Insurance and Banking Commissioner from the Director's Office of the Department of Revenue and Taxation, allow greater focus and expertise in insurance and aligning Guam with its captive insurance competitors. A California construction company has incorporated a captive workman's compensation recently, and a pre-selected target group of twenty large Filipino companies will be presented in late May with Guam's captive advantages. If successful, this marketing effort will be extended to other Asian countries.

Fisheries /Aquaculture Development (Guam Domestic Fisheries) – A grant application to ANA will be submitted by the deadline. A previous grant application to NOAA was returned due to lack of funding for FY 2004.

Tumon Bay Drainage System – Current information was not available for this project.

Marina Development - (See Fishermen's Cooperative Building Complex)

Guam-based Trusts – The Guam Economic Development and Commerce Authority has met with Legislative representatives to discuss statutory changes required to implement this initiative.

Airline Flight Kitchen - Similar to the consolidated cargo facility, the Guam International Airport has initiated discussion with the Economic Development Administration for phase one of this project. Demolition of the existing facility and site preparation for the flight kitchen is part of phase one.

Agana Bridges – The House of Representatives recently passed HR 3550, which appropriates \$6 Million for this project, beginning in 2005. However, the House bill needs to be conferenced with the Senate version.

Hagåtña Revitalization – The Hagåtña Restoration and Redevelopment Authority is working on creating the Hagåtña Restoration and Redevelopment Plan. The Authority is preparing the RFP for this plan with target date for completion scheduled for September 1, 2004. The HRRA will also be preparing a plan for the historic core of Hagåtña, which will include a Historical/Cultural Walk and the restoration and rehabilitation of historic sites and objects which is also expected to be completed by summer's end. Approximately \$2 Million is included in the President's budget for FY05 to construct a cultural tour of historic sites in Hagåtña, interconnecting 17 different sites.

Alternative Dispute Center – Bill 172 passed and enacted into Public Law 27-81 “the Guam International Arbitration Law”. Non-resident legal practitioner issues have been favorably addressed through a Guam Supreme Court decision providing a mechanism for non-resident attorneys to conduct case specific, temporary practice in Guam. Non-profit “Guam International Mediation & Arbitration Center” has been created to institutionalize the project initiative. Funding sources to develop the physical plant for the center have been identified and are being pursued with one grant submission under the Administration for Native Americans program. Two seminars focusing on Guam as a venue of choice to host regional arbitration cases were held in February 2004. One was sponsored by an international law firm and held in Tokyo, Japan for the Japanese Bar another, sponsored by the Guam Bar was held in Guam. Current focus for this initiative is continued marketing to private industry and to explore opportunities with federal (military) contract dispute cases.

New Air Cargo Facility - As part of this project, the Guam International Airport has commenced with a Cargo Facility Study/Airport Master Plan update. This study which is primarily funded by Federal Aviation Administration (FAA) is scheduled for completion by July 2004. Guam International Airport has initiated discussion with the Economic Development Administration for phase one of this project. Phase one consists of the demolition of the existing facility and site preparation for the consolidated cargo facility.

Transportation and Distribution – Preliminary research has been conducted regarding regional potentials of this initiative.

Aviation Flight Schools - Preliminary work has been performed on the aviation flight school as part of the Guam International Airport Master Plan update. In addition, Guam International Airport has requested federal assistance to conduct a General Aviation Site Selection Master Plan update. The Federal Aviation Administration has committed to funding both plans which will serve as the foundation for the establishment of an aviation flight school for Guam.

GWA USEPA Compliance Order – GWA will receive \$918,700 for upgrades to the chlorination systems for 35 wells in central Guam and \$300,000 from a fiscal 2004 Consolidated Appropriations Act grant from the US EPA. Simultaneously, however, GWA was fined \$11,000 for delays in preparing and submitting an acceptable plan to disinfect high risk water wells and other potable water operational requirements. Work on implementing the compliance order is progressing. A project financing package of about \$207 Million has been completed and an RFP will be issued this summer for an underwriter to help develop a financial strategy to restore and upgrade Guam’s water and sewer systems.

Telecommunications Industry Training Program - Efforts are being undertaken to convene an industry working group to identify industry development opportunities. Because the industry is technology driven, market conditions can change rapidly. The working group would provide key input to GovGuam’s effort to develop a competitive incentive package for this new industry.

Northern Industrial Park – GovGuam pursued this project with the Department of the Interior in conjunction with the Department of the Air Force. However, as the site selected is located within an accident potential zone designated by the Air Force for its aircraft operations out of Andersen Air Force Base, the request for use of this federal property was denied.

Film Industry Development – Working to develop Guam as regional center for film crews from Asia and the U.S. Working group addressing establishment of a Guam film commission office. A California-based Film group visited Guam in February and the film company has now begun shooting an action film with international stars and a local cast for release in February or March 2005.

Tiyan Infrastructure System – This project is not actively being pursued as the land area on which the system is to be located, was transferred to the Guam Ancestral Lands Commission for transfer to private landowners as required by local law.

Northwest Parkway Project - The House of Representatives recently passed HR 3550, which appropriates \$3 Million for this project, beginning in 2005. However, the House bill needs to be reconciled with the Senate version.

Marine Drive Bypass – Funding for design is being identified for this project. However, a Legislative bill has been introduced proposing to transfer land ownership from the Government of Guam to former owners. Transfer of ownership may adversely affect the ability to create a Marine Drive Bypass.

Small Business Incubator – Although design of the facility has been completed under a grant from EDA for just under \$200,000, lack of construction funding has prevented this project from progressing. The location of the facility may need to be revisited based upon on-going construction at the University of Guam.

State Statistical Center – No action has been taken regarding this initiative.

Regional Software Support – No action has been taken regarding this initiative.

Multi-purpose Fishing Vessel - No action has been taken regarding this initiative.

Tumon Bay Light Rail System - The House of Representatives recently passed HR 3550, which authorizes funding for “alternatives analysis and preliminary engineering” of this project, beginning in 2005. However, the House bill needs to be reconciled with the Senate version.

Other Projects:

Increasing Military Presence – Presentations have been given by the Government of Guam and the Guam Chamber of Commerce to the U. S. Military at all levels in an effort to increase the number of personnel home ported and visiting Guam and the level of funding for military activities. A third submarine is scheduled to be home ported in Guam this year and discussions are underway regarding the home porting of additional Naval and Air Force units in Guam. Over \$81 Million is currently included in the President’s FY05 budget request for military construction.

Medical Residency Program – An American Natives Administration (ANA) grant application has been submitted to establish a Guam Medical Residency Program.

Aquaculture Cooperative - An ANA grant application is being prepared to establish an Aquaculture Cooperative Program.

China Trade Initiatives – In preparation for Governor’s trade mission in spring/summer, promotions video was translated into Chinese, as well as update and translation of existing promotional Guam-based projects for Chinese investors. These products to be presented by the Governor during a future trade mission. Issues have been raised regarding processing of requests for letters of invitation from prospective investors and Standard Operating Procedures are being developed to ensure the integrity of the letters issued by Guam entities.

2004 New Construction/Rehabilitation of Guam Schools – A financing plan to achieve the Governor’s objective of building 7 new schools as well as rehabilitating existing ones has been structured. The RFP for the new school construction phase of the process will be issued by the Department of Public. The payment stream for this phase will be a portion of Compact Impact funds.

The second part of the plan, the rehabilitation of existing schools, will require legislation to secure the payment of this phase with general fund proceeds to be released upon maturity of the 1995 bonds in 2006. Legislation should be finalized shortly with the official RFP to be sent out shortly after.

\$218M Deficit Financing Bond –Public Law 27-19 gave the authority to issue Limited Obligation Bonds Anticipation Notes and Limited Obligation Bonds in order to fund certain obligations that may otherwise go unpaid this Fiscal Year. Because of the favorable low interest rate environment, and strong demand for the triple tax exemption that Government of Guam bonds enjoy, there should be good demand from a broad array of investors, including money managers, bank trusts departments, insurance companies and bond funds. Bonds should be floated by the fourth quarter of 2004, assuming the court rules against the Attorney General’s suit.

Judicial Council Refinancing Activities –The court is beginning the process of refinancing its existing debt with USDA and to borrow an additional \$1.6 million to pay for outstanding legal fees associated with the defense of indigent persons. An evaluation team finalized their recommendation to secure a note with the Bank of Guam and presented for the Judicial Councils approval in March. The Judicial Council accepted the recommendation with the caveat that the funds from the bank not be released until the current USDA note status of debt relief qualification is explored.

LOC – A \$20 million line of credit seeks to provide a Revolving Line to satisfy FEMA matching and insurance issues pursuant to Public Law 26-174 as amended by Public Law 27-46 to allow completion of various typhoon-related projects.

Objectives for the Upcoming Year

The overall objective for the upcoming year is to implement the Governor’s “Ten Strategic Initiatives to Grow the Guam Economy.” All appropriate projects contained in the Guam CEDS will be pursued by the various GovGuam agencies focusing heavily on those that:

1. Sustain the rebound of the tourism sector;
2. Agressively promote Guam’s military strategic value with respect to the War on Terror and Homeland Security, attracting more military assets and increasing use of existing assets;
3. Diversify local industry and create jobs uncorrelated with tourism; and
4. Improve quality of life on Guam for residents, visitor, the military and foreign investors.