

BUREAU
GOVERNMENT
P. O.
AGANA

TERRITORY OF GUAM

Status of the Territory



Presentation to:
Standard & Poor's Rating Group

July 16, 19

PRESENTATION PARTICIPANTS

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Presentation

- Economy

- VISION 2001: Strategic Plan

- Economic Development

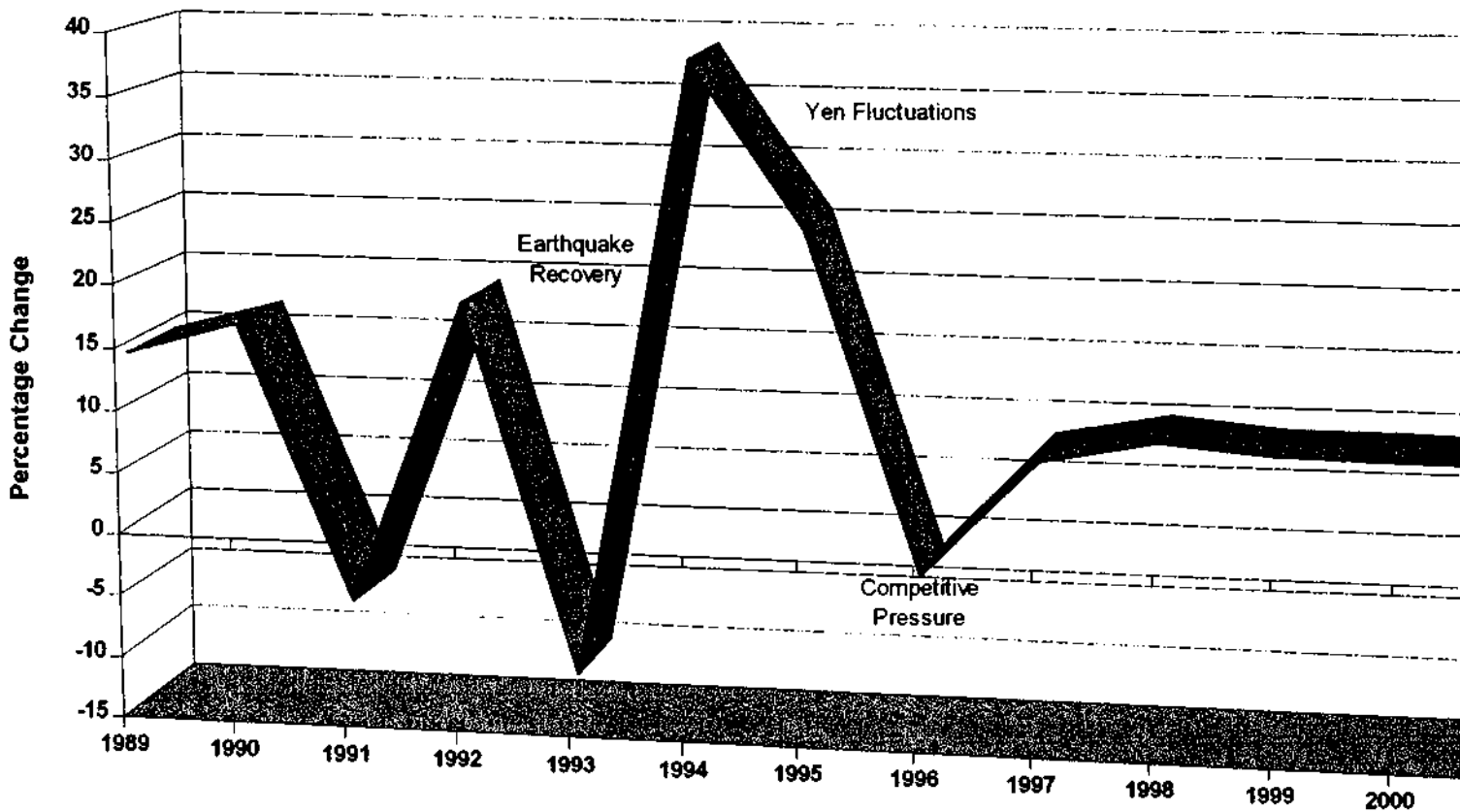
- Organizational Improvements

- GovGuam Forecast

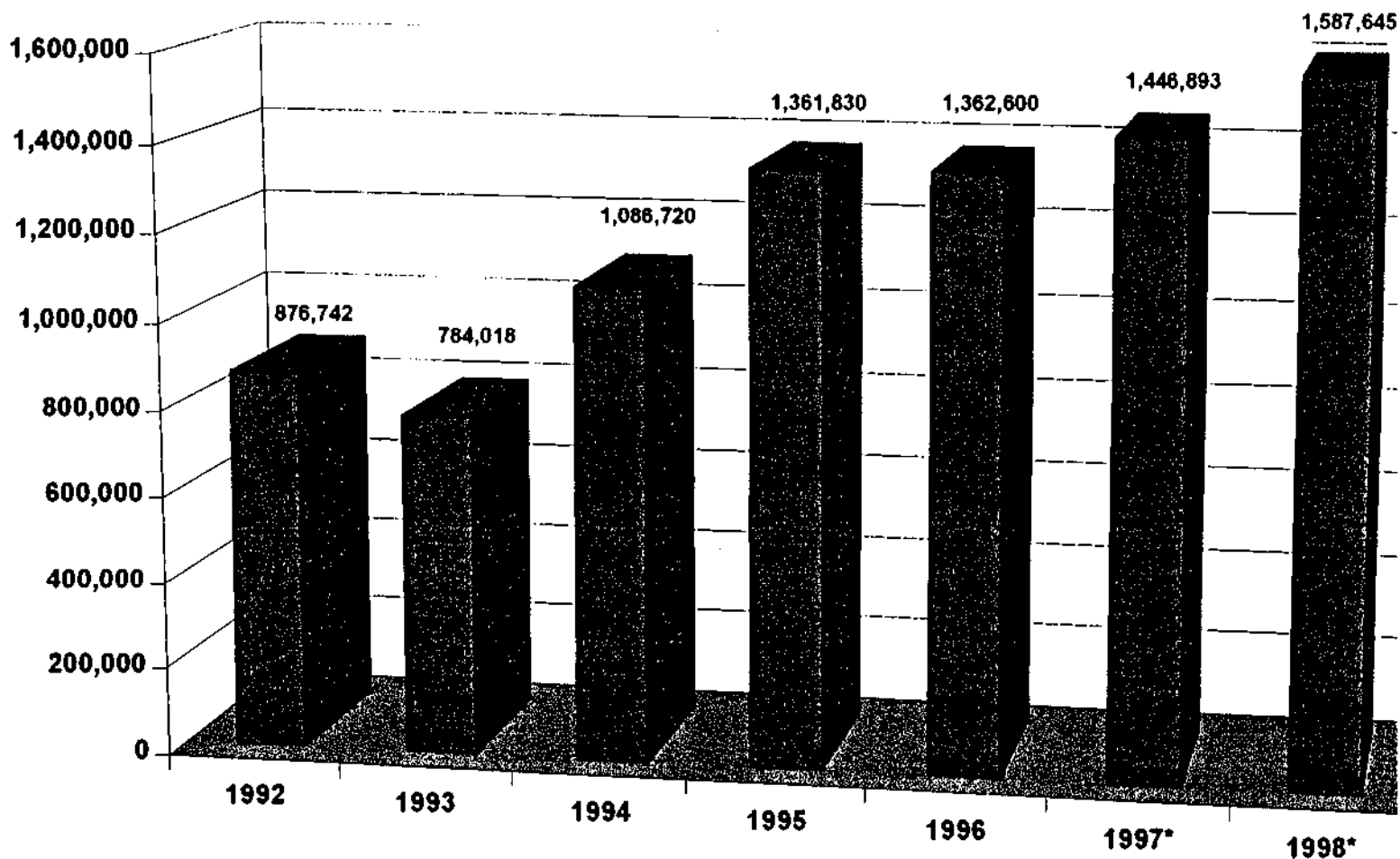
Economy: Visitor Sector Dynamics

- Guam's unique competitive advantage, based on its proximity to major population centers and climate, results in a robust visitor sector with significantly less volatility than comparable destinations
- Despite competitive pressures in 1996, Guam retains its core visitor markets with 1.36 million visitors.
- Core Japan market, with its vertically integrated delivery system, remains strong
- Weaknesses in the Korean market are being addressed
- Taiwan market expected to pick up with room supply increases
- Emergent visitation from Russian and Chinese nationals and potential from Europeans

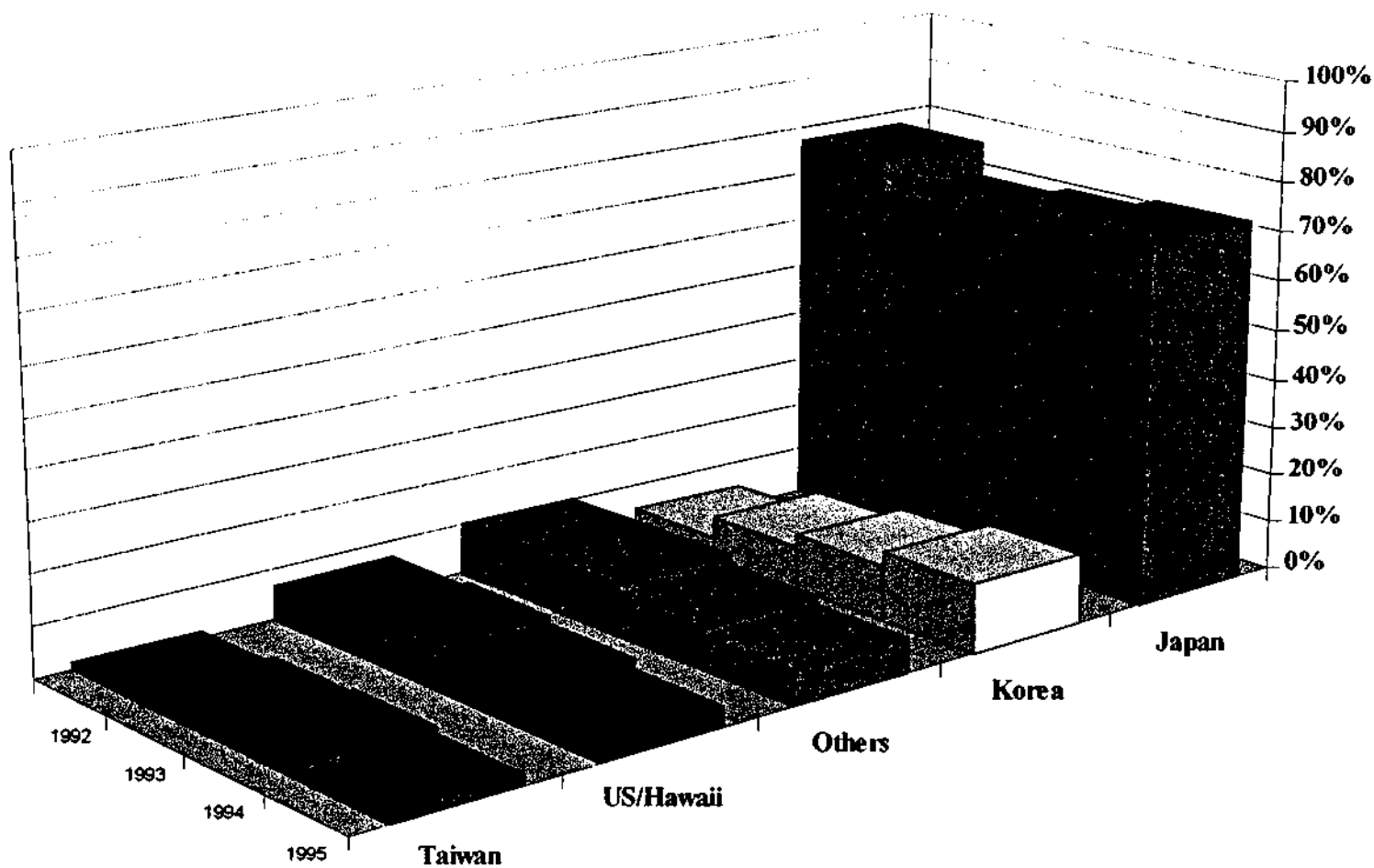
Economy: Year-To-Year Visitor Arrivals



Economy: Visitor Arrivals



Economy: Visitor Arrivals by Country

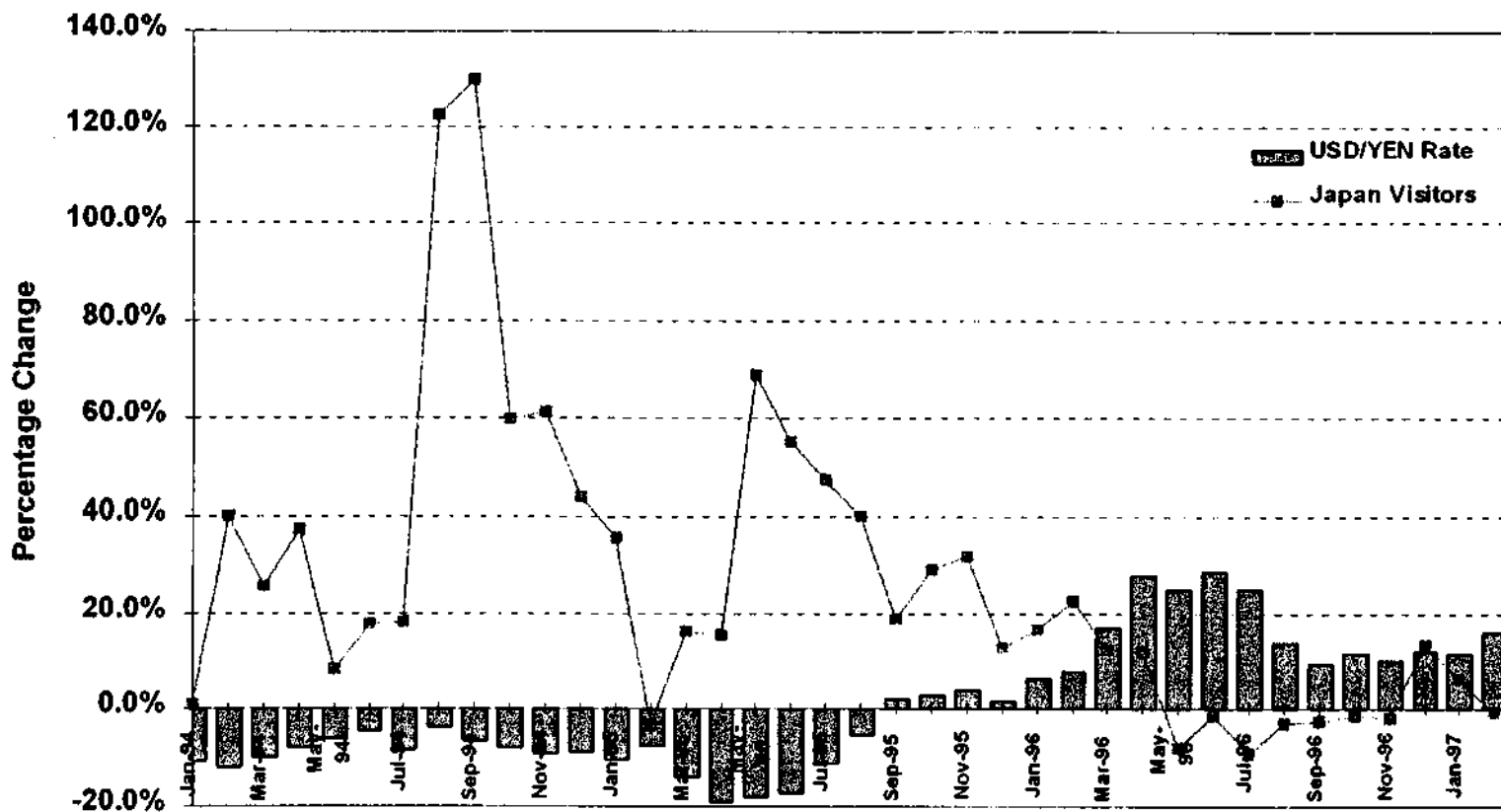


Economy: Japan Market Fundamentals

- 7.9% increase in Japanese visitors in the 5 months to May, 1997 over the previous year.
- Arrivals continue to be higher, with June, 1997 being higher than June of last year.
- Yen/\$ value has fallen to 112 today, and Guam remains on track for overall 8% increase in arrivals in 1997.

Economy: Japan Market Fundamentals

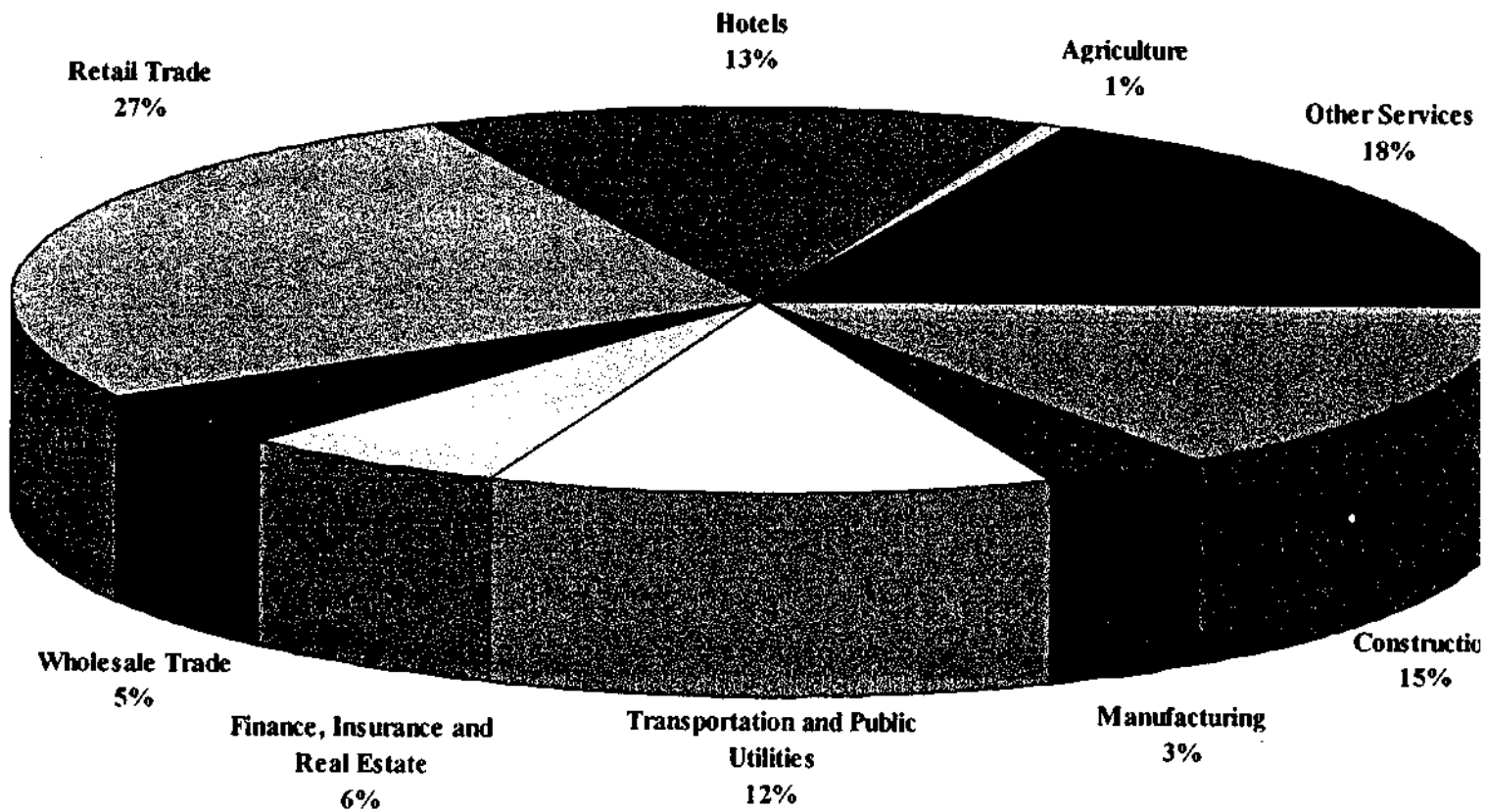
■ Impact of Yen value on visitor arrivals



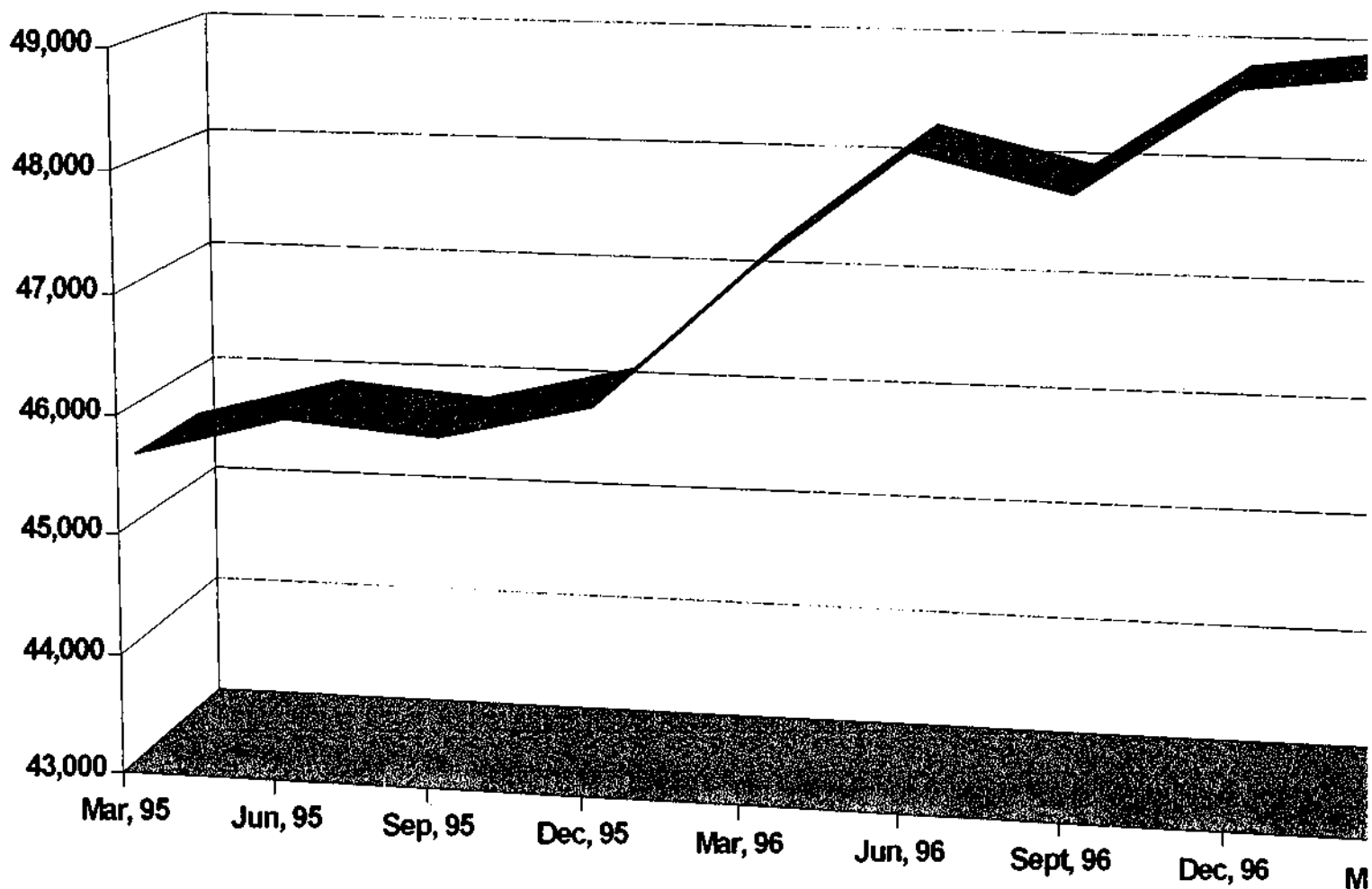
Economy: Private Sector Employment

- 7.5% increase in private sector employment since March, 1997
- Employment in the visitor sector up by 13.9% over the same period
- Direct employment in the visitor sector makes up 40% of total employment
- Construction employment down by 9.4% (Federal and GovGuam cutbacks), but expected to pick up in 1998
- Although unemployment has increased, it is skewed due to the population growth rate over the past three years
- Government continues to diversify economy with new industry incentives (i.e. captive insurance) *How does this relate to population*

Economy: Private Sector Employment



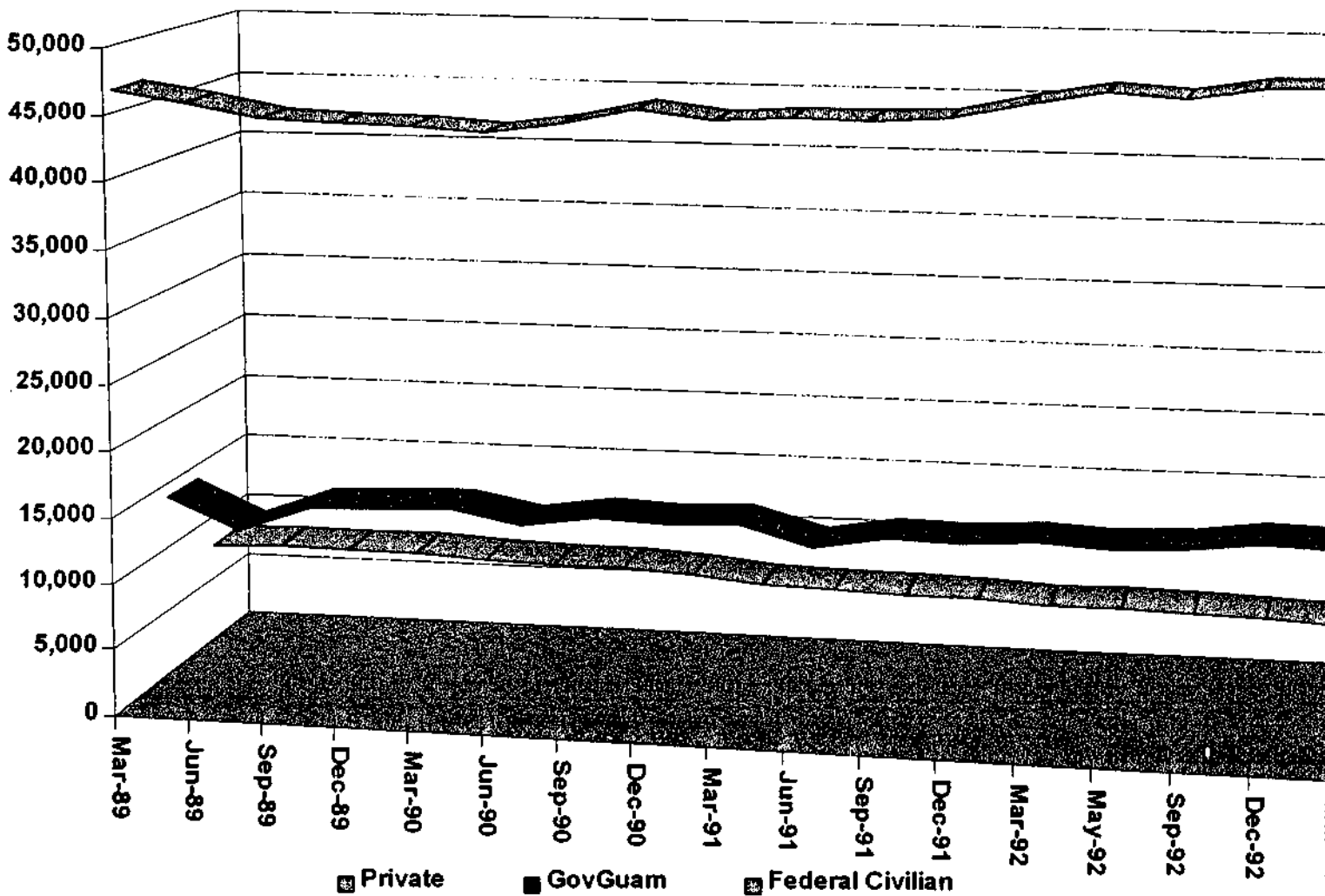
Economy: Private Sector Employment



Economy: Government Employment

- 1.3% increase in GovGuam employment since March, 1997 to 13,680
Includes Autonomous?
- Employment growth in GovGuam mainly in the Education, Public Safety and Utility sectors
- 16% decrease in Federal civilian employment since March, 1997 to 5,500 due to Federal budget cutbacks

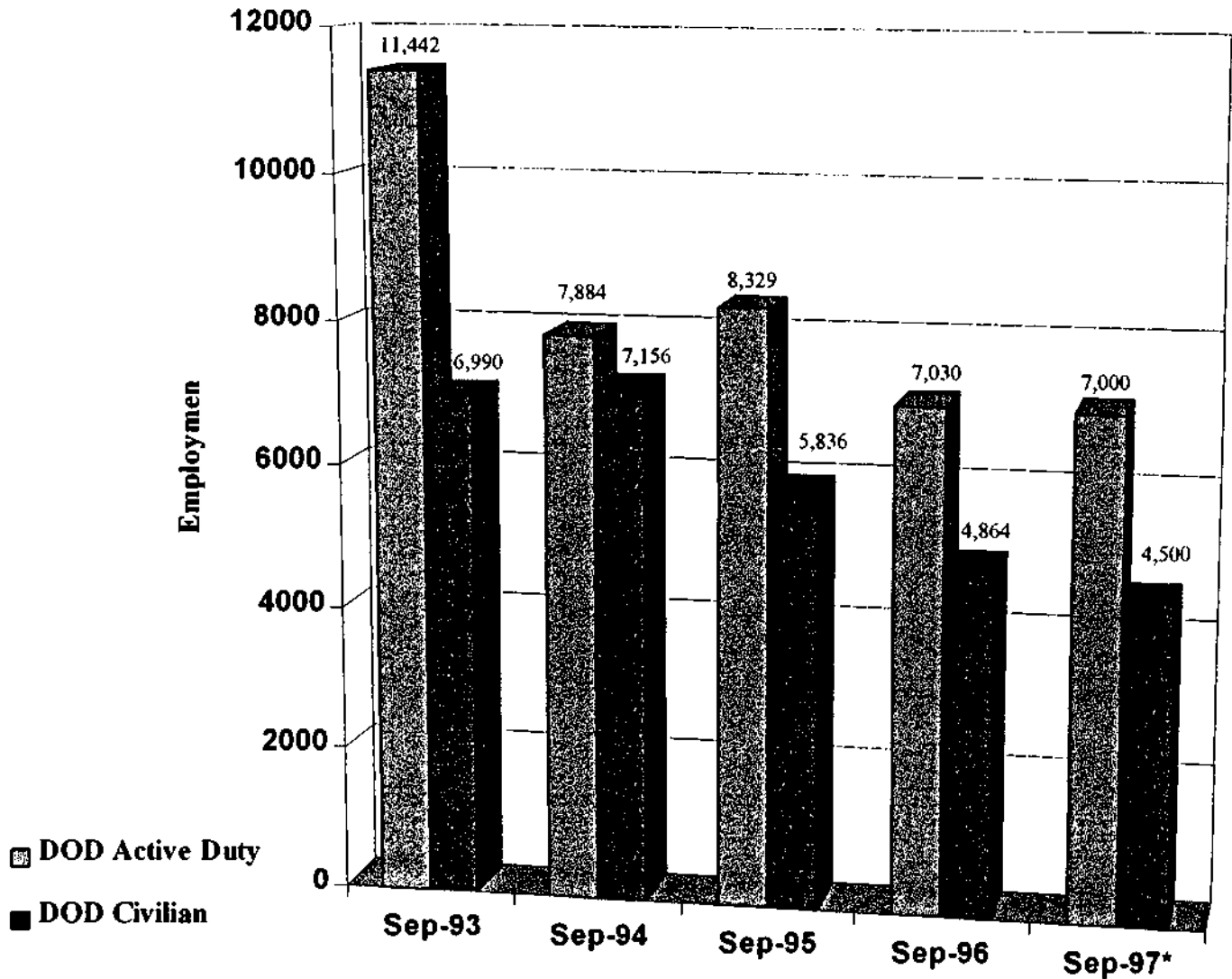
Economy: Territory Employment



Economy: Military Activity

- 39% decrease in active duty military employment since 1993 to 7,050
- 30% decrease in civilian ~~military~~ employment since 1993 to 4,850
- Impact of military cutbacks partly offset by a 70% + increase in visit arrivals over the same time period
- Federal and military downsizing is largely complete, and the economic impact has been successfully absorbed
- Guam has successfully engineered the transfer of excess military assets to productive use in the private sector
- Guam is no longer dependent on the military economy, and any further adjustments in deployment are expected to have only a minor impact on the Guam economy

Economy: Military Downsizing



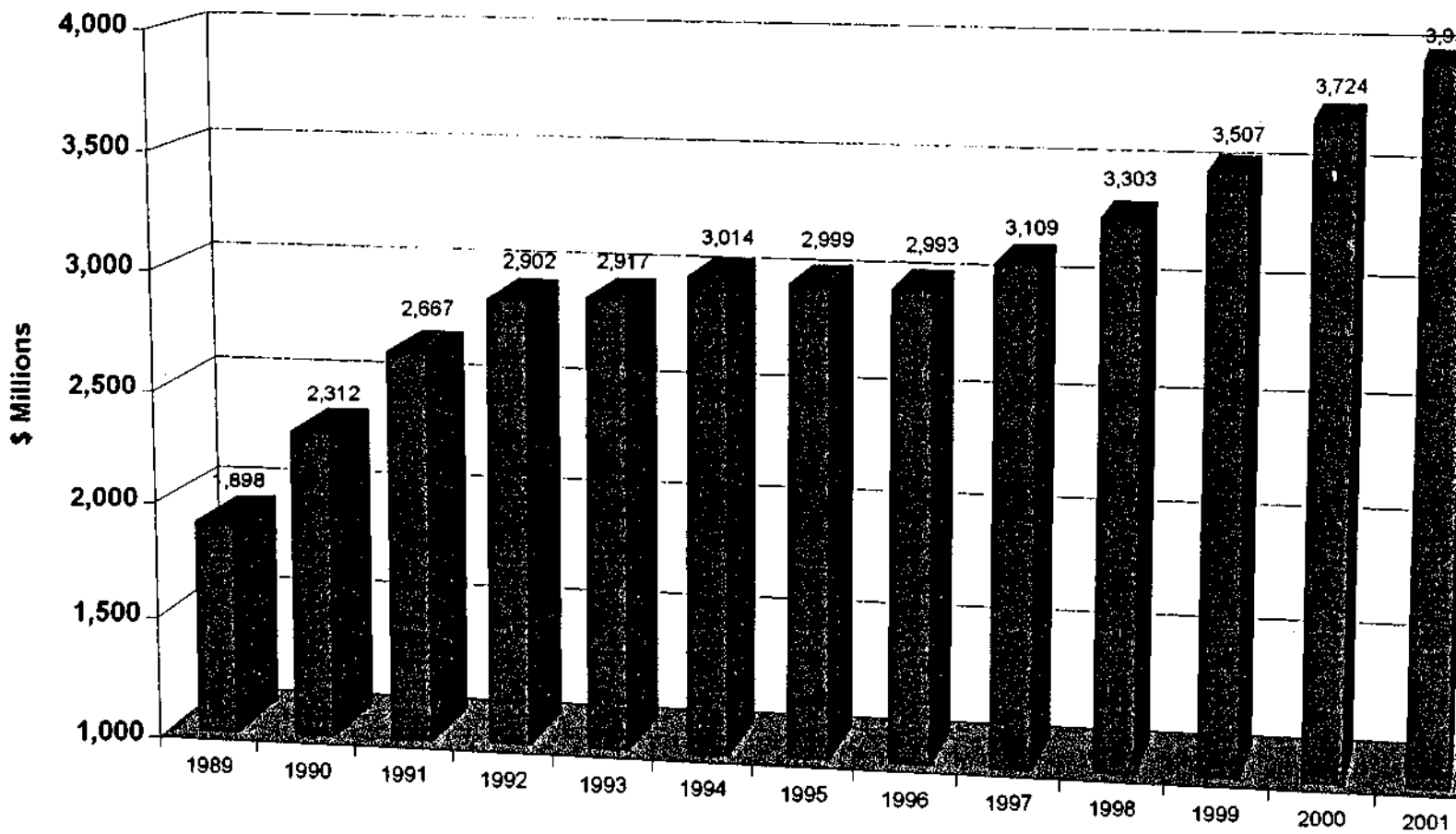
Economy: Economic Outlook

- Guam Finance Commission forecasts steady growth in 1997, and higher growth rates thereafter
- Economy has successfully absorbed military downsizing
- Government has quickly overcome an infrastructure deficit that threatened our economic recovery
- Sustained competitive advantage in the visitor sector
- Continuous improvement in visitor safety, visitor attractions and services, and visitor marketing
- Resumption in growth in construction activity expected
- Successful transition of the Naval Ship Repair Facility to the private sector
- On-going privatization program

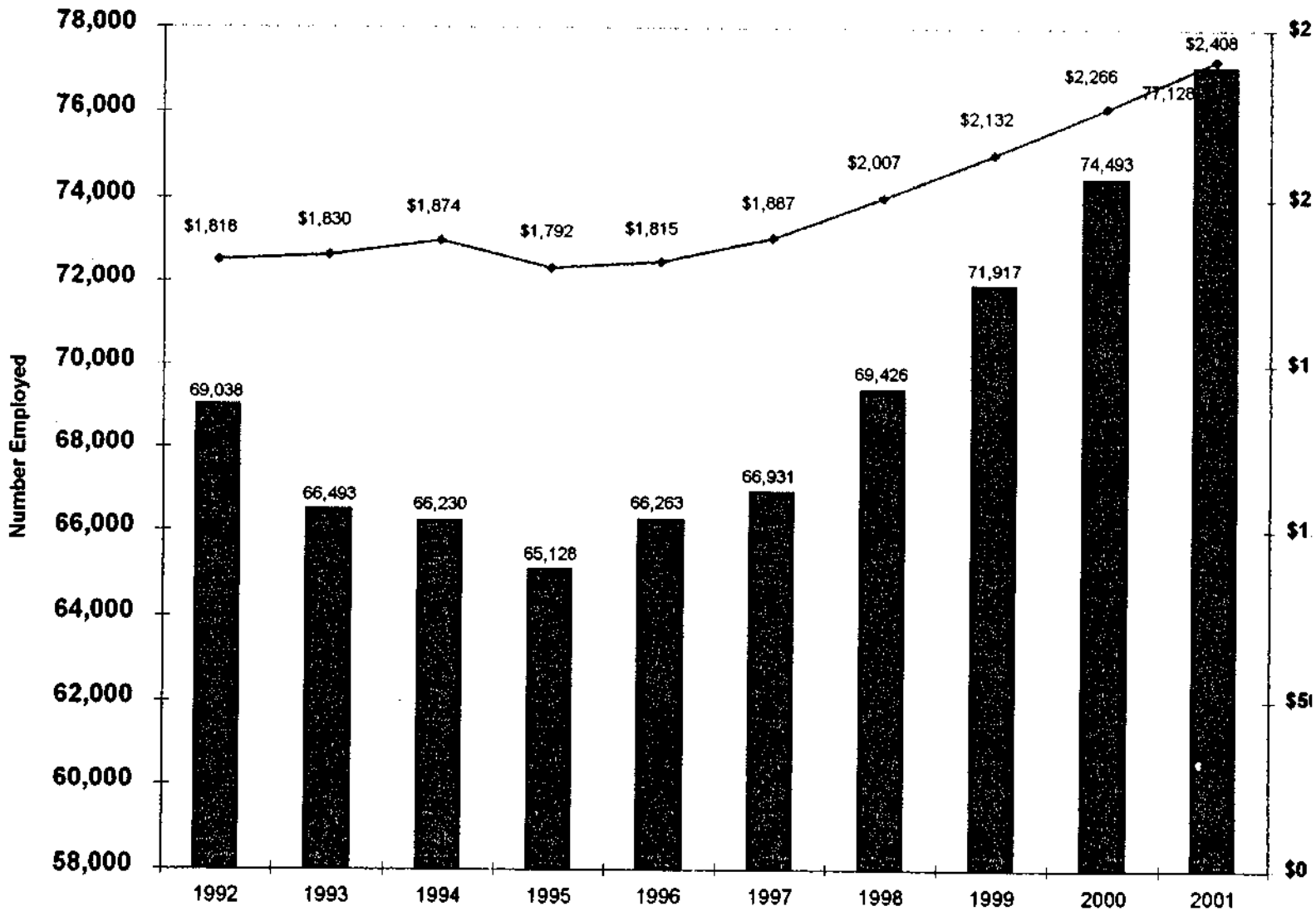
Economy: Economic Forecast

	<u>Total</u> <u>Visitor</u> <u>Arrivals</u>	<u>%</u> <u>Change</u>	<u>Total</u> <u>Employment</u>	<u>%</u> <u>Change</u>	<u>Total</u> <u>Wage & Sal</u> <u>(\$'Millions)</u>	<u>%</u> <u>Change</u>	<u>Personal</u> <u>Income</u> <u>(\$'Millions)</u>	<u>%</u> <u>Change</u>	<u>Gross</u> <u>Island Product</u> <u>(\$'Millions)</u>
1988	585,799		48,323		1,054.42		1,326.80		1,729.47
1989	668,827	14.17	51,888	7.38	1,118.80	6.11	1,421.27	7.12	1,897.50
1990	780,404	16.68	57,175	10.19	1,329.90	18.87	1,672.30	17.66	2,312.48
1991	737,260	-5.53	64,313	12.48	1,623.48	22.08	1,986.63	18.80	2,667.38
1992	876,742	18.92	69,038	7.35	1,817.98	11.98	2,203.23	10.90	2,902.09
1993	784,018	-10.58	66,493	-3.69	1,830.11	0.67	2,239.91	1.66	2,916.77
1994	1,086,720	38.61	66,230	-0.39	1,865.74	1.95	2,289.68	2.22	3,013.72
1995	1,361,830	25.32	65,128	-1.66	1,792.16	-3.94	2,228.39	-2.68	2,998.56
1996	1,340,619	-1.56	66,263	1.74	1,814.73	1.26	2,264.00	1.60	2,992.50
1997	1,446,893	7.93	66,931	1.01	1,886.92	3.98	2,369.07	4.64	3,108.59
1998	1,587,645	9.73	69,426	3.73	2,006.64	6.34	2,526.70	6.65	3,302.68
1999	1,728,885	8.90	71,917	3.59	2,131.86	6.24	2,691.93	6.54	3,506.54
2000	1,882,421	8.88	74,493	3.58	2,265.63	6.27	2,866.69	6.49	3,724.24
2001	2,045,492	8.66	77,128	3.54	2,407.68	6.27	3,050.31	6.41	3,955.14

Economy: Gross Island Product



Economy: Employment & Wages



The Economy

- Visitor Sector Dynamics
- Japan Market Fundamentals
- Private Sector Employment
- Public Sector Employment
- Military Employment
- Economic Outlook and Forecast

VISION 2001: Strategic Plan

VISION 2001: Strategic Plan

Vision 2001 Plan Components

- Capital Improvements
- The Economy
- Education & Community Awareness
- Care & Well Being
- Crime & Drug Prevention

VISION 2001: Major Plan Components

Capital Improvement

- Power
- Water
- Wastewater
- Storm Drainage Systems
- Highway Improvements
- Transportation

VISION 2001: Major Plan Components

The Economy

- Tourism
- Affordable Housing
- Telecommunications — *Flag of Butch (Hyatt)*
- Financial Services
- Fisheries
- Transportation & Transshipment
- BRAC

VISION 2001: Summary

■ Strategic Planning

- The Government's first-ever strategic plan
- First major public/private partnership
- The Plan is in place and administered by Lt. Governor
- 37% of the plan has been completed to date
- Estimate to complete +50% by end of third quarter, 1997
- Major initiatives are working

Economic Development

Economic Development: Completed Actions

Paving the Way for Economic Growth:

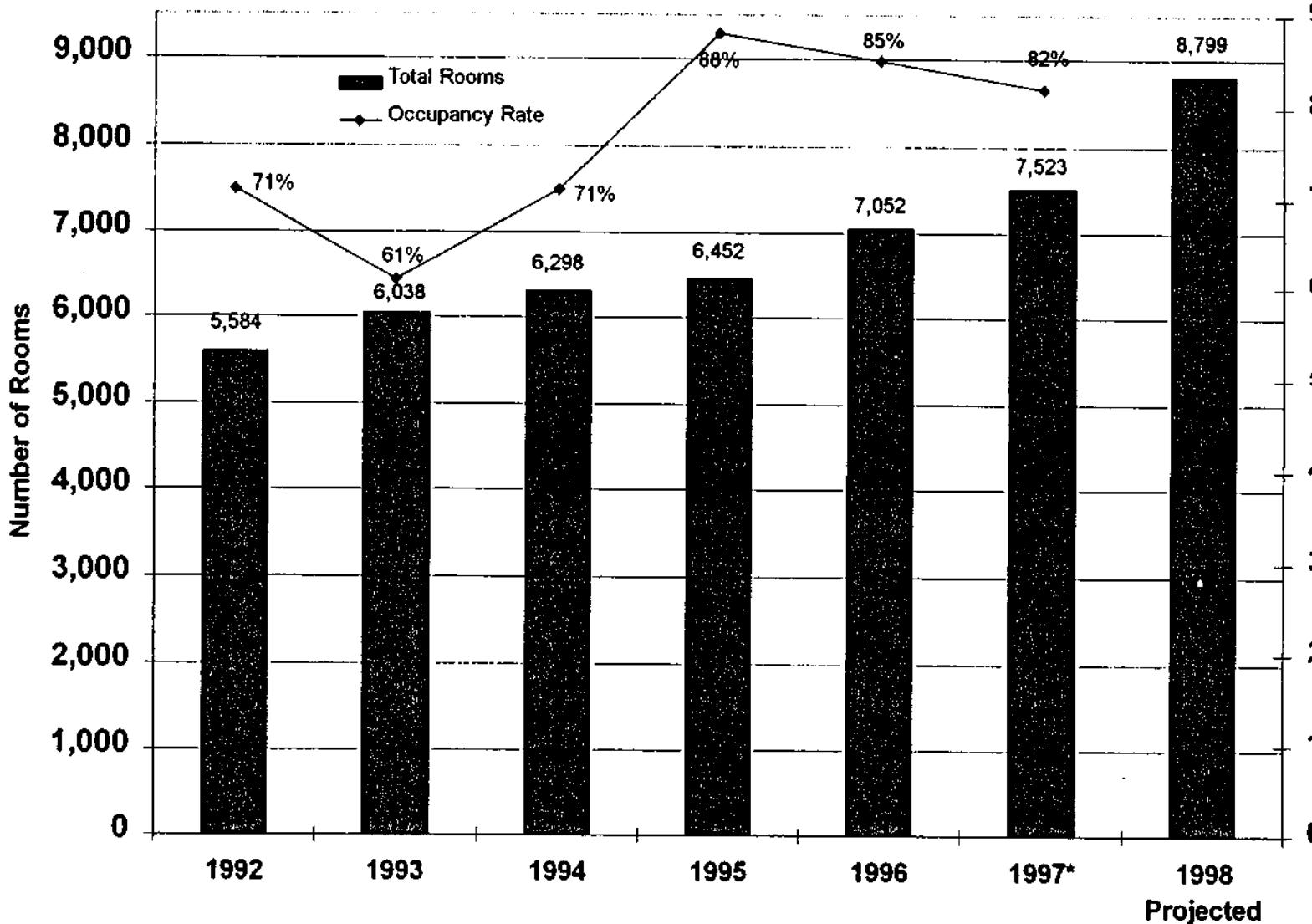
- Established a one-stop business license & building permitting center
- Established an FAA certified airframe & power plant school with GEDA preferred equity
- Established the Application Review Committee (ARC), reforming the existing TLUC process
- Established the Infrastructure Task Force (see VISION)
- Submitted request for US tax code de-linkage
- Continued review on consolidation of government services and privatization efforts
- Successful inclusion into the North American Numbering System & Rate Integration

Economic Development: Initiatives

■ Hotels/Tourist Facilities/Affordable Housing

- Public Law 23-135
- Rules & Regulations
- Promotional efforts
- Improvements into the infrastructure
- Guam Big Service Festival
- MRB

Economic Development: New Hotels



*Through May 1997 but Includes Sherwood & Gra

Economic Development: Initiatives

■ Insurance Industry

- Public Law 23-109
- Rules & Regulations
- Consultant - AON Risk Management Services
- Promotional efforts

■ Telecommunications

- GTA Privatization
- Universal Service

■ Small Business Development

- New Loan Programs
- New Lease Program
- Cooperation with Federal Agencies

Economic Development: Progress

- Investor Confidence in our island is further proof of our Economic Strength
 - Projects under construction
 - Outrigger Hotel (600 rooms), Hotel Accion (259 rooms), Santa Fe of the Bay (77 rooms), City Hill (Tarza) Water Park, Hard Rock Café, Bayview Plaza (phase 2 & 3), Korean Restaurant, Guam Outlet Mall Dens Restaurant, Corason Golf Resort (90 rooms), Laguina Farms Subdivision (112 units), Miyama Hills Hotel (200 rooms), Inland Builders (216 units), LADA Estates Subdivision (400 units), CCG Commercial Building, Serena Building, Pacific Islands Club Second Tower (282 rooms), Hilton Water Park, Micronesian Mall Expansion
 - Projects Approved by TLUC
 - Emerald Hotel (174 rooms), Pacific Hacienda Hotel (77 rooms), Conga Terrace Multi-family (135 units), Tumon Garden Mall, AB Hotel (400 rooms), Alcantra Mall Retail Expansion, City Hill Retail extension, ARK Hotel (40 rooms)

Economic Development: Progress

■ Conceptual Projects

- LV Entertainment Center, Imperial Suites (211 rooms), Sun Corporation (200 rooms), Aston Hotel (300 rooms), Paradise North (175 homes)

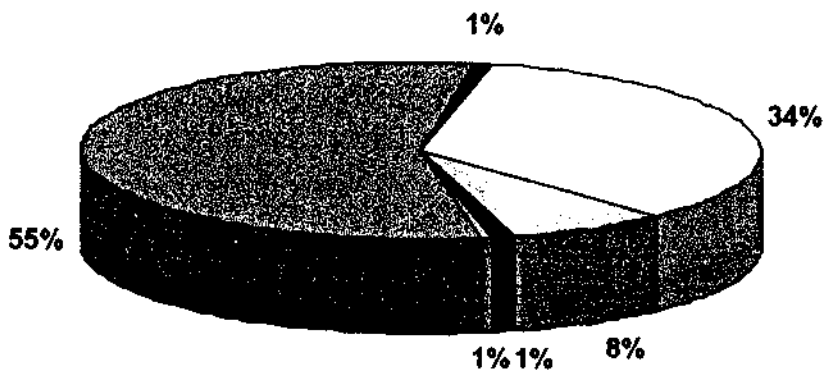
■ BRAC

- Federal Government owns 44,469 acres of land
- Will release 3,200 acres under GLUP '77
- Will release 2,900 acres under GLUP '94
- Will release approximately 100 acres at SRF and 115 acres at Victor/Uniform area
- Signed Interim Lease for SRF
- Negotiating Interim Lease for Victor/Uniform Wharves
- RFP for 250 acres in NAS

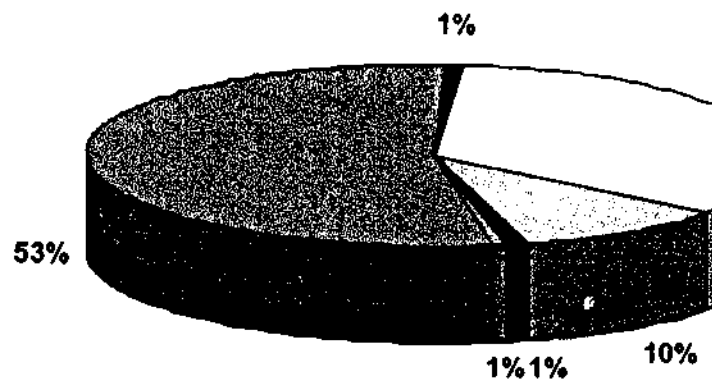
Finance

General Fund: Revenue Components

1997

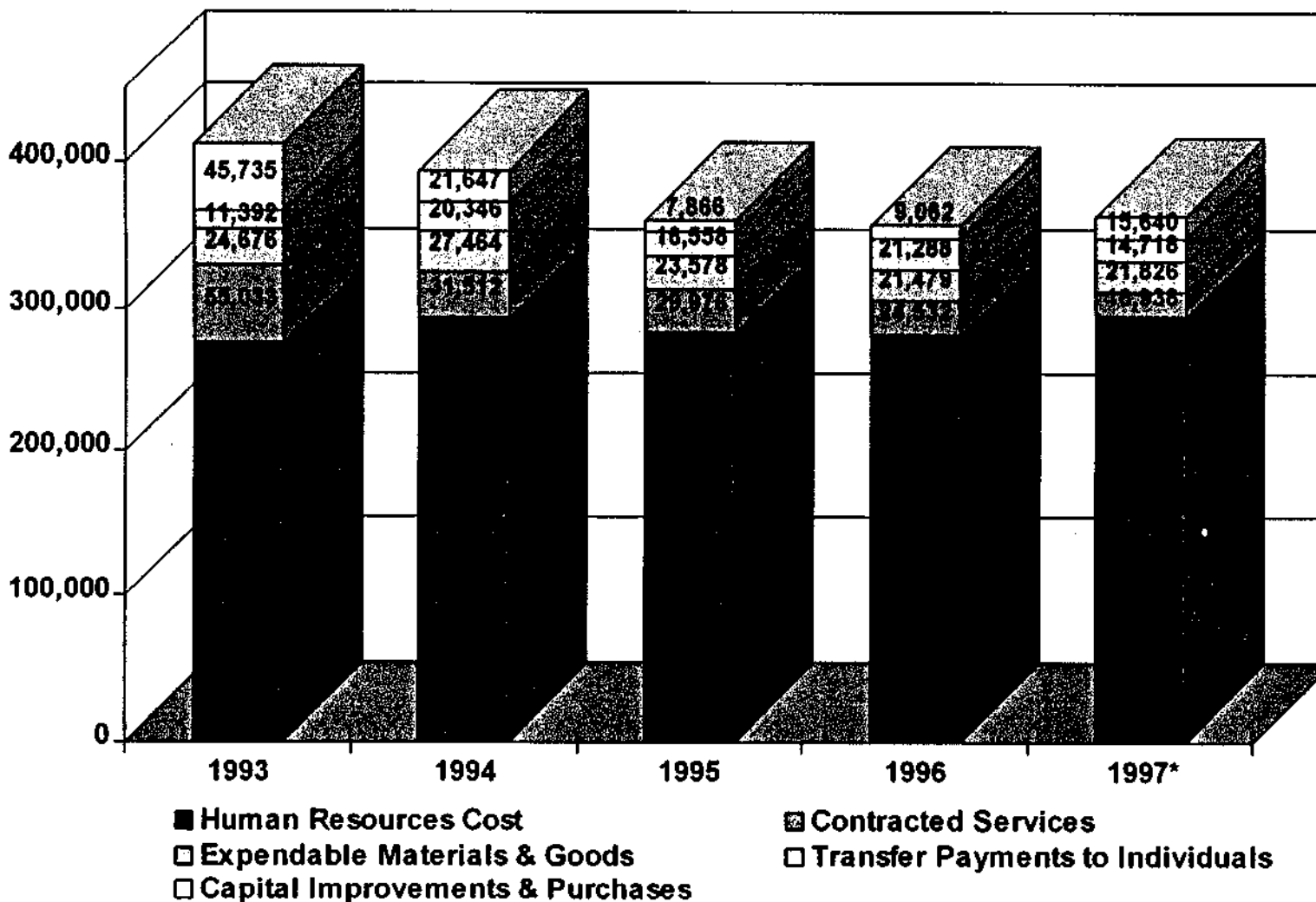


1996



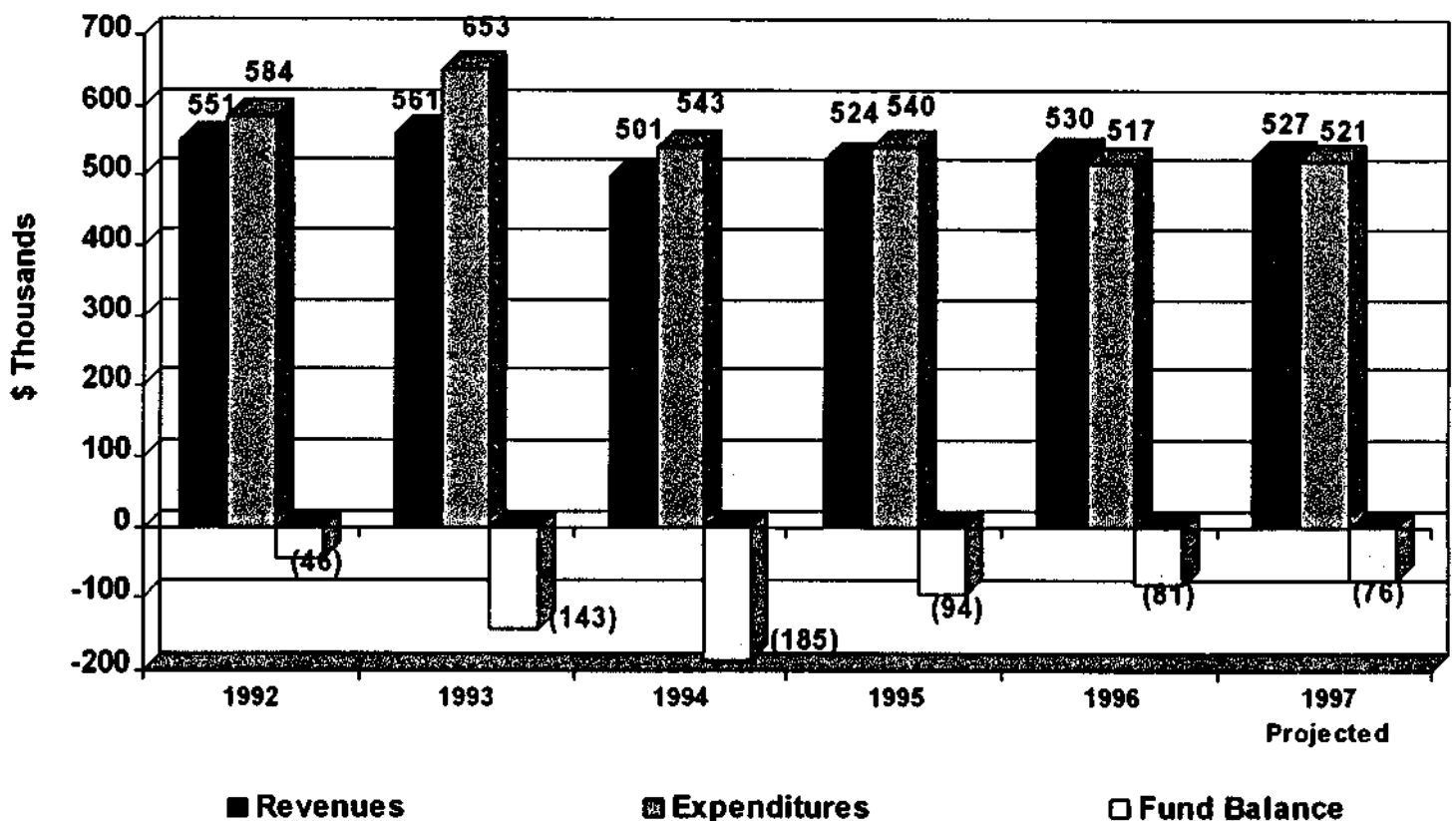
- Corporate & Personal Income Tax
- Licenses, Fees and Permits; Use of Money and Property
- Business Privilege Taxes (GRT)
- Federal Sources (Primarily Section 30)
- Other Taxes
- Departmental Charges

General Fund Expenditures



Restoration of a Balanced Budget

- Since the 1995 Financing, the General Fund Deficit has continued to decrease



Fiscal Plan Accomplishments

<u>Description</u>	1995		1996		1997 (9 mo)	
	<u>Proj.</u>	<u>Actual</u>	<u>Proj.</u>	<u>Actual</u>	<u>Proj.</u>	<u>Actual</u>
Cease all new CIP funded by General Fund	\$ 10.0	\$ 10.0	\$ -	\$ (9.1)	\$ -	\$ (
Cash Mangement Directive	\$ 10.0	\$ -	\$ 10.0	\$ 3.3	\$ 10.0	\$
Freeze on Salary Increments	\$ -	\$ -	\$ 5.3	\$ 5.3	\$ 5.3	\$
Elimination of Overtime	\$ 1.7	\$ 2.4	\$ 4.8	\$ 6.0	\$ 4.8	\$
Energy Conservation Measures	\$ 1.2	\$ 0.3	\$ 1.5	\$ (3.5)	\$ 1.5	\$
Mileage Reimbursement	\$ 0.1		\$ 0.1			
Elimination from General Fund						
Guam Memorial Hospital	\$ -	\$ (3.3)	\$ 7.7	\$ 9.8	\$ 7.7	\$
Retirees \$1,800 COLA			\$ 9.6	\$ 3.5	\$ 9.6	\$
Supplemental Annuities for new retirees			\$ 1.4	\$ 1.4	\$ 1.4	\$
Relocation/consolidation of Agencies	\$ 0.7	\$ (4.3)	\$ 0.7	\$ (2.1)	\$ 0.7	\$
Relocate Funding Source						
Parks & Recreation Division			\$ 2.4	\$ 1.8	\$ 2.4	\$
Customs & Quarantine Agency			\$ 2.5	\$ 0.7	\$ 2.5	\$
Guam Mass Transit			\$ 1.8	\$ 1.8	\$ 1.8	\$
Council on Arts & Humanities			\$ 0.8	\$ 0.3	\$ 0.8	\$
Guam Museum			\$ 0.3	\$ 0.3	\$ 0.3	\$
Guam Water Works			\$ 20.7	\$ 20.0	\$ 20.7	\$
Public Works - Solid Waste Fees			\$ 4.0	\$ -	\$ 4.0	\$

Fiscal Plan Accomplishments

<u>Description</u>	1995		1996		1997 (9 mo's)	
	<u>Proj.</u>	<u>Actual</u>	<u>Proj.</u>	<u>Actual</u>	<u>Proj.</u>	<u>Actual</u>
Reduction in Operational Subsidy						
University of Guam			\$ 4.0	\$ 2.3	\$ 4.0	\$ -
Guam Community College			\$ 1.0	\$ 1.0	\$ 1.0	\$ -
Elimination of Catastrophic Illness Program			\$ 3.0	\$ 0.1	\$ 3.0	\$ -
Revised Public Welfare & Medical Stds.			\$ 2.0	\$ -	\$ 2.0	\$ -
Cost Recovery Fees						
Dept. of Rev. & Tax			\$ 8.0	\$ -	\$ 8.0	\$ -
Guam Police Dept.			\$ 1.0	\$ -	\$ 1.0	\$ -
Dept. of Public Health			\$ 0.5	\$ -	\$ 0.5	\$ -
Dept. of Agriculture			\$ 0.2	\$ 0.1	\$ 0.2	\$ -
Triennial Impact				\$ 9.1		\$ -
Totals	\$ 23.7	\$ 5.1	\$ 93.3	\$ 52.1	\$ 93.2	\$ 52.1
Percentage Achieved		22%		56%		61%

Proposed New Fiscal Policy Measures

■ Implement Solid Waste Fees	\$ 6.0 Million
■ Implement Mental Health Fees	\$ 1.0 Million
■ Implement Police Fees	\$.5 Million
■ Implement Public Health Fees	\$.5 Million
■ Adjustment of 88% GRT Reserve for DOE	\$ 9.0 Million
■ Eliminate COLA funding from General Fund	\$20.0 Million
■ Repeal of rollback of Real Property Assessment	\$ 5.5 Million
■ Reduced Earned Income Tax Credits	\$ 7.0 Million
■ Reinstatement of Rev. & Tax Fees	\$ 8.0 Million
■ Use Tax enforcement with proceeds to GF	<u>\$ 3.0 Million</u>
TOTAL	\$60.5 Million

Organizational Improvements

Ongoing Organizational Improvements

■ Special Accounting Service Group

- Use of an econometric forecasting model
- Improved forecast results
- Better understanding of economic influences driving government revenues

■ Financial Management Modernization

- Information technology plan completed
- System requirements analysis completed
- RFP process completed
- Implementation of a modern, fully integrated Financial Management System over the next year using Oracle financial software

Organizational Improvements

■ Budget Process Reform

- Re-engineering recommendations endorsed
- Budget reform legislation transmitted - implements performance budgeting which institutionalizes a 5% spending reserve

■ Treasury and Cash Management Reform

- Speed up tax processing
- Improve the disbursement process
- Formalize the cash flow forecasting process
- Improve banking services
- Improve the investment of excess cash
- Optimize investment opportunities

Organizational Improvements

■ Debt Management Reform

- Improve debt management operations
- Improve the debt management framework
- Improve data collection and reporting on debt service
- Centralization of debt issuance and management for entire Territory

GovGuam Forecast: Continued Success

GovGuam: Successful Turnaround

- Guam successfully absorbed massive military downsizing
- Guam has quickly overcome a massive infrastructure deficit that threatened its economic base
- Guam has funded infrastructure investment through privatization, making maximum use of existing bond funds, and finding alternative sources of funding to the General Fund
- Guam has successfully engineered the transfer of excess military assets to productive use in the private sector
- Guam has been able to meet its service commitments to the people of Guam
- The outlook for Guam is positive, not negative

GovGuam: Successful Turnaround

- Guam has successfully implemented financial management systems & policies
- Guam has successfully turned around efficiency & effectiveness of autonomous agencies
- Guam sustained visitor sector employment despite dollar fluctuation
- Business investment and confidence continues to increase and is at an all time high
- Guam has continually reduced the deficit since 1994
- The Governor has managed a balance budget for the last two years, as opposed to the operating deficits produced by the prior Administration
- The outlook for Guam is positive, and the negative outlook should be removed

GovGuam: Credit Strength

- Guam agreed to all the conditions sought by S&P in 1995 without reservation
- Guam has made a good faith effort to implement the plan agreed to with S&P
- Guam has exceeded its commitments in many aspects of the plan, while making changes to the plan in other areas as circumstances dictated
- Guam has created and implemented a sound, realistic plan for growing the economy - VISION 2001
- Guam has implemented a balanced budget, and avoided deficit spending
- Guam has invested in financial management tools and technologies to better manage the business of government

GovGuam: Commitment

- To the People of Guam: to continuously improve the delivery of services in a cost-effective manner
- To the People of Guam: to continue to invest to ensure a strong economy so that good jobs are available to our people
- To GovGuam Employees: to continue to provide opportunities for personal and professional growth, and reward for effort
- To the Bond Holders: to continue to manage the finances of government responsibly, to remain attentive to the development of our economy, and to ensure that the business of government remains viable.

GovGuam: Goals

- Eliminate Deficit within 6 to 8 years
- Strive to build and maintain adequate operating cash reserves - minimum 5% of revenues
- Continue to manage BRAC process to maximize economic benefit to Territory
- Continue to tie any growth in government to productivity, population and demographic factors
- Continue to increase public and investor confidence in the Government of Guam

GovGuam: Conclusion

- Guam is in the business of providing services to our people
- Guam will continue to invest in the tools, technologies and skills to enable the government to be run like a well-managed public corporation
- Guam will closely monitor the performance of our economy, and economic issues affecting the economies of our region
- Guam will continue to manage the interests of our key stakeholders: our shareholders (the people of Guam), our employees, and our bond holders/debt providers, in a balanced and responsible manner
- The economic and fiscal outlook for Guam is positive, and this should be reflected in Guam's credit rating -

THE NEGATIVE OUTLOOK SHOULD BE REMOVED

TERRITORY OF GUAM

