BUREAU OF STATISTICS AND PLANS

Sagan Plånu Siha Yan Emfotmasion
Government of Guam

P.O. Box 2950 Hagåtña, Guam 96932
Tel: (671) 472-4201/3
Fax: (671) 477-1812
http://www.bsp.guam.gov

Eddie Baza Calvo
Governor of Guam

Ray Tenorio
Lieutenant Governor

Carl V. Dominguez
Director
Manuel Q. Cruz
Deputy Director

JAN 16 2018

GL# 34-18-1404
Speaker Benjamin J.F. Cruz

JAN 16 2018
Time 4:37 File No.
Received By

The Honorable Benjamin J.F. Cruz
Speaker
I Mina'trentai Kuattro Na Liheslaturan Guåhan
155 Hesler Street
Hagåtña, Guam 96910

Subject: REPORTING REQUIREMENT PURSUANT TO PUBLIC LAW 29-113

Dear Speaker Cruz:

Hafa Adai. The Bureau of Statistics and Plans (BSP) submits the enclosed semi-annual Summary Report of Federal/Military Contribution and Economic Impact regarding the impact of federal expenditures on Guam. We also enclose the Fiscal Year 2018 Economic Outlook as contained in the Governor's FY2018 Executive Budget which was compiled with the assistance from Department of Labor, for your information.

Please contact me at 472-4201/3 or Albert Perez, BSP's Chief Economist, should you require information on the Summary Report.

Sincerely,

Carl V. Dominguez
Director

Enclosures (2)

2018 JAN 17 AM 8:26

1404

SUMMARY REPORT OF FEDERAL/MILITARY CONTRIBUTION AND ECONOMIC OUTLOOK

Public Law 29-113, Chapter 13 of Title 2, Guam Code Annotated Section 13109(a)(2)
Bureau of Statistics and Plans, Office of the Governor

FEDERAL/MILITARY CONTRIBUTION	2013	2014	2015	2016	2017	2018
Contracts[1]	$500,313,000	$744,206,000	$765,022,000	$642,471,000	$807,905,000	$10,580,000
Grants[1]	$193,583,000	$225,069,000	$312,411,000	$263,940,000	$239,981,000	NA
Loans[1]	$525,000	$2,867,000	$167,000	$1,032,000	$356,000	NA
Other Finacial Assistance[1]	$278,980,000	$245,653,000	$248,777,000	$314,547,000	$220,476,000	NA
ECONOMIC IMPACT						
Construction Permits[2]	$308,552,000	$406,172,000	$226,013,000	$434,277,000	$436,831,000	$393,901,000
Employment[3]	61,740	61,850	63,640	63,140	62,720	NA
Unemployment Rate[3]	10.0%	7.60%	6.9%	5.4%	NA	NA
General Fund Revenues[4]	$610,635,410	$647,563,489	$647,748,591	$685,742,547	$681,271,974	$688,559,103
Tourism Arrivals[5]	1,337,665	1,341,171	1,372,531	1,511,065	1,559,395	1,632,000
Average Change in Price Level[6]	0.0%	0.8%	-0.9%	6.0%	2.5%	NA
Population Projection[7]	160,378	161,001	161,785	162,742	163,875	165,177
Guam Real Gross Domestic Product[8]	$5,078,000,000	$5,157,000,000	$5,182,000,000	$5,200,000,000	NA	NA

Footnotes:

1) Source: http://www.usaspending.gov January 16, 2018
2) Source: Department of Public Works Fiscal Year Totals (FY 2018 is estimated)
3) Source: Guam Department of Labor Employment Reports (2013-17 September); Unemployment Reports (September 2013-2014, 2016; June 2015)
4) Source: Department of Administration, FY2013-2016 (Office of the Public Auditor - audited), FY2017 & FY2018 adopted
5) Source: Guam Visitors Bureau Fiscal Year Totals (FY2018 is estimated)
6) Source: Bureau of Statistics and Plans Consumer Price Index 4th Quarter Reports
7) Source: Guam 2010 Census of Population and Housing (2011-current are projections)
8) Source: US Bureau of Economic Analysis, US Department of Commerce

Economic Outlook for Guam
Fiscal Year 2018

SUMMARY

The Guam Economic Outlook for FY 2018 is a continuation and possible acceleration of a long term expansionary trend. The trend of Guam's Gross Domestic Product (GDP) in total dollars has shown consistent growth, each and every year, since 2003 in nominal dollars and in real dollars (adjusted for inflation) since 2006 based on statistics published by the Bureau of Economic Analysis (BEA). The growth in Guam's economy has been, and is expected to continue to be, driven by a combination of private and public investment in construction for the civilian and defense sectors, continued expansion and diversification in the visitor industry and expansion to meet the needs of a diverse and growing population.

Investment in new buildings and infrastructure remains high as evidenced by historical and comparative measures of construction levels on Guam. About ten percent of the island's total employment in the construction industry. Volatility in defense construction activity has been counterbalanced to an extent by strong private and Government of Guam construction activity. While substantial delays and changes in plans have occurred with the preparation for the Marine Corps relocation from Okinawa to Guam, and challenges remain to be overcome, preparatory work continues to progress.

The Federal Government continues to play a substantial role in Guam's economy in terms of federal expenditures which comprise a significant flow of funds to the island, tax policy with Guam's income tax code a mirror image of the federal tax code and an array of other laws, regulations and policies including immigration, international trade, international relations and defense policies in Asia and the Pacific which directly or indirectly effect the island economy.

Federal civilian expenditures may decline as a hiring freeze for federal employees, except defense-related positions, has already been implemented through executive order. Infrastructure development is being promoted and that could be positive for Guam. Changes in the tax code are likely to reduce income taxes overall and Government of Guam revenue from that source although changes necessary to move proposals through the U.S. Congress are likely to lessen the severity and delay the implementation largely beyond the FY 2018 forecast period.

TOURISM

Visitor arrivals in 2016 reached an all-time record of 15.4 million, up 9.0 percent from 2015 which was also an all-time record breaking year, an increase of 4.9 percent from 2014. Moreover, visitor expenditures as measured by average room rates and hotel occupancy tax collections similarly increased. The Guam Visitors Bureau (GVB) notes that "Two markets that excelled in 2016 were Korea and the Philippines. Korea arrivals soared to 544,954 visitors, making it a banner year for Guam's second largest market. Guam also welcomed its 500,000th visitor from Korea on December 7th. The Philippines was the other breakout star of 2016, recording 21,657 visitors. That's a 74.3%

increase over calendar year 2015." The increasing diversification in origin of visitors by country has more than off-set the decrease of the Japan sector. The Japan sector has experienced a number of events which have reduced arrival numbers including a reduction in the number of flights to Guam. The Guam Visitor's Bureau hopes to increase by promoting an increased number of charter flights and expanded marketing initiatives including social media to capture more independent travelers as the market has shifted to more independent travelers and fewer package tours. Since a China visa waiver program to Guam does not look likely in the near future, GVB is pursuing mainland China visitors who already have U.S. visas. Two million U.S. visas, now valid for ten years, have been issued to China citizens. GVB has reduced the Guam 2020 arrival goal from two million to 1.7 million total visitors.

CONSTRUCTION

Construction accounts for about ten percent of Guam's economy in terms of civilian employment. It is also a strong leading indicator of the economic activities to come with construction and other employment and activity in the projects as they are completed. To forecast future construction activity building permits provide a reasonably reliable leading indicator for the civilian sector and U.S. military construction contracts for the defense sector. The combined total of permits and contracts is a strong indicator of construction activity levels in the following year or two. The total has been averaging around $500 million for a seven year period since 2010. The totals declined in 2015 and rebounded somewhat in 2016. The year-to-year variation in contracts and permits has been more volatile than the overall total in which declines in one component have coincidentally been offset by increases in the other. Also construction activity as indicated by gross receipts and employment has been smoothed by a number a major multiyear projects in which the activity extends well beyond the year of contracting and permitting. Construction employment has declined somewhat in 2015 from roughly seven to six thousand workers due to several factors. These include reductions due to lower military construction appropriations since 2015, delays in contracting due to a procurement protest and environmental site work and reductions due to the non-renewal and repatriation of the majority of foreign workers employed with H-2 visas.

There are several compelling reasons why construction activity and employment is likely to remain at the very least stable and likely to increase. These include, a Department of Defense (DOD) procurement protest has been settled with projects to be rebid in 2017, a Government of Guam procurement protest for school construction which has been rebid and a backlog of projects with appropriations in FY 2016 and 2017 of $395 million that are expected to be contracted, there is also much work remaining on multiyear projects that have been contracted, estimated at $215 million as of November 2016. The economic demand and contractual construction obligations are likely to attract and expand the construction labor force either with some liberalization of the H-2 visa approvals or other recruitment activity when the current uncertainty about the outcome of the H-2 visa denial court case and political efforts with the federal government is more settled. Most of Guam's H-2 foreign workers were in the construction industry and accounted for about one of seven thousand workers or about 17 percent of the industry labor force but were repatriated in 2016 as their temporary visas were not renewed due to more stringent application of the approval policy. Efforts to exempt buildup projects from this tightened policy were not successful in the U.S. Congress in this year's defense appropriation act. The issue is in litigation by affected contractors. It

Doc. No. 34GL-18-1404.

is unclear what the new administration's policy will be, as President Trump declared in his inaugural speech two simple rules: "Buy American and hire American"

A number of major civilian projects are ongoing. These include:

The Tsubaki Hotel which is being constructed by P.H.R. Micronesia, Ken Corp. It is to be a 26-story 340 room five star hotel offering luxury accommodations. The site is adjacent to the Hotel Nikko Guam with a total investment of approximately $180 million. The ground breaking was March 2016 and completion is scheduled for October 2018.

The Emerald Oceanview Park, a $100 million four-tower development with plans for 260 luxury condominium units on the cliff line next to Guam Memorial Hospital. The project was previously planned for completion in 2010 but encountered delays. The mortgage was taken over by Core Tech which has recently completed the most southern tower and is preparing to obtain an occupancy permit. Work on the other towers is being performed, but is constrained by construction workforce availability.

The Tumon Bay Mall has 200,000 square-feet of floor space on two levels. The mall's exterior structure is already constructed as an unfinished shopping center. Work is continuing on the project but interior finishing plans and work depends on the anchor tenant which has not yet been determined.

The Landmark on Marine Corps Drive, will be a 21,000 square-foot two story structure at the Marine Corps Drive and Chalan San Antonio intersection with an estimated cost of $6.1 million expected to be completed in May 2017. The ground floor is for retail business and the second floor is for health care clinics, corporate and professional offices as well as financial services. It is the latest phase of part an integrated four-building commercial center.

The Fishermen's Co-Op project will include a 220-foot sea wall which will be a docking area for larger vessels, to include fishing, charter and dolphin watch vessels and 6,000 – 7,000 square feet for the operational facility, now at an estimated cost of $6 million. In 2014 the Fishermen's Co-Op and the Guam Economic Development Authority (GEDA) signed a memorandum of understanding for the construction, repair and improvements of the new facility. The project groundbreaking was held January 28, 2017.

A number of major projects are in the planning phase for development. These include:

The Northgate MarketPlace, a shopping and restaurant complex directly across from Guam Regional Medical City in Dededo, aims to create nearly 300 retail and food service jobs upon completion. It is funded in part by federal grants through the Guam Housing and Urban Renewal Authority (GHURA) with a total project cost estimated at $12 million.

A low-income housing tax credit financed project is been approved by GHURA for Summer Town Estates Phase III will have 66 low-income units located at the old Lada Estates. Villa Del Mar LLC plans 50 units off the Kanada-Toto Loop for low income families and homeless veterans. It is to be funded by federal a tax credit program. GHURA awards tax credits to developers under the program. The estimated cost for both projects is about $50 million.

ECONOMIC OUTLOOK

Bridge Capital LLC is proposing to develop a $421 million commercial facility, which includes two towers with a total of 590 rooms at the site of the Guam Greyhound Raceway Park in Tamuning. It would have the second largest shopping mall on Guam if built. The proposal is to fund the project with investors under the EB-5 visa program which is under review but major changes may make the project unworkable (according to a June 10, 2016 Guam Post story).

Chart 1

BUILDING PERMITS & CONSTRUCTION CONTRACTS (in thousands)

Calendar Year:	2010	2011	2012	2013	2014	2015	2016*
Building Permits	184,837	211,097	364,504	449,147	308,451	221,285	444,358
U.S. Military Construction Contracts	370,413	334,597	152,095	88,001	261,234	164,377	26,463
Japan Funded Military Contracts		89,720			44,500		
TOTAL:	555,250	635,414	516,599	537,148	614,185	385,622	470,821

*Building Permits projected based on first eleven of twelve months of the year.

Chart 2

MLCON Solicitation/Award Forecast (Updated December 2016)

FY	Project	Location	Programmed Amount	Projected Solicitation Date	Projected Award Date
2016	SANITARY SEWER SYSTEM RECAPITALIZATION	N61755 -- NAVBASE GUAM	$45,314,000	11/10/2016	05/09/2017
2016	APR - DISPERSED MAINTENANCE SPARES AND SE STORAGE FACILITY	N41557 -- US NAVSUPACT ANDERSEN GUAM	$19,000,000	12/16/2016	06/15/2017
2017	HARDENING OF GUAM POL INFRASTRUCTURE	N61755 -- NAVBASE GUAM	$26,975,000	04/06/2017	09/29/2017
2016	PAR COMMAND POST (PERSONNEL PROTECTION)	N40192 -- NAVFAC MARIANAS GUAM	$22,200,000	04/10/2017	08/18/2017

Doc. No. 34GL-18-1404.

2017	APR AIRCRAFT MAINTENANCE SUPPORT FACILITY (DARWIN)	N61755 -- NAVBASE GUAM	$1,800,000	05/12/2017	09/27/2017
2017	APR EXPAND AIRCRAFT PARKING APRON (DARWIN)	N61755 -- NAVBASE GUAM	$28,600,000	05/12/2017	09/27/2017
2017	REPLACE ANDERSEN HOUSING PH I	N41557 -- US NAVSUPACT ANDERSEN GUAM	$78,815,000	05/25/2017	09/29/2017
2016	PRTC ROADS	N41557 -- US NAVSUPACT ANDERSEN GUAM	$2,500,000	06/06/2017	09/29/2017

The total in Chart 2 above scheduled for MilCon solicitation and award is $225.2 million so far for FY 2017.

Another leading indicator of future construction activity, although not as immediate as the permits and contracts, is appropriations or other funding sources.

Appropriations for U.S. DOD Military and Civilian Infrastructure, both U.S. and Japan government funded are shown in the table below. While the U.S. appropriation levels have dropped from the high levels of 2010 and 2014, there is well in excess of $1 billion in Japanese appropriations available for contracting. The prior hold on their use has been released in budget authorization legislation, now public law.

Chart 3

APPROPRIATIONS (in thousands)

Fiscal Year (FY):	2010	2011	2012	2013	2014	2015	2016	2017
U.S. DOD Military Construction	737,654	176,030	83,600	101,904	494,607	133,680	272,268	248,658
DOD Civilian Guam Infrastructure					119,400		20,000	
Japan - Fiscal Year (JFY)	500,000	582,000	93,000					
Combined:	1,237,654	758,030	176,600	101,904	614,007	133,680	292,268	248,658

In a lawsuit filed July 27, 2016 by Tinian Women's Association; Guardians of Gani; Pagan Watch and Center for Biological Diversity, vs. United States Department of the Navy; Ray Maybus, Secretary of the Navy; United States Department of Defense; and Ashton Carter, Secretary of Defense, the Plaintiffs state:

Doc. No. 34GL-18-1404.

"The aforementioned cultural, social, economic, recreational, spiritual, scientific, educational, aesthetic and other interests of Plaintiffs and their members on Guam, Tinian and Pagan will be adversely affected and irreparably injured by the proposed major expansion of the United States military's presence and training activities on these islands through the Guam and CNMI Military Relocation project."

One of the claims is that "Under NEPA, the Navy was required-but failed-to evaluate in a single environmental impact statement ("EIS") the impacts of both permanent stationing of Marines on Guam and the training on Tinian and Pagan the Navy claims those Marines will need to perform their national security mission."

The Plaintiffs request that the Court vacate and set aside the 2010 and 2015 Records of Decision regarding the relocation of Marines from Okinawa to the Mariana Islands, issue any appropriate injunctive and other relief.

The Department of Justice asked the U.S. District Court for the Northern Mariana Island (NMI) to dismiss the plaintiffs' complaint with prejudice. The court will hear oral arguments February 9, 2017.

Absent any court order the buildup activities are scheduled to proceed. If the Court does not dismiss the case and determines there is merit to the claims, relief could be granted short of setting aside the 2010 and 2015 Records of Decision in a manner that may not affect the Guam relocation activity.

In The United States Court of Federal Claims a Bid Protest was filed by Pernix Sukut Pacific LLC, and Secure Constructors Services, LLC/CB&I Federal Services LLC v. The United States. The protest was filed regarding a request for proposals on the first phase of a $990 million Multiple Award Construction Contract (MACC) for the Marine Relocation construction projects. Under a MACC, pre-qualified contractors are selected and allowed to compete for task orders with other MACC awardees. A May 30, 2016 Guam Post story noted that "The new MACC is a re-solicitation of the last Guam Design Build MACC which was awarded to seven companies in May 2010 and had a maximum value of $4 billion. It expired in May 2015, according to NavFac documents."

All four protests were dismissed following an agreement by all parties that NAVFAC will cancel the Request for Proposal on or before July 25, 2016 and NAVFAC will issue a new solicitation with corrective action in its place. The protest appears to have delayed the procurement process and awards which were scheduled for 2016 but have been moved forward to a new schedule for 2017.

PUBLIC FINANCING AND INFRASTRUCTURE

Major Government of Guam projects, for which funding has been obtained and for those for which funding is planned are listed in the following table. Since most of the Government of Guam's major construction projects are bond funded, a leading indicator of future construction is the availability of funds realized from bonds and other sources.

Doc. No. 34GL-18-1404.

Chart 4

Government of Guam

LIST OF PLANNED MAJOR CONSTRUCTION PROJECTS AND FUNDING SOURCES

Planned/Ongoing Projects – Funds Available	Amount
Guam Waterworks Authority (GWA)	128,450,000
Guam Int'l Airport Authority (GIAA) – Airport B	96,710,000
Guam Power Authority (GPA)	76,470,000
University of Guam (UOG)	21,700,000
Guam Int'l Airport Authority (GIAA) – Airport A	13,000,000
Port Authority of Guam (PAG)	10,000,000
Guam Community College (GCC)	5,000,000
Department of Education	100,000,000
Guam Housing & Urban Renewal	50,000,000
Fisherman's Co-Op Facility	6,000,000
Subtotal:	**$507,330,000**
Planned Projects –Bond/Loan Financing Proposed	**Amount**
Department of Public Works	75,000,000
Department of Land Management	15,750,000
Guam Memorial Hospital Authority	9,200,000
Judiciary of Guam	8,000,000
Harmon Industrial Park Association (HIPA) (Tax Credit)	7,000,000
Subtotal:	**114,950,000**
TOTAL:	**$622,280,000**

Gary Hiles
Chief Economist
Department of Labor
Government of Guam

Doc. No. 34GL-18-1404.