



2019 GUAM Economic Report

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INTRODUCTION

Welcome to the second annual Guam Economic Report published by the University of Guam-Regional Center for Public Policy (RCPP) and funded by the University of Guam-Endowment Foundation and the University of Guam-School of Business and Public Administration International Conference on Business, Economics and Information Technology (ICBEIT) annual conference series.

EXECUTIVE SUMMARY

The *2018 Guam Economic Report*, released on December 27, 2018, predicted the following for Guam's economy in 2019: "There is a good chance that Guam's economic growth would show a 1% decline from its 2018 level unless the combined consumer and business spending increases."

However, at the University of Guam Economic Luncheon on March 13, 2019, an update was provided to adjust the earlier -1% forecasted growth to a -0.5% forecasted growth of Guam's economy for 2019. Reasons provided at the time were the increasing visitor arrivals to Guam, with the Japan market making a recovery beginning October 2018 as well as the higher Federal Government spending in Guam, including the National Defense Authorization Act (NDAA) funding for military construction projects in Guam, for FY2019 compared to FY2018; with the shutdown in December 2018 and January 2019 having no effect *in total* but only in timing because of the delay in paying Federal Government employees. Also at the luncheon in March 2019, it was confirmed that local consumer spending continued to be flat while business spending was likely to continue to decrease due to uncertainty with new political leaders from the 2018 election as well as the continued and worsening H-2B labor shortage.

Nine months after these updates were provided and now that the year 2019 is ending, we provide updates to our earlier forecasts made in late-December 2018 and mid-March 2019.

Driven mainly by two engines of growth (tourism and Federal Government including military), we predict that, once the U.S. Department of Commerce-Bureau of Economic Analysis releases in Fall 2020 the official estimate for Guam's Real Gross Domestic Product (GDP) for 2019, it will show that Guam's economy posted a 0% growth or even possibly up to a 1% growth for the year 2019. Compared to 2018, Guam experienced much stronger tourism in 2019 in terms of a record-breaking number of total visitors, a 25% increase in the number of visitors for Japan while maintaining the number of visitors from Korea compared to the previous year and, most importantly, an increase in the on-island spending by Japanese visitors and an even larger increase in spending by Korean visitors to an amount that exceeded spending by Japanese visitors. The other contributor to Guam's economy in 2019 was Federal Government spending (including NDAA funding), which increased by more than \$200 million in FY2019 compared to FY2018, including the \$93 million increase in NDAA funding during the same period.

MACROECONOMIC ENVIRONMENT

GROSS DOMESTIC PRODUCT (GDP) OR GROSS ISLAND PRODUCT (GIP)

2018 Forecast vs. Actual Economic Growth Rate

On December 27, 2018, the *2018 Guam Economic Report* was released during a press conference held at the University of Guam School of Business and Public Administration. The report forecasted “Guam’s economy in 2018 to have experienced a zero to slightly negative (-0.5%) growth compared to 2017.” Estimates of Guam’s 2018 Gross Domestic Product (GDP) by the U.S. Department of Commerce-Bureau of Economic Analysis (BEA), which were released on October 9, 2019, proved the forecast to be mostly correct. The latest estimate showed that Guam’s Real GDP declined by -0.3% between 2017 and 2018 (shown as -0.27% in **TABLE 1**).

Based on the latest estimates released by BEA, Guam’s economy in 2018 produced \$5.920 billion dollars’ worth of output valued in 2018 prices (known as Nominal GDP) or \$5.203 billion measured in 2009 prices (known as Real GDP). **TABLE 1** below provides a consistent measure of both Nominal and Real GDP for Guam every year between 2002 and 2018.

EMPLOYMENT AND JOB GROWTH

The data on Guam’s employment was pulled from the Current Employment Survey (CES) conducted by the Guam Department of Labor-Bureau of Labor Statistics. The data that is used in this report are available quarterly starting from September 1993 to the latest available of March 2019. As of March 2019, the most recent employment data shows that there is a total of 65,220 individuals employed. Of these employed, 49,920 (76.5%) were from the private

sector, 11,520 (17.7%) from the Government of Guam (GovGuam), and 3,780 (5.8%) from the Federal Government.

TABLE 1: GUAM’S GROSS DOMESTIC PRODUCT: 2002-2019

Year	Nominal GDP in billions \$	Real GDP in billions \$ in 2009 prices	Annual Growth Rate
2002	3.385	4.345	
2003	3.56	4.385	0.92%
2004	3.857	4.667	6.43%
2005	4.197	4.832	3.54%
2006	4.213	4.647	-3.83%
2007	4.375	4.685	0.82%
2008	4.621	4.766	1.73%
2009	4.781	4.781	0.31%
2010	4.895	4.881	2.09%
2011	4.928	4.887	0.12%
2012	5.199	4.986	2.03%
2013	5.336	5.077	1.83%
2014	5.538	5.165	1.73%
2015	5.71	5.189	0.46%
2016	5.795	5.204	0.29%
2017	5.851	5.217	0.25%
2018*	5.92	5.203	-0.27%

Source: U.S. Department of Commerce-Bureau of Economic Analysis (various years).

*Report released on 2019 October 9.

CHART 1 put the latest estimates in historical context by providing data between March 2010 to March 2019, which showed an average total employment at 62,589 individuals of whom 47,079 (75.2%) worked for the private sector, 11,550 (18.5%) for GovGuam, and 3,960 (6.3%) for the Federal Government.

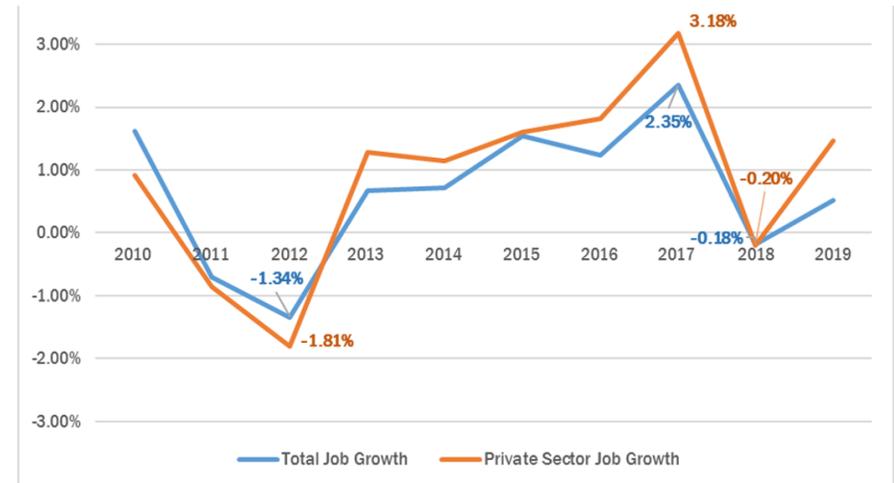
CHART 1: GUAM'S EMPLOYMENT BY SECTOR, 2002-2019



Source: Guam Department of Labor-Bureau of Labor Statistics (March 2019), CES Historical Table

CHART 2 shows a positive job growth in March 2019 compared to March 2018 in both the total employment, which grew at +0.52%, and the private sector employment, which grew at +1.46%.

CHART 2: GUAM'S JOB GROWTH, 2010-2018



Data Source: Guam Department of Labor-Bureau of Labor Statistics (March 2019), *Current Employment Survey Historical Table*. Authors' own calculation.

Unemployment

Since last year’s economic report was released on December 27, 2018 which reported the latest unemployment rate of 4.4% in March 2018, more updated estimates of Guam’s unemployment rate and reports on the unemployment situation have been released by the Guam Department of Labor-Bureau of Labor Statistics (BLS). These are summarized in **TABLE 2**, which show the latest estimate of 4.6% unemployment rate in June 2019.

TABLE 2: GUAM’S UNEMPLOYMENT RATES: LATEST ESTIMATES

Month	Unemployment Rate
March 2018	4.4%
June 2018	3.8%
September 2018	3.6%
March 2019	4.3%
June 2019	4.6%

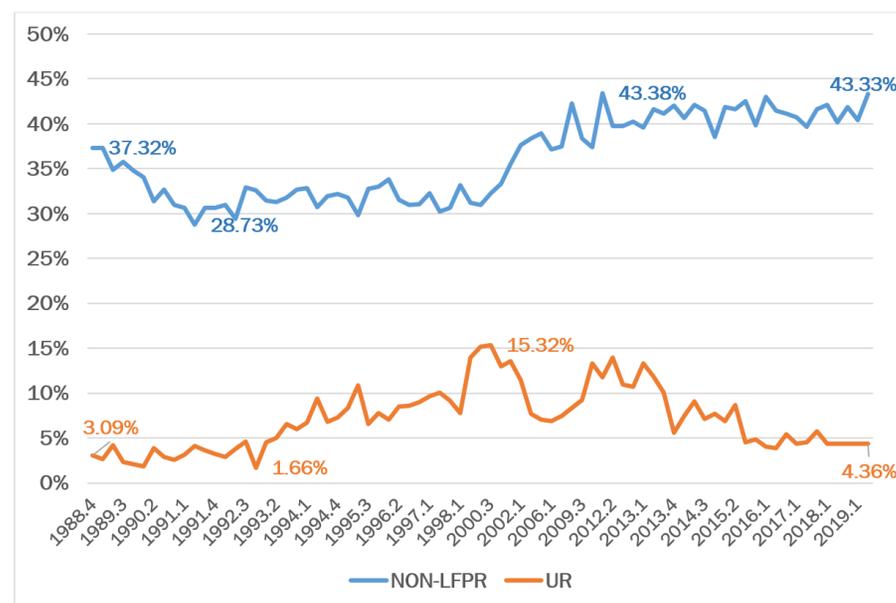
Source: Guam Department of Labor (2019, November 22). *The Unemployment Situation on Guam: June 2019*

Labor Force Participation (or Non-Participation)

Continuing with a theme from last year’s economic report, which discussed another economic measure known as the “Labor Force Non-Participation Rate” or the percent of those individuals who COULD enter the labor force and look for work but CHOOSE not to enter or participate in the labor force. A simple correlation analysis using Guam BLS data on unemployment rate and labor force non-participation rate between December 1988 and June 2019 (**CHART 3**) confirms that these measures have low to no correlation (+0.028). In non-statistical terms, this means they have little relation to each other. Hence, even if the unemployment rate has been low or decreased, which usually reflects the strength of the economy and the ease of finding employment, it does not encourage individuals to enter the labor force and look for work.

Given this finding, perhaps other incentives or disincentives could be more effective in reducing the number of individuals in Guam who choose not to enter the labor force, keeping in mind that the non-labor force participation rate figures in **CHART 3** need to be adjusted for those considered to have legitimate reasons for choosing not to enter the labor force and look for work, including those already retired, with disability, or students aged 16 to 18. In last year’s economic report, an

CHART 3: GUAM’S UNEMPLOYMENT RATE AND LABOR FORCE NON-PARTICIPATION RATE, December 1998 –June 2019



Source: Guam Department of Labor-Bureau of Labor Statistics (2019). *Unemployment Historical Summary: 1974-2019*.

attempt was made to estimate these individuals, resulting in the number of individuals who were not in the labor force, which was 51,660 (or 42.1% of the civilian labor force) for March 2018, to be reduced to 28,129 (or 22.92% of the civilian labor force) after factoring out 23,517 individuals who belong to these groups:

- *retirees, assumed to be aged 65 and over, and not in the labor force (21.82% of those not in the labor force);*
- *individuals aged 16-64 with disability, and not in the labor force (19.79%);*
- *and students aged 16 to 18, and not in the labor force (14.53%).*

The official unemployment survey already identified those who cannot find work because of “family responsibility” and “cannot arrange child care”, hence, above estimates have already taken into account those individuals who provided these reasons for not entering the labor force and looking for work.

It is the adjusted number of 28,129 individuals (or 22.92% of the civilian labor force) who might respond to incentives or disincentives to decide whether or not to enter the labor force and look for work. As it turns out, two incentives (higher minimum wage and challenges with hiring H-2B employees) and one disincentive (Guam’s loss of waiver on time limits for able-bodied SNAP participants) could make our New Year’s wishes come true.

Three Wishes this New Year

New Year’s Wish #1:

That the higher minimum wage will encourage individuals who, in the past, chose to not enter the labor force, look for work and contribute productively to our island community, do so this year.

Public Law 38-35 will increase the current minimum wage of \$8.25 per hour to \$8.75 per hour effective March 2020, and to \$9.25 per hour effective March 2021 (*Pacific Daily News*, 2019 October 14; *Pacific Island Times*, 2019 October 15). One might argue that one’s decision to stay home instead of being employed will become a costlier decision after March 2020 as every hour one chooses to stay home instead of

work will be \$8.75 not earned. Of course, this comparison assumes that the individual choosing to stay home does not earn anything, which would not be the case if he/she is engaged in informal (some even illegal) activities that generate income and, by the nature of many of these informal activities, the resulting income is not reported to the Department of Revenue and Taxation (DRT).

New Year’s Wish #2:

That the challenges with the hiring of H-2B employees in general and of H-2B employees from Philippines in particular will encourage those individuals who find themselves without the qualifications required in areas filled by H-2B employees, e.g., construction, health care and education, will welcome the opportunity to obtain these qualifications, enter the labor force (if not yet in the labor force) and ultimately be gainfully employed.

New Year’s Wish #3:

That able-bodied adults currently participating in the SNAP program view the disapproval by the U.S.D.A.-Food and Nutrition Services of Guam's application for their exemption in the 1996 Personal Responsibility and Work Opportunity Reconciliation Act effective October 1, 2019, as what this act is partially named after: “Work Opportunity” or an opportunity to enter the labor force and look for work. In doing so, SNAP benefits go to those with disabilities and/or with minor dependents who truly need them (*Guam Daily Post*, 2019 September 11).

Labor market prospects next year are promising, thanks to employment opportunities related to the conduct of the 2020 Guam Census and the expected opening of the Tsubaki Tower in April 2020. Several job fairs have been held for the 2020 Guam Census, which is expected to hire approximately 900 employees, 800 of whom will be enumerators to be “paid \$18.64 an hour for six hours a day... from March 1 to May 31, 2020” (*Pacific Daily News*, 2019 June 18; *Pacific*

Island Times, 2019 November 14). Similarly, Tsubaki Tower held job fairs to fill 340 position (*Guam Daily Post*, 2019 November 17). These job opportunities are expected to have a similar effect on the local labor market as well as the employment data as did the hiring done by Guam Regional Medical City (GRMC), which opened in July 2015 (*KUAM*, 2015 July), and by the Dusit Thani Guam Resort, which held its grand opening in November 2015 and created 270 employment positions (*Pacific News Center*, 2019 November 23).

INFLATION

The latest report on Guam’s consumer prices by the Guam Bureau of Statistics and Plans (BSP) was for the 3rd Quarter of 2019. This report provided an estimate of 1.5% CPI-based inflation rate for Guam during the 3rd Quarter of 2019 compared to the 3rd Quarter of 2018. This inflation estimate is low compared to the average annual inflation rate of 2.6% in 2018, 2.5% in 2017 and 6% in 2016.

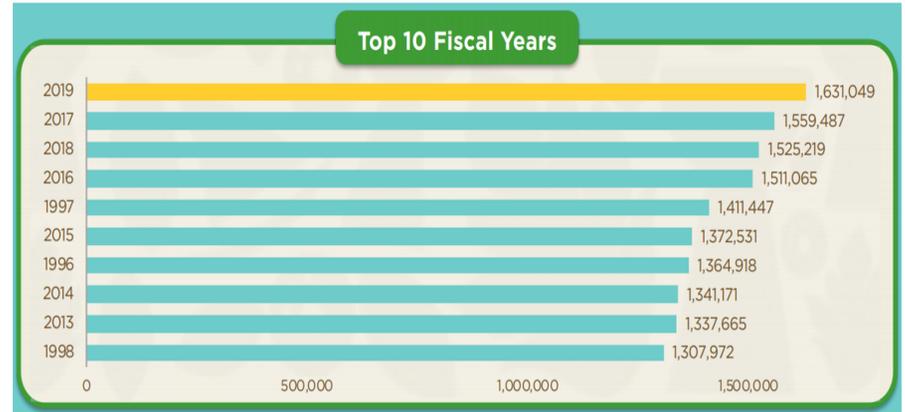
MAJOR ECONOMIC DRIVERS

TOURISM

Tourist Arrivals

According to the September 2019 Visitor Arrival Report by the Guam Visitors Bureau (GVB), Fiscal Year (FY) 2019 showed a record-breaking total of 1.631 million visitors to Guam. **CHART 4** below provides a summary of the ten fiscal years with the highest visitor arrivals to Guam and clearly showing FY2019 to be the strongest fiscal year to date.

CHART 4: GUAM VISITOR ARRIVALS, SELECT FISCAL YEARS



Source: Guam Visitors Bureau, *September 2019 Preliminary Arrival Summary*.

The Japan and Korea markets have been the two dominating markets in Guam’s tourism industry. The same report comparing FY2018 and FY2019 showed a clear recovery of the Japan market which posted a 25.4% increase in visitors to Guam while the number of visitors from Korea decreased slightly. Despite these changes, **TABLE 3** shows the number of visitors from Korea continued to outpace that from Japan in FY2019 as it did in FY2018, except that the difference narrowed from more than 220,000 in FY2018 to less than 70,000 in FY2019.

TABLE 3 shows how Guam’s tourist market has become more diversified than a decade ago when it relied heavily on visitors from Japan, who numbered around 1.13 million in 1997 as noted by Consul-General Izumi Seki of the Consulate General of Japan (*Marianas Business Journal*, 2019 May 13) and made up 80% of the total visitors to Guam (*Pacific Island Times*, 2019 June 24).

TABLE 3: GUAM’S MAIN TOURIST MARKETS: FY2018 vs FY2019

Market	2018	2019	% to LY
Japan	530,223	664,784	25.4%
Korea	752,715	734,339	-2.4%
Taiwan	27,550	28,346	2.9%
China	17,035	12,588	-26.1%
US/Hawaii	89,363	94,141	5.3%
Philippines	19,026	20,708	8.8%

Source: Guam Visitors Bureau, *September 2019 Preliminary Arrival Summary*.

Data from GVB for this calendar year-to-date (CYTD), with the latest data available November 2019 as well as corresponding data for the same months in 2018 have been summarized in **TABLE 4**.

TABLE 4 shows that visitors from Japan comprised 617,008 or 41% of the 1,499,219 visitors to Guam who arrived by air between January to November 2019. Compared to the same period in 2018, this figure posted an increase of 116,000 visitors from Japan or a 23% growth and a recovery of the Japan market share from 36% in CYTD2018 to 41% in CYTD2019. The recovery of the Japan market began in October 2018 but was too soon to note in last year’s economic report. Some of the recovery could be attributed to the yen reaching its weakest at 113.68 yen per one U.S. dollar in September 2018. The Japanese yen has since strengthened to 106.44 in August 2019 and to 109.51 on December 27, 2019, which can help reduce the cost of visiting Guam. Some of this

could have resulted in GVB’s marketing strategies aimed at resuscitating this market (*Pacific Island Times*, 2019 June 24).

TABLE 4 shows that, although the number of visitors from Korea continued to be highest among visitors from all markets, it decreased slightly (-0.15%) between CYTD2018 and CYTD2019 while reducing its share of the total Guam visitor market from 49.24 in CYTD2018 to 45.48% in CYTD2019.

TABLE 4: GUAM’S VISITOR MARKETS: CYTD2019 vs. CYTD2018

	CYTD 2019 (Jan - Nov)	CYTD 2018 (Jan - Nov)	GROWTH	SHARE IN 2019 (Air Arrivals Only)	SHARE IN 2018 (Air Arrivals Only)	SHARE CHANGE
TOTAL AIR & SEA ARRIVALS	1,509,257	1,402,903	7.58%			
Total Sea Arrivals	10,038	16,152	-37.85%			
Total Air Arrivals	1,499,219	1,386,751	8.11%			
KOREA	681,844	682,859	-0.15%	45.48%	49.24%	-7.64%
JAPAN	617,008	501,349	23.07%	41.16%	36.15%	13.84%
US/Hawaii	83,859	85,450	-1.86%	5.59%	6.16%	-9.22%
TAIWAN	26,212	25,639	2.23%	1.75%	1.85%	-5.43%
CHINA	10,911	15,187	-28.16%	0.73%	1.10%	-33.55%
CNMI	21,002	18,636	12.70%	1.40%	1.34%	4.24%
PHILIPPINES	19,070	17,132	11.31%	1.27%	1.24%	2.96%
HONG KONG	4,906	5,654	-13.23%	0.33%	0.41%	-19.74%
FSM	13,423	13,304	0.89%	0.90%	0.96%	-6.67%
PALAU	3,926	3,647	7.65%	0.26%	0.26%	-0.43%
RUSSIA	3,730	3,753	-0.61%	0.25%	0.27%	-8.07%
AUSTRALIA	2,106	2,187	-3.70%	0.14%	0.16%	-10.93%
EUROPE	2,048	1,966	4.17%	0.14%	0.14%	-3.64%
RMI	1,483	1,497	-0.94%	0.10%	0.11%	-8.37%
SINGAPORE	1,439	878	63.90%	0.10%	0.06%	51.60%
MALAYSIA	359	292	22.95%	0.02%	0.02%	13.72%
INDIA	150	204	-26.47%	0.01%	0.01%	-31.99%
OTHER/UNKNOWN	5,743	7,117	-19.31%	0.38%	0.51%	-25.36%

Source: Guam Visitors Bureau, *Preliminary November 2019 Visitor Arrival Summary*

TABLE 4 also shows changes in other visitor markets, with some notable growth in visitors from Philippines (+11.31%) and CNMI (+12.70%) and declines in visitors from the U.S. or Hawaii (-1.86%),

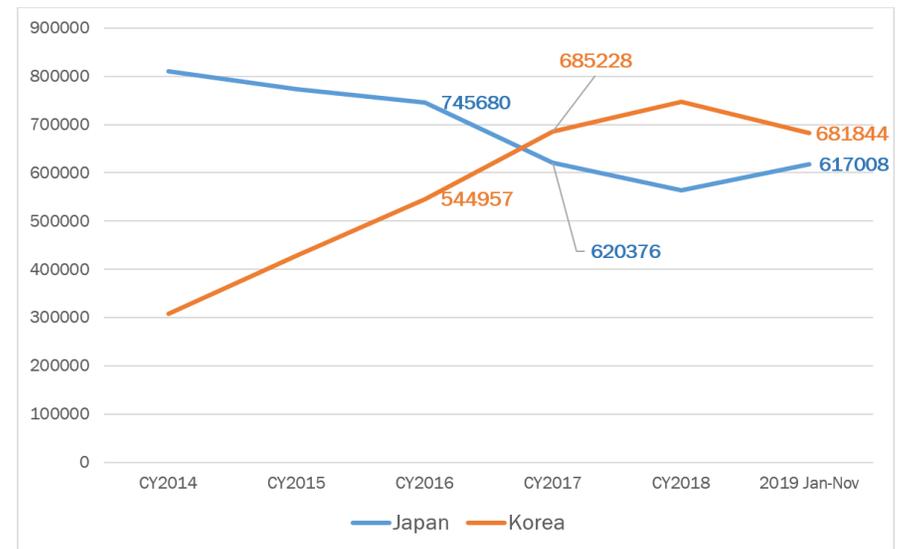
China (-28.16%) and Hong Kong (-13.23%). Information about other markets are also presented but caution must be taken in interpreting the growth rates (positive or negative) as these figures tend to be exaggerated for markets with relatively small shares of Guam’s total visitors. For example, **TABLE 4** shows a 63.9% increase in visitors from Singapore, which represented a mere 561 visitors to Guam in CYTD2019 compared to CYTD2018. Similarly, the decrease of 26.47% in the number of visitors from India translated to 54 less visitors from India in CYTD2019 compared to CYTD2018.

Comparing Recent Years’ Arrivals

Between 2014 and 2018, the number of visitors from Japan declined from 810,856 to 563,386 or by 30.51% during that four-year period, with the decline less so between 2014 and 2016 compared to between 2016 and 2018. From January to November 2019, Guam welcomed 617,008 visitors from Japan, which covered only 11 months in CY2019 and already surpassed the total visitor figure for the entire CY2018.

In the meantime, Korean visitors increased in numbers from 308,037 in 2014 to 746,986 in 2018 or a 142% increase. In 2017, the number of Korean visitors outpaced Japanese visitors. At the time, there was a recorded 685,228 Korean visitors compared to only 620,376 Japanese visitors, creating a gap of 64,852 more Korean visitors. This gap increased significantly to 183,600 more Korean visitors than Japanese visitors in 2018. Although it is too early to tell, it might be that the peak in Korean visitors was reached in 2018 as data from January to November 2019 shows 681,844 visitors from Korea, with one more month (December 2019) in CY2019. As **CHART 5** shows, the gap between the numbers of Korean visitors and Japanese visitors narrow in CYTD2019.

CHART 5: VISITORS FROM JAPAN AND KOREA: 2014 TO JAN-NOV 2019



Calendar Years (CY)	Japan	Korea
2014	810,856	308,037
2015	773,019	427,900
2016	745,680	544,957
2017	620,376	685,228
2018	563,386	746,986
2019 January-November*	617,008	681,844

Data Source: Guam Visitors Bureau, Guam Visitor Arrivals, various dates; *Preliminary November 2019 Visitor Arrival Summary. Note: Authors’ own chart.

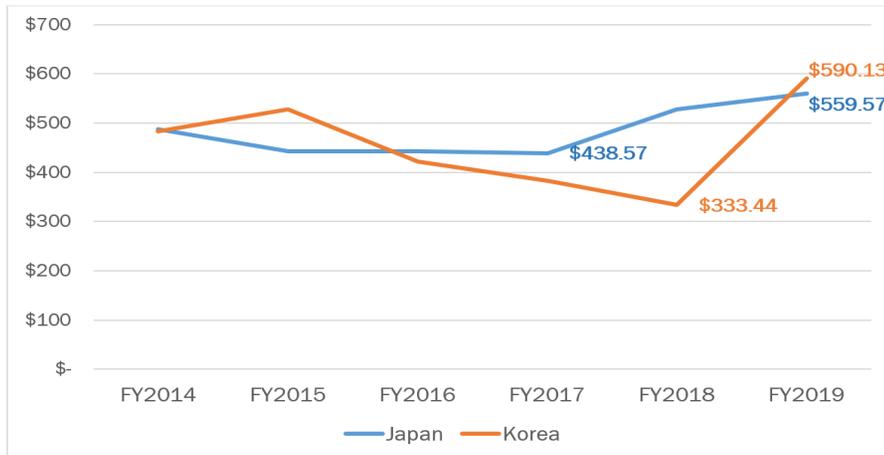
Change in Tourist Spending

CHART 6 tracks the on-island per person spending by Japanese and Korean visitors to Guam from FY2014 to FY2019. Whereas the average on-island spending amounts were comparable in FY2014 (\$488.15 by Japanese visitors vs. \$483.79 by Korean visitors), average spending by Korean visitors decreased to its lowest amount of \$333.44 in FY2018 before increasing to \$590.13 during January-September 2019 and surpassing spending by Japanese visitors during that period. This recent change has important implications.

In 2018, the Korean market dominated Guam’s tourism in terms of number of visitor arrivals. The Japanese market continued to dominate in terms of overall tourist spending. For the year, the number of Korean visitors to Guam exceeded that for Japanese visitors by 183,600. During the same period, Japanese visitors spent an average of \$557.19 compared to the \$331.83 average spending by Korean visitors. A picture was quite different in 2019 as the contrast between these two markets became less prominent in terms of number of visitor arrivals and visitor spending. Based on data for January to November 2019, although the Korean market continued to claim the largest share (45.46%) of the total visitors to Guam as 681,844 Koreans visited Guam, the Japanese market appear to have rebounded with 617,008 visitors to Guam, hence, the difference has narrowed between these two markets as shown in **CHART 6**.

More important in measuring the economic impact of Guam’s tourism industry, the average spending by Korean visitors increased quite noticeably to \$590.88 and exceeded \$558.74 in average spending by Japanese visitors from January to September 2019. As **TABLE 5** shows, the total on-island spending by Korean visitors between January and November 2019 was estimated at approximately \$403 million compared to approximately \$345 million in spending by Japanese visitors during the same period. This is quite a reversal of the estimates for the same months one year earlier, which showed the average spending by a Korean visitor at \$331.83, which was much less than the average spending of \$557.19 by a Japanese visitor. Because of this difference and despite the much higher number of Korean visitors (682,859) compared to Japanese visitors (501,349) between January and November 2018, the total spending by Korean visitors remained lower than that by Japanese visitors (\$227 million vs. \$279 million, respectively).

CHART 6: ON-ISLAND PER PERSON SPENDING BY VISITORS FROM JAPAN AND KOREA: FY2014 TO FY2019



Data Source: Guam Visitors Bureau, *Visitor Tracker Exit Profile & Market Segmentation Report* (Japanese and Korean FY2019-Q4 reports) by Anthology Research. Note: Authors’ own chart.

TABLE 5: ESTIMATE ON-ISLAND SPENDING BY VISITORS FROM JAPAN AND KOREA

	YTD 2019 (Jan-Sep)	YTD 2019 (Jan-Nov)		YTD 2018 (Jan-Dec)	YTD 2018 (Jan-Nov)	
	Per Person On-island Spending	Number of Visitors	Total (Projected) On-island Spending	Per Person On-island Spending	Number of Visitors	Total On-island Spending
Japan	\$ 558.74	617,008	\$ 344,747,049.92	\$ 557.19	501,349	\$ 279,345,395.94
Korea	\$ 590.88	681,844	\$ 402,890,255.53	\$ 331.83	682,859	\$ 226,593,101.97
Total		1,298,852	\$ 747,637,305.45		1,184,208	\$ 505,938,497.91

Data Sources: Guam Visitors Bureau, *Preliminary November 2019 Visitor Arrival Summary*; *Visitor Tracker Exit Profile & Market Segmentation Report* (Japanese and Korean FY2019-Q4 reports) by Anthology Research. Note: Authors’ own calculation

Hotel Occupancy Rates, Room Rates, Taxes

Based on latest statistics by the Guam Hotel and Restaurant Association (GHRA), hotel occupancy rate (weighted average) in January-November 2019 was 79% and the room rate (weighted average) was \$157. The corresponding figures for the same period in 2018 were 77% and \$167, respectively. The same report estimated the Gross Receipts Tax (GRT) at \$11.7 million and Hotel Occupancy Tax (HOT) at \$12.59 million in January-November 2019 compared to a GRT of \$13.12 million and HOT of \$16.46 million in January-November 2018 (GHRA, 2019 November).

Notable Changes in Guam's Tourism Market

Following the approval of the Port Authority board of directors for a total of \$72,985, which was used towards a required environmental assessment of the Hotel Wharf rehabilitation project, it expects to see the cruise ship industry bring in cruise ships on island and stimulate the economy with new opportunities. In 2016, the U.S. Department of Transportation awarded a \$10 million Transportation Investment Generating Economic Recovery (TIGER) grant for the project (*Pacific Daily News*, 2019 May 17).

Guam welcomed a cruise ship with 3,900 passengers in October (*Pacific Daily News*, 2019 October 12). An average of five cruise ships make stops at the island's port in a year. Since the governor's establishment of a working group that aims to prioritize and support a cruise industry in Guam, plans have moved forward for Hotel Wharf to be a multi-purpose port and set to accommodate cruise ship-type carriers (*Pacific News Center*, 2019 July 10). Guam is now a member of the South Pacific Cruise Alliance (SPCA). As Mr. David Vaeafe, President and Chairman of SPCA stated, "Guam's location in the northern Pacific and close to Asia makes it an ideal cruising destination from the eastern

markets and a potential home port for cruising around Micronesia" (Pacific Tourism Organization, 2019, August 23).

For decades, Japanese restaurants, such as *Fuji-Ichiban*, *Sakura*, and *Ajisen* have dominated Guam. However, because of Koreans dominating the shares of visitors to Guam, a number of Korean-themed businesses, mainly restaurants, opened up. Recently, a new Korean barbecue restaurant called *Gogiyo* located in Tumon, opened for business while *Mad Bingsu*, a dessert café, opened up in the mall to accommodate the increase in Korean tourists (*Marianas Business Journal*, 2019 June 24).

Forecasts

Some important factors to keep in mind when forecasting Guam's tourism industry for 2020 include the Wharf project, the opening of Tsubaki Tower, and the Tokyo 2020 Olympics. Tsubaki Tower will be the second 5-star hotel on-island that will compete against Dusit Thani when it opens. It is expected to bring in more tourists with higher spending brackets and can accommodate more of those tourists when Dusit Thani is operating at full capacity. This will also give way to increased job opportunities for the local economy. Due to a Japanese ownership of Tsubaki Tower, Japanese tourists, particularly those with more spending power, may feel more comfortable with checking-in and staying at a familiar environment within the new hotel rather than Dusit Thani. This would create an increased opportunity for Dusit Thani to accommodate visitors from Korea and China (*Marianas Business Journal*, 2019 September 30).

Unfortunately, tourist arrivals can still decrease, considering the worsening economies of Korea and Japan. Korea's main exports are semiconductors, which have experienced weakening demand over the past year (*Financial Times*, 2019 October 1), owing to the trade war between Korea's top trading partner, U.S. and China. In addition, some analysts view the slow and sometimes negative growth of domestic

prices in Korea as signs of a recession occurring soon (*Reuters*, 2019 October 1). September 2019 marked its 10th consecutive month where prices have slid, and this is the first time since 1965 that Korea has experienced deflationary prices on an annual basis. Because of this, the central bank, Bank of Korea, is forced to cut interest rates to encourage consumer spending. A slowing Korean economy could result in a lower number of Korean visitors to Guam in the near future.

As to Guam's other main tourist market, Japan, where sales tax increased from 8% since 2014 to 10% beginning October 1, 2019. This decision was made to generate additional government revenues in order to support the country's rapidly aging population, particularly its Social Security funds. As a result, Japan's economy might experience a slowdown as the higher sales tax could dampen consumer spending, just like its last tax hike five years ago (*Diplomat*, 2019 October 4). The on-going U.S.-China trade war could serve as an additional contributing factor to a possible economic slowdown in Japan (*Diplomat*, 2019 October 4). A slowing Japanese economy could result in a lower number of Japanese visitors to Guam in the near future.

Another problem between Guam's biggest markets is that Japan and Korea are currently locked in a trade war (*Time*, 2019 October 3), which some trace back to the issue of "forced labor" during World War II, which was thought to have been resolved by the 1965 treaty between the countries. On October 30, 2018, the Supreme Court of Korea ordered a Japanese steelmaker to compensate \$88,000 to each of the four South Korean nationals who claimed to have been forced to work during the war (*NHK World-Japan News*, 2018 November 1). This conflict taking place at the country-level trickles down to the individual level that, according to GVB board member Brad Kloppenburg, Koreans prefer accommodations that are not owned by Japanese corporations (*Pacific Daily News*, 2019 July 25). Therefore, monitoring their spending patterns will be critical to compare market reactions of the Korean market to their Japanese counterparts.

On the other hand, several factors are expected to encourage visits to Guam. For example, the addition of new flights by United Airlines from Guam to Osaka resulting in 10 weekly flights beginning on December 10 and adding 6,400 seats during the winter season could increase the number of Japanese visitors to Guam (*KUAM*, 2019 October 2). Guam also anticipates a potential rise in tourist arrivals due to the Tokyo 2020 Olympics. As three additional weekly flights are expected between Guam and Nagoya starting October 28, 2019, the island anticipates an increase in demand for travel between the two markets that can grow Guam's economy (*Stars and Stripes*, 2019 October 2). According to Sam Shinohara, United Airlines' Managing Director for Airport Operations for Asia/Pacific, more flights offered between Guam and Japan become advantageous for travelers who need convenient connections to Asia or the U.S. mainland (*Stars and Stripes*, 2019 October 2). There are also seat capacity changes to watch out for throughout the year. Demand for travel from Japan to Guam has encouraged United to reintroduce B777s to accommodate more passengers for next year, offering almost 900 daily seats between Tokyo and Guam (*Stars and Stripes*, 2019 October 2). Jeju Air plans to extend its three daily flights to Seoul, Incheon through the winter (*Pacific Daily News*, 2019 July 25). Air Seoul added two flights per week between Guam and Seoul beginning in October (*Guam Daily Post*, 2019 October 17). From December 24, 2019 to March 7, 2020, a new daily flight by Jeju Air connects Guam to Muan, an airport that "serves an area of more than 1.9 million residents in the Jeollanam-do province of South Korea" (*Guam Daily Post*, 2019 October 16; *Pacific Daily News*, 2019 December 25). During this timeframe, the Guam-Muan flights will add 14,175 seats to Guam's current 227,770 seat capacity from Korea" (Guam Visitors Bureau, News Release, 2019 December 24). At the latest estimate of \$590.88 on-island per person spending by Korean visitors, these additional seats would translate to \$8.376 million of additional tourist spending.

However, there are also changes in the opposite direction. China Airlines decreased its weekly flights between Guam and Taipei from five to four by removing the Sunday flight beginning October 27, 2019. By the end of October, Air Busan discontinued its direct service to Guam. (*Pacific Daily News*, 2019 July 25). Cebu Pacific suspended its Guam-Manila flights, with the last round-trip flights on December 7, 2019, citing that the Guam market is “no longer viable” (*Pacific Island Times*, 2019 July 18).

LOCAL GOVERNMENT BUDGET AND POLITICS

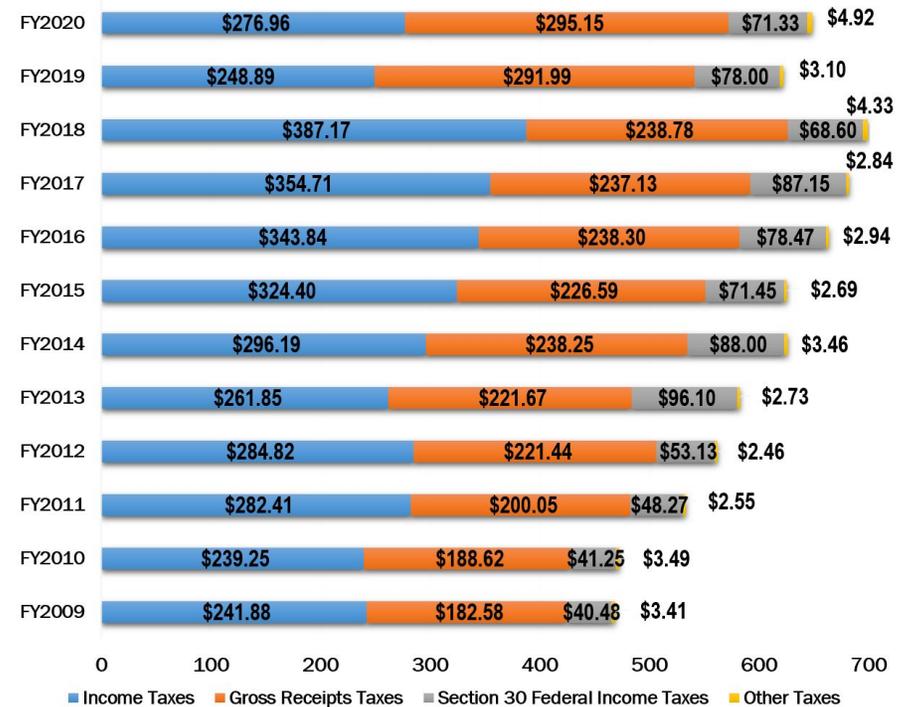
A notable shift occurred last year within Guam’s political field with the election of the island’s first ever Maga’Håga and Democratic leadership in the executive branch in the last 16 years. The first woman Governor along with the Democratic Party maintaining the majority in the island’s legislature seems to have changed the approach to the budget, finance, and related legislative policies of the Government of Guam. This section identifies these impacts and offers an analysis on what this could mean for Guam.

FINANCE AND BUDGET OF THE GOVERNMENT OF GUAM (GOVGUAM)

GovGuam Revenue in the Past Decade

The major source of revenue for GovGuam comes in the forms of various taxes which include the following: Income Tax, Gross Receipts or Business Privilege Tax, Section 30 Federal Income Taxes and Other Taxes. **CHART 7** displays the monetary value that these various taxes bring into Guam’s economy from FY2009 until the estimated income for FY 2020. As anticipated in last year’s economic report, FY2019 experienced a dramatic decrease in Income Taxes as a result from

**CHART 7: GOVGUAM TAX REVENUES (in millions\$)
FY2009-FY2020**



Source: Guam Office of Public Accountability (various Fiscal Years). Our Report to Our Citizens. Notes: FY2018, FY2019 and FY2020 are unaudited and based on Public Law 42-34, 116-34 and 36-35, respectively.

President Donald Trump’s policy, *Tax Cut and Jobs Act (TCJA)*. The implementation of this policy has led to a decline of more than \$138 million in Income Taxes for Guam. This has severely impacted the economy this year as Income Taxes have reached an all-time low in the last seven years. In response to this decline, GovGuam enacted policies in 2018 that sought to make up for the forecasted lower Income Taxes. Perhaps one of the more impactful policies is the introduction of legislation to increase the Business Privilege Tax (BPT) from 4% to 5% on April 1, 2018. This has contributed to the estimated \$53 million increase in Gross Receipt taxes but replaced barely half of the lost

Income Tax revenues from the *Tax Cut and Jobs Act (TCJA)*. Additionally, the amendment to the Real Property Tax has impacted owners of land property with a value of one million dollars or more.

FISCAL YEAR 2019 BUDGET REVIEW

The changes in tax rates had a significant impact on last year's fiscal budget and revenue. With the possibility of collecting more in taxes than originally projected last year, it is predicted that the government would have a surplus from FY 2019, although only temporarily as there always are many ways to spend this *temporary* surplus.

Possible Surplus in FY 2019

As discussed across multiple platforms, the possibility of a deficit in FY2018 hung overhead since the announcement of the *TCJA of 2017*. As reported in June 2019 by the Office of Public Accountability, FY2018 ended with a deficit of \$10.4 million (Office of Public Accountability (OPA), 2019 June 25). Originally, FY 2018 had a projected surplus of \$3 million.

This past fiscal year, FY2019, appears to be an improvement over FY2018 in addressing the revenue shortfall by having measures in place, such as the increase in BPT, property tax, and tobacco tax. FY2019 is reported to have ended with a projected surplus of \$27 million. Earlier this year, Public Auditor Benjamin J.F. Cruz warned the government to be wary of the projected surplus (*Pacific News Center*, 2019 June 27). Lester Carlson, Director of the Bureau of Budget and Management Research (BBMR), also notes that it would not be "prudent" to put to use money that is not on hand (*Guam Daily Post*, 2019 September 29). At a later time, Carson remarked, "There's no surplus and we have a deficit" (*Pacific News Center*, 2019 November 18). The audited outcome will not be known until it is submitted in May 2020.

Although elected officials were warned to not appropriate the funds that possibly do not exist, there have been attempts to do so anyway. With the news of the possible surplus on the horizon, senators drafted Bill 181-35 that would allow for part of the surplus of funds to go toward the payment of war claims although they were told to hold off on this action by Congressman Michael San Nicolas (*Pacific Daily News*, 2019 August 21). The substituted version of this bill was passed by the Legislature on December 20, 2019 without debate (*Pacific New Center*, 2019 December 24). Guam Department of Education (GDOE) Superintendent Jon Fernandez has asked for funds from the possible surplus to "help bring financial stability... and to move forward the much-needed Simon Sanchez High School rebuild" (*Pacific Daily News*, 2019 October 3). Other options that have been brought up by Republican Senator James Moylan include using the surplus for education and healthcare, especially for the "cash-stricken hospital" (*Pacific Daily News*, 2019 October 9). Guam Governor Lourdes Leon Guerrero's intentions for the possible surplus have been leaning toward alleviating the deficit (*Pacific Daily News*, 2019 October 7).

The November 5, 2019 Legislative session saw more bills introduced to appropriate the *temporary* surplus, including the following (*Pacific News Center*, 2019 November 6):

- Bill 238-35 (COR), introduced by Senator Telo Taitague, provides \$2 million for village road repairs and gives more resources to the Department of Public Works so the agency can chip away at nearly \$800 million worth of road projects outlined in the 2009 Village Streets Master Plan.
- Bill 235-35 (COR), introduced by Senator San Agustin, appropriates \$1 million to the Office of the Attorney General for OAG's various programs, especially its need to enhance software technology for child support payments and claims.
- Bill 234-35 (COR) appropriates \$1 million to the Unified Judiciary of Guam to fund the various needs of the Judiciary,

including its electronic monitoring program, which had to be suspended due to lack of funds.

- Bill 233-35 (COR), also filed November 5 by Vice Speaker Telena Nelson, appropriates \$2.1 million to the Guam Department of Education to enable it to pay its arrears for its vendors.

All of these ideas on how to spend the *temporary* surplus preceded the Army Corps of Engineers' visit to survey the structural integrity of the Guam Memorial Hospital and the estimated cost of more than \$200 million for repairs (*Pacific News Center*, 2019 November 22). Although a much smaller amount, it was recently found out that the U.S. Census and the U.S. Department of Interior (DOI) underestimated the number of Compact of Free Association (COFA) citizens living in Hawaii thereby under-allocating \$17 million of COFA funds to Hawaii while over-allocating \$14.7 million to Guam. This led to the DOI's proposal of reducing COFA funds to Guam and other territories in the next three years (*Pacific News Center*, 2019 December 6).

Despite the local business community's call to use this *temporary* surplus to roll back the BPT increase from 2018 while, at the same time, streamlining GovGuam expenditures concerns (*Pacific Daily News*, 2019 October 5), only Senator James Moylan's Bill 9-35 earlier in the year and Bill 199-35 on September 3, 2019 (35th Guam Legislature, 2019) would have addressed the business community's concerns (*Pacific Daily News*, 2019 October 7) but no other bills have since been introduced. Memory appears to be challenged when remembering that it was primarily the increase in BPT, meaning it was the higher taxes that businesses have to shoulder, although some of the burden were passed on to consumers, that contributed to this *temporary* surplus.

Temporary or Permanent Tax Increases?

FY2020 appears to be recuperating from the previous year with the budget depicting a \$26 million growth in tax revenues. However, this growth has come at the expense of Guam taxpayers. Despite the conversation of a possible rollback for the tax increases in 2018, Governor Leon Guerrero has confirmed that she "has a personal preference" to keep Guam moving forward by rejecting these rollbacks. The Governor made it clear that until a new source of revenue is identified to make up for the loss of revenues from President Trump's Federal Tax cut, the tax increases are "forever" (*Pacific Daily News*, 2019 August 12). Support for this view is also pervasive within GovGuam as the Mayor's Council of Guam and the legislative Democrat majority are both advocating for the continuance of the 5% BPT (*Pacific News Center*, 2019 August 15). In addition to this, according to the OPA, the increase rate of the BPT assisted in alleviating the General Fund deficit by \$32.6 million dollars in FY 2018. All of this points to the high likelihood that the increased tax revenues are not a one-time collection but instead are here to stay.

Real Property Tax

Public Law 34-116 was amended at the outset of FY2019 to include the “or more” clause so that all land property with a “value of One Million Dollars (\$1,000,000) or more” would be subjected to a yearly tax of “seven eighteenth percent (7/18%) of the value thereon...” (Public Law 34-116, Chapter 1, Section 3, amendment to 11 GCA § 24103, 2018 August 24). Shortly thereafter, the Leon Guerrero administration requested “legal authority to retroactively enforce higher property tax rates” for properties that were initially exempted from this law. Without the inclusion of the “or more” clause, GovGuam would have experienced an estimated \$9 million tax revenue loss (*Pacific News Center*, 2019 January 30). Dafne Shimizu, Acting Director of DRT, said in a Public Hearing for Bill 04-35 that about 530 land properties would be given retroactive real property tax bills if the government is given retroactive authorization.

The implementation of a retroactive Real Property Tax was approached with caution as freshman Senator James Moylan warns of the “dangerous precedent” that would be set from retroactively levying taxes without legal approval (*Pacific Daily News*, 2019 May 29). Despite this, the Governor was persistent in acquiring the uncollected taxes because the bona fide intention when the bill was enacted to impose taxes on all land property worth one million dollars or more. Moreover, the Territorial Educational Facilities Fund, which assists in the funding of the GDOE and other educational programs, would potentially miss out on over \$8 million that would derive from the retroactive Real Property Tax. In an already stringent budget, GovGuam is determined to find a source of revenue for the budget shortfall. The Governor finally arrived at the decision to move forward with the retroactive taxing in order to secure any additional income. As a result, data from DRT confirmed that 524 property improvements or buildings were affected by this decision.

FISCAL YEAR 2020

Governor Leon Guerrero deems Fiscal Year 2020 as “practicable”, while the Republicans within the Legislature raised numerous concerns over the details of the 2020 budget (*Guam Daily Post*, 2019 September 5). The 2020 budget has been criticized as imperfect on many levels but workable. Some senators have stated that the budget does not address GovGuam’s spending habits, the continual impact on taxpayers, and fiscal responsibility or a lack thereof. While other senators have concerns such as providing a sufficient budget for the longevity of certain programs and agencies.

Review of FY2020 Budget

With little time to spare before the end of their deadline, senators passed a FY2020 budget with a vote of 12 to 2 (*Pacific Daily News*, 2019 August 31). With the support of the Maga’Håga, the bill was signed into law on September 5, 2019. The island previously encountered some threats of revenue shortfalls, particularly from the *TCJA of 2017* this past fiscal year which motivated GovGuam to take steps in circumventing this possibility for future fiscal years. With this aspect taken into consideration, the government has been able to agree on a budget of \$954 million (*Pacific Daily News*, 2019 September 5).

As seen in the voting patterns for the budget, the bill did not effortlessly pass without first some disagreements within the legislature. With a vote of “no” from Senator Telo Taitague, she brought up her concern about the cuts to certain agencies’ budgets and their ability to carry out their duties. Senator James Moylan also voted “no” on the bill because of the exclusion of cost cutting measures into the bill and made mentions to the considerable amount of time expended just for discussion of the budget (*Pacific News Center*, 2019 September 2). Senators have gone so far to say that the budget bill was “not perfect” (*Pacific Daily News*, 2019 August 31), but there is some

agreement to it being workable. Part of the focus has turned toward the ability to carry out agendas with focuses on education, public health and safety and working toward the good of the people, while less focus has been placed on lessening overall spending.

Appropriations and Spending Controls in FY2020

The conversation for the FY2020 budget originally included the possibilities of cutting budgets for multiple agencies and programs. In contrast to this, the last iteration of the budget saw less amounts of cost cutting measures and spending controls. The law holds considerably less amounts of spending controls in Chapter XIII as compared to last year's budget. Some spending controls listed in the FY2019 budget include the following: hiring, deputy director positions, salary increments, executive branch expenditures, and certification pay differentials. The FY2020 budget only holds the following controls, which have carried on from last year: government-funded travel, wireless communications, qualifying certificates, and home use of GovGuam vehicles. While the FY2020 budget does address some of the needs of the island, with the problems that the government faces with possible revenue shortages in the future, cost cutting measures or other spending controls need to be considered for budgets in the future.

WAR REPARATIONS

The allotment for the war reparations have been a tedious process, and World War II survivors have yet to receive compensation payment. On July 18, 2019, Speaker Tina Muna Barnes introduced measures in Bill 181-35 to appropriate \$7.5 million from the general fund for the payment to about 734 war survivors, but with the constrained budget that GovGuam currently faces, inquiries were raised in regard to where exactly the \$7.5 million would come from. Senators did not have the exact answers, but nonetheless had "confidence in the ability of the

administration to identify the funding source" (*Pacific News Center*, 2019 July 19). Whether or not GovGuam can definitively find this funding source is still unclear. Worse yet, the substituted version of Bill 181-35, which passed on December 20, 2019, removed the \$7.5 million cap although it requires a Memorandum of Agreement (MOA) between GovGuam and the U.S. Department of Treasury before any war reparation payments are made.

Although the intentions of placing urgency on this matter is justified, public officials of Guam need to be wary of rushing payment out. The possibility of the passage of the bill was met with apprehension because of faulty double payout for some war survivors and a delay in payment for others. This is because the Leon Guerrero-Tenorio administration planned to use local funds to pay claims of war survivors while Congressman San Nicolas concurrently introduced H.R. 1365. The introduction of this bill is an attempt to fix technical errors to the Guam World War II Loyalty Recognition Act, which was previously introduced by former Congresswoman Madeleine Bordallo. This amendment sought solutions to the delayed payment for World War II survivors from the U.S. Department of Treasury (*Pacific Daily News*, 2019). GovGuam's attempts to expeditiously disperse payments to war survivors from local funds may no longer be warranted with "the unanimous passage of H.R. 1365" (*Guam Daily Post*, 2019 July 26). With the passage of H.R. 1365, it is apparent that there is a consensus that war survivors need to be compensated for the atrocities that they were subjected to during the Japanese occupation. However, jeopardizing the process by hustling to push out funds is counterintuitive to the entire process. The unanimous passage of H.R. 1365 is a testament of the full support Guam has in both parties to bring closure to our Greatest Generation.

SECTION 30 FUNDS AND TAX REFUNDS

The Assistant Secretary of the U.S. Department of Interior, the agency which has oversight over Guam, confirmed that the U.S. Government

would be “signing over \$69.928 million to Guam” for Section 30 funds (*Pacific Daily News*, 2019 September 5; *Pacific Island Times*, 2019 September 6). The lump sum payment of almost \$70 million is derived from taxes obtained from both military personnel and federal employees in Guam. The Guam World War II Loyalty Recognition Act of 2016 also requires GovGuam to appropriate “Section 30 funding in excess of \$68 million” (*Pacific Daily News*, 2019 September 5) to pay war claims each year until all claims are officially paid. Since Guam collected \$69 million this year, war survivors are expected to secure reparation payment from Section 30 funds.

The Governor’s Director of Communication, Janela Carrera, stated that the Section 30 funds are also expected to be utilized to catch up with tax refunds from 2018. Despite nearly \$100 million being already given out for 2018 tax refunds from the 2019 revenue, Carrera estimates an additional \$30 to \$40 million to be used from Section 30 funds for the 2018 tax refunds (*Pacific Daily News*, 2019 September 5).

CHART 8 tracks the payment of tax refunds to taxpayers who filed error-free tax returns by the April 15th deadline. Of the \$144 million tax refunds issued during FY2019, \$121.8 million went to the taxpayers identified above who represented approximately 41,840 taxpayers.

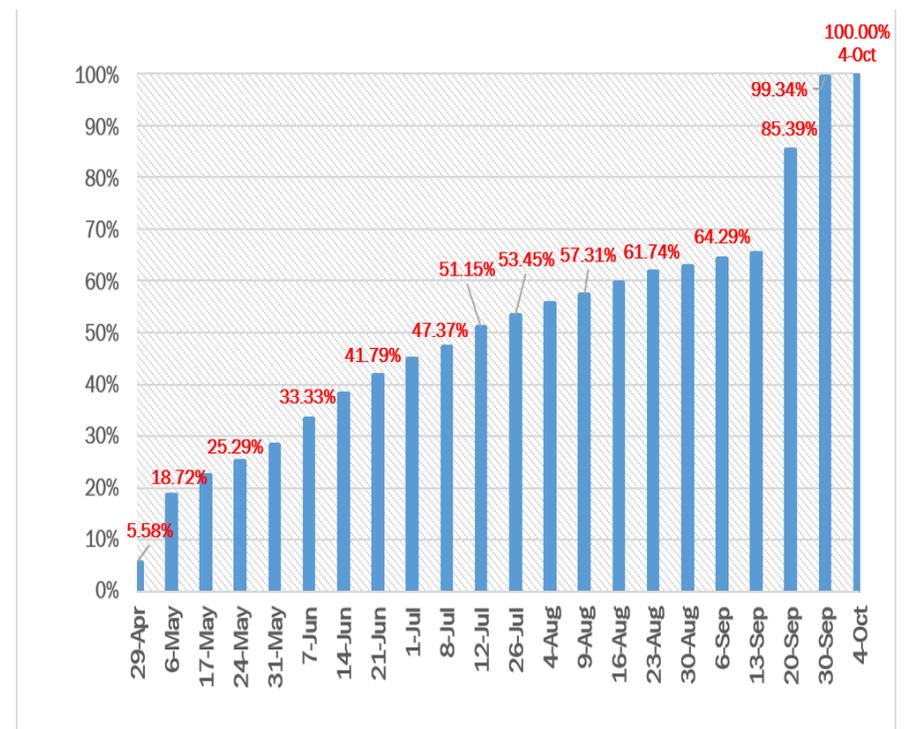
CHART 8 shows that the first checks for tax refunds during tax year 2018 were issued on April 29, 2019 to the total amount of \$6.799 million refunded to approximately 900 taxpayers who filed error-free tax returns on January 28, 2019, the first day of filing for tax year 2018.

CHART 8 also shows that the last set of tax refund checks were mailed on October 4, 2019 to taxpayers who filed error-free tax returns by the April 15th deadline, signifying the Leon Guerrero-Tenorio’s success in paying tax refunds prior to the court-mandated deadline of six months after the last day to file tax returns, which is approximately on October 15th. This is quite an accomplishment when put in the context of the overall tax revenue challenges since the administration took office in

January 2019 and in the absence of other sources of funds (except for Section 30 funds), e.g., bond proceeds, from which to pay out tax refunds.

CHART 8 also shows increased payment of tax refunds after Section 30 funds were received on September 13, 2019, resulting in three sets of tax refund checks issued and mailed to taxpayers: \$24.4 million tax refund checks mailed on September 20, 2019 to 10,668 taxpayers who filed error-free 2018 tax returns by March 31, 2019; \$17 million tax refund checks mailed on September 30, 2019 to more than 8,500 taxpayers who filed error-free returns between April 1 and 15, 2019; and \$800,000 tax refund checks mailed on October 4, 2019 to 121 taxpayers who filed error-free return on April 15, 2019.

CHART 8: PAYMENT OF TAX REFUNDS: TAX YEAR 2018



Data source: Pacific Daily News (various issues), Pacific News Center (various issues). Note: Authors’ own graph.

FEDERAL GOVERNMENT AND MILITARY REALIGNMENT

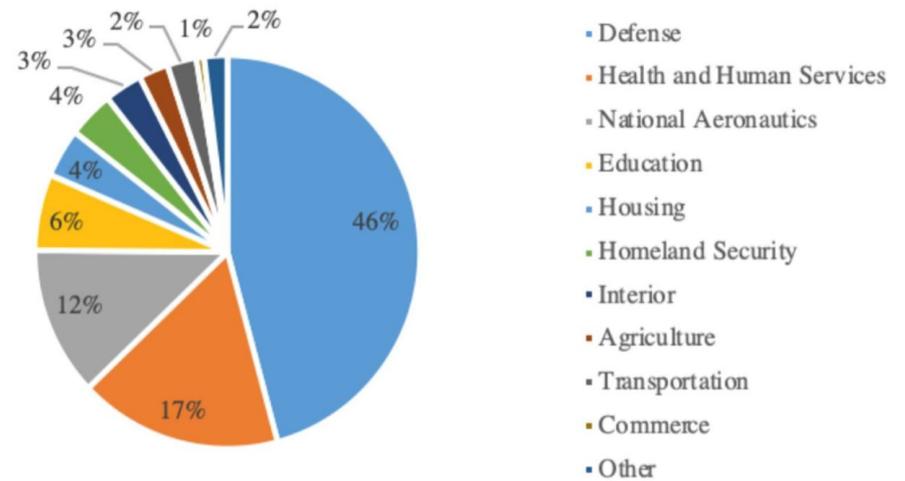
When the *2018 Guam Economic Report* was released, concerns for the military realignment in Guam and the agreement between the U.S. and Japan were raised in regards to it being impacted by President Trump asking for a 5% reduction on the defense budget (along with those of other departments) for FY2020. These concerns were valid because by the end of 2018 through January of 2019, the longest government shutdown in U.S. history had occurred due to the President’s continued push for border wall funding. Prior to his decision to cut down on federal spending, he had signed into law a \$717 billion National Defense Authorization Act (NDAA) for FY2019. Out of the \$717 billion budgeted for the NDAA for FY2019, \$448.5 million would fund military construction projects for Guam (Office of the former Guam Congressional Delegate Bordallo as reproduced in the *2018 Guam Economic Report*, Table 13). With this funding, Guam would see a significant increase in funding over the \$354.6 million authorized by the NDAA for FY2018 (*Pacific Daily News*, 2019 January 14).

CHART 9 shows the top 10 recipients of Federal Government Funds in Guam for FY2019. The Department of Defense received the most funding at 46%, which held a similar share of the total in previous year, followed by Health and Human Services and National Aeronautics which received 17% and 12%, respectively, of the total funding by the Federal Government in Guam for FY2019. Other agencies in Guam that received Federal Government funding for FY2019 are also shown in **CHART 9**.

In comparison to FY2018, FY2019 posted an increase in Federal Government funding on Health and Human Services (\$173.219 million), National Aeronautics (\$125.074 million), and a slight increase on the housing sector (\$40.837 million). Additional services funded by the Federal Government also includes Social Security (\$31,068.00),

Veterans Affairs (\$1.5 million), and Environmental Protection (\$3.5 million).

CHART 9: SERVICES ON GUAM FUNDED BY THE FEDERAL GOVERNMENT: FY2019



Source: USASpending.gov

FEDERAL GOVERNMENT SHUTDOWN OF 2018-2019

A major part of President Trump’s campaign was to follow through with expanding the U.S.-Mexico border wall using existing Federal Government funding. To direct the U.S. government in attempting its construction, he issued *Executive Order 13767: Border Security and Immigration Enforcement Improvements* in January of 2017 (The White House, 2017 January 25). The project has been delayed several times due to its significant expense—notably billions of dollars—along with the issue of where the funding would come from. Because the majority of the funding comes from the annual budget appropriations decided by Congress, President Trump challenged the appropriations bill for FY2019, claiming that he would veto the bill if it did not include a \$5.7

billion in border wall funding. As a result, the Federal Government shutdown during 2018-2019 occurred, which lasted from December 22, 2018 through January 25, 2019. The shutdown, the longest in U.S. history, affected key parts of the U.S. government including the Department of Homeland Security, the Justice Department, the Interior Department, the State Department and the Department of Housing and Urban Development. In total, an estimated 800,000 federal employees were impacted by the partial shutdown, including those who had to work without pay while the rest were placed on furlough (*Washington Post*, 2019 January 18).

Guam, like the rest of the nation, felt the impacts of the shutdown. Weather forecasters, airport security screeners, air traffic controllers and other federal employees continued to work without pay during such time to help ensure safe travel and weather monitoring. The shutdown not only caused financial hardships for the employees and their families, federal court proceedings were affected as well, including updated decisions on Guam's World War II claims, which is handled by the Department of Justice. If the shutdown continued any longer, it had the potential to delay benefits for food stamps and Section 8 housing and could have affected federal-funded public school programs. To assist those affected, the island's financial institutions extended aid through financial assistance programs (e.g. consumer loans, credit card deferment) (*Pacific Daily News*, 2019 January 14).

BORDER WALL FUNDING

In response to the President's agenda, the White House shifted \$3.6 billion in military construction funds, which was originally for the Department of Defense (DOD), to pay for the border wall project. In particular, the funding is for 11 barrier projects within a 175 mile radius pursuant of section 2808 of Title X, U.S. code (U.S. Department of Defense, 2019, September). The projects will involve augmenting and strengthening existing border walls, those identified as less effective

and constructing new barriers that are currently non-existent (U.S. Department of Defense, 2019 September). Additionally, the President had signed a declaration of National Emergency that states that border security threatens core national security interests and constitutes a national emergency; therefore, the funding for the project is vital to America's safety (The White House, 2019 March 15).

Given the outrage from the Democrats in Congress over the administration's decision, finding a common path ahead on the issue will prove difficult. Thus far, some of the outcomes have trickled into effect for Guam. The diversion of funding is expected to cause delays in the relocation of the U.S. Marines from Okinawa (with the first batch of Marines expected to arrive Guam during the first half of FY2025) along with the anticipated completion for military construction projects.

RELOCATION OF MARINES DELAYED

According to Rear Admiral John V. Menomi, Joint Region Marianas Commander, the buildup continues, despite the diversion of DOD funds for the border wall project; however, no target date was specified, although the Commander stated that it is more likely to occur beyond mid-2020. Overall, the efforts of the relocation are to help reduce military presence on Okinawa soil, where 70% of the total U.S. military personnel in Japan is currently occupying a land area that makes up only 0.6% of Japan (*The Guam Daily Post*, 2019, August 31). This suggests that the diversion of DOD funds for the border wall project will not delay the relocation of Marines from Okinawa to Guam. However, the most recent development on this issue points to a delay in the Marine relocation to Guam due to the higher than expected cost of the relocation of the U.S. Marine Corps Futenma Air Station to Nago City. The following quote from a NHK news article summarizes some of the hardships to be faced:

Japan's Defense Ministry says it will take about 12 years and much more money than initially expected to complete the planned relocation of the U.S. Marine Corps Futenma Air Station... a replacement facility in the Henoko District of Nago City may cost about 8.5 billion dollars. That's more than 2.5 times the initial estimate... The relocation is likely to be delayed until at least the 2030s. (*NHK World-Japan News*, 2019 December 25)

After President Trump announced the signing of the \$717 billion defense law back in 2018, former Guam Congresswoman Madeleine Bordallo stated that the budget will also allow permanency on the 'net-negative' by DOD, which is identified as a land return commitment—or a commitment of the military where they are required to hold less land since the military buildup first began. The provision of former Congresswoman allows the Governor of Guam a formal process in being able to request additional land that were previously held by the military (*Pacific Daily News*, 2018 August 15).

Guam's leadership has mixed opinions on the impact of the military buildup. There are those who believe that there are many economic opportunities that the community can get from the buildup, including the potential of new jobs, creation of small businesses, an infusion of new tax revenues, and an increase in disposable spending. Some of the negative impacts, however, include the potential social impacts associated with any change (*Pacific News Center*, 2019 August 1).

When Guam Governor Leon Guerrero addressed the U.S. Senate-Committee on Energy and Natural Resources on February 26, 2019, she stated that "... more than \$8 billion of U.S. military construction dollars is generating considerable interest of others to invest in Guam" (U.S. Senate Committee on Energy & Natural Resources, 2019 February 26). According to Guam's Congressional Delegate San Nicolas, the projects are not cancelled, but their timelines have been extended. The projects

that have already been rewarded are not impacted. Congressman San Nicolas also stated that the delay gives the people of Guam "more time to advocate as necessary on this sensitive issue", and that no military housing projects or family care facilities will be delayed, helping to relieve pressure on local housing markets to stabilize pricing. Guam activists echoed this response, favoring the delay as they stand opposed to the live-firing range. The group, *Prutehi Litekyan: Save Ritidian*, said in a statement that the delay would give them more time to study ancient settlements found in the area and that it would be irresponsible to move forward on projects that would destroy cultural sites and cause irreversible environmental damage when there is so much uncertainty about the relocation (*Pacific Daily News*, 2019, September 5).

Guam Congressman San Nicolas also stated that leadership is challenged with the risk that the island's low-income residents may be adversely affected by the military buildup and that it is still unclear how those risks can be mitigated for the most beneficial outcome for all. Additionally, the Congressman also stated that there will be new tax revenues in Section 30 funds as well as corporate and income taxes which can be used to fix and upgrade the island's education, health, and public safety agencies (*Pacific News Center*, 2019 August 1).

NATIONAL DEFENSE AUTHORIZATION ACT (NDAA) FY2020

The NDAA for FY2020, which is an annual legislation that authorizes funding and provides authorities for the U.S. military and other critical national defense priorities, was introduced in May 2019. Its timely passage is a priority after the release of the administration's budget request, and it aims to follow its predecessor (FY 2019) in terms of its strategy to bolster national security. The NDAA supports a total of \$750 billion in FY2020 funding for national defense, in line with the budget request and the National Defense Strategy Commission report. Amongst this total, a base defense budget of \$642.5 billion for DOD,

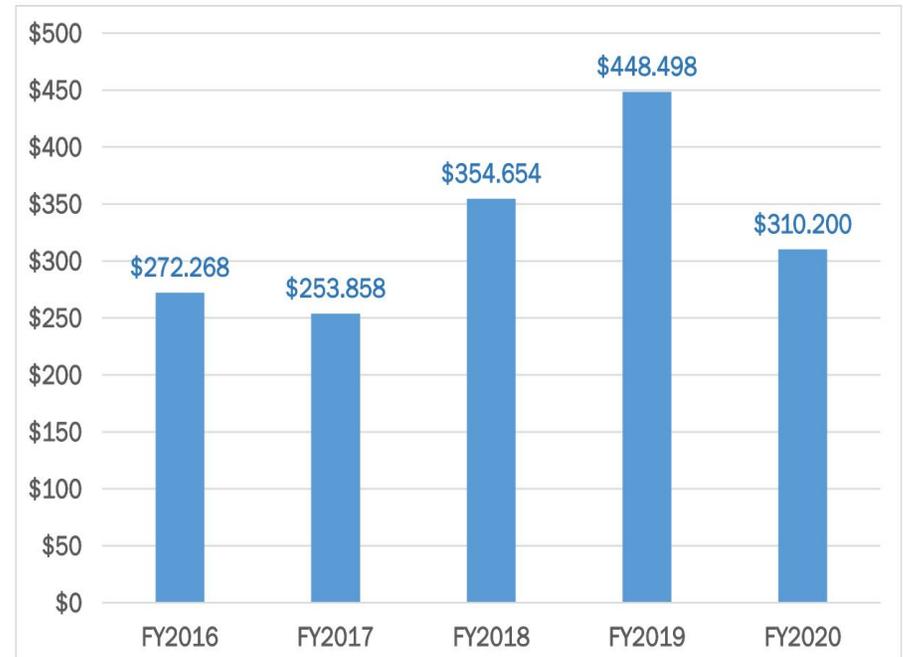
\$23.2 billion for national security for a Department of Energy program which is authorized by legislation, and \$75.9 billion for Overseas Contingency Operations will be funded by the NDAA. These totals reflect a transfer of \$97.9 billion from the administration’s budget proposal for Overseas Contingency Operations “base” funding back to the base discretionary account (FY2020 NDAA).

Thus far, two versions of the NDAA for FY2020 has been passed: The U.S. House of Representatives’ version approved \$733 billion in defense spending for FY2020 while the U.S. Senate authorized \$750 billion in funding (*USNI News*, 2019 July 12).

A \$750 billion defense spending plan was proposed by President Trump for FY2020 that has military construction projects for Guam. Congressman San Nicolas stated that the NDAA for FY2020 contains \$403.487 million in Guam military buildup projects (*Pacific Daily News*, 2019 June 12). The final version of the NDAA for FY2020 was signed by President Trump into Public Law 116-92 on December 20, 2019 and authorized funding of \$310.2 million for military construction projects in Guam (*Marianas Business Journal*, 2019 December 23; <https://www.congress.gov/bill/116th-congress/senate-bill/1790>)

CHART 10 shows the NDAA military construction authorization for the past five years, with funding for military construction in Guam increasing during FY2016-FY2019 before decreasing 30.84% for FY2020. **TABLE 6** provides some details on the military construction projects in Guam authorized by the NDAA for FY2020.

CHART 10: MILITARY CONSTRUCTION PROJECTS ON GUAM UNDER THE NDAA: FY2016-FY2020 (in millions \$)



Sources: Figures from FY2016 to FY2019 were from the Office of the former Guam Congressional Delegate (Bordallo) and reproduced in the 2018 Guam Economic Report, Tables 10-13. Figure for FY2020 was from the *Marianas Business Journal*, 2019 December 23.

TABLE 6: MILITARY CONSTRUCTION PROJECTS IN GUAM APPROVED UNDER THE NDAA FY2020 (in million \$)

Machine gun range	\$91.2
Munitions storage 1	\$65.0
Navy bachelor enlisted quarters	\$64.1
Explosive ordinance disposal facilities	\$61.9
X-Ray wharf and refueling facility	\$19.2
Planning and design of Marine Corps facilities	\$ 2.0

Source: *Marianas Business Journal*, 2019 December 23

CHALLENGES WITH FOREIGN/H-2B VISA LABOR

During his testimony before the U.S. House Armed Services on the FY2020 NDAA, Guam Congressman San Nicolas suggested expanding the language from the FY2019 NDAA to allow foreign labor through the H-2B Visa program for construction projects to include civilian projects, not just military projects (The U.S. House of Representatives, 2019).

Governor Leon Guerrero testified similar concerns, stating: “Guam’s military and civilian growth has been supported by foreign skilled labor. Given Guam’s close proximity to the Philippines, local employers have come to rely on the Philippines as the primary source of supplementary skilled labor under the H-2B Visa program.” (U.S. Senate Committee on Energy & Natural Resources, 2019 February 26).

The efforts of both the Congressman and the Governor were not futile. “Three contractors were approved to bring 97 H-2B visa workers from the Philippines to Guam, while another was allowed to add a second project to their application and have their existing 258 H-2B workers be utilized for the second project on Guam... The NDAA exemption allows for H-2B workers on Guam so long as petitions are being made for military-related projects and for public and private sector projects when properly justified. Projects related to the Airport, Roads, Hotel Construction/Renovation and Utilities have been approved.” (*Pacific News Center*, 2019 April 2).

Towards the closing of 2019, Governor Leon Guerrero had appointed her Chief Adviser for Economic Development and National and International Affairs, former Governor Carl Gutierrez, to address the H-2B program ban on the Philippines, and seek to waive visa requirements for Philippines’ travelers to Guam. The Philippines was removed from the list of countries eligible to participate in the H-2A and H-2B program by the U.S. Department of Homeland Security, who cited high overstay rates, estimating that nearly 40% of H-2B visa

holders from the Philippines overstayed their authorized time across the U.S. As for Guam, the Department of Labor estimates that the overstay rate is between 1 to 3% for H-2B workers from the Philippines (*Pacific Daily News*, 2019 September 16).

OVERALL FEDERAL GOVERNMENT SPENDING IN GUAM

CHART 11 shows the Federal Government spending on projects in Guam from FY2008 to FY2020-to-date, to cover the period October 1 to December 26, 2019. For FY2019, the Federal Government provided funding of \$1,873 million for Guam, an amount 13.3% higher than that for FY2018. **CHART 11** also shows a steady increase in Federal Government funding for Guam since FY2013, with the exception of FY2016. This is significant because it shows a continued increased in Federal Government spending in Guam during this period, regardless of any remaining and/or occasional questions about the exact timing and other details related to the military realignment in Guam, most particularly, the relocation of the Marines from Okinawa.

CHART 11: FEDERAL GOVERNMENT SPENDING ON GUAM, FY2008-FY2020* (in millions \$)



Source: USASpending.gov

Note: *FY2020-to-date covers the period October 1, 2019 to December 26, 2019

FORECAST FOR GUAM'S ECONOMY IN 2020

Compared to our forecast of zero growth to possibly a +1% growth of Guam's economy in 2019, we forecast Guam's economy to experience no or slightly negative (around - 0.2%) growth in 2020.

This forecast is based on the following assumptions:

- a modest increase in consumer spending, driven largely by employment opportunities from the 2020 Guam Census and the opening of the Tsubaki Tower;
- a continued decrease in business spending since 2015 as has been shown in the official Guam's GDP estimates by the U.S. Department of Commerce-Bureau of Economic Analysis;
- possibly a modest increase in GovGuam spending based on prediction of an increase in revenues for FY2020 compared to FY2019;
- a significant decrease of \$138 million in NDAA funding from FY2020 compared to FY2019, AND assuming no additional reduction in other Federal Government funding; and
- a continued growth in tourism in terms of visitor arrivals and on-island spending similar to that experienced in 2019.

Any additional loss of Federal Funding and/or visitor spending could worsen the growth forecast stated above.

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