



**SPECIAL ECONOMIC SERVICES MEETING**

**July 06, 2010**

**MEETING MINUTES**

AGENDA	DISCUSSION/TOPIC	ACTION/STATUS
Revenue Update	<p>Chris Budasi presented current revenues based on collections received, inclusive of the provision of income tax refunds. Current revenue collections were based on nine month actual plus a three month forecast. Relative to P.L. 30-55, current revenue collections were trending below budget estimates. An increase in withholding tax, about 14M, was attributable to the Make Work Pay credit and a growth in wages. The large increase in income tax was due to COLA paid and income tax refunds from bond proceeds. For corporate income taxes, the current collections were trending below for the third straight year. However, a growth trend could be noted starting in month of June. As for gross receipt taxes, there was no increase in these collections.</p>	
Current Expenditures	<p>Current expenditures were estimated to be 499M for FY 2010. Revenues over expenditures excluding refund payments from June, July, August, and September was around 34M. No refund payments were included within these months as the full financial impact of unbudgeted expenditures has yet to be realized. Any excess from unbudgeted expenditures will be used to service payment of tax refunds.</p>	
Tax Refunds	<p>Current payments for tax refunds do not include payment for FY 09 returns. Rather, the current payments for tax refunds were for past due balances and interest. Past due balances, around 82M, were addressed in part due to the deficit reduction bond. Rodalyn Marquez, OPA, cited that based on the most recent financial audit by D&amp;T, the total refunds owed by the government was 259M, exclusive of the FY 10 refunds.</p>	

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Revenue Projections FY 2011	<p>For FY 2011, the revenue projections based on the Governor’s budget request was 716M. Bertha Duenas, BBMR, stated that FY 2011 revenue projections were being revisited in light of the FY 09 audit findings and the current downtrend in FY 2010. After a working session in the past week with OFB, Duenas indicated that the revised revenue figures would be considerably less than initially projected. Chris Budasi also indicated that based on the historical trends two cycles of growth were noted; one in FY 2003 and another in FY 2006. The growth in revenues in FY 2003 was due to typhoon recovery monies received while the growth in FY 2006 was attributable to transactions realized in anticipation of the buildup. Budasi qualified however that the same growth could not be anticipated in the upcoming fiscal year as contracts related to the buildup have yet to be executed. Chairman Pangelinan indicated a proposal he has been lobbying to House of Representative delegate Madeleine Bordallo, to escrow 4% of the total contract amounts prior to the buildup, as a possible mechanism to realize growth related to the contracts.</p>	
Legislative Agenda- Revenues	<p>Chairman Pangelinan presented several measures in the legislative agenda that will have an effect on future revenue collections.</p> <p>Bill 174 would increase the business privilege exemption from 40k to 50k and the limitation on gross income from 50k to 200k. Art Ilagan, DRT, indicated that the effect would almost bring back the Dave Santos Exemption. Ilagan anticipates a 12M shortfall from the enactment of the bill.</p>	

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<p>Legislative Agenda-Revenues (cont.)</p>	<p>Bill 247 would exempt the interest received from COLA to offset taxes owed, gross receipt taxes and property taxes, to the Government of Guam. Total COLA interest paid out within the year by DOA was roughly 1.4M. Chairman Pangelinan indicated the total COLA interest owed was roughly 22M, which is the value of the credits to be used to offset revenues available for appropriations.</p> <p>Bill 356 would reduce the hours of sale for alcohol by 4 hours a week. Art Ilagan stated that the effect would be negligible as the monies spent on alcohol will be spent elsewhere.</p> <p>Bill 364 would change the admission tax assessment at the Guam Race Way Park from \$2 to 10% of the admissions price. As the revenue source is negligible, the aggregate effect of the bill would be minimal.</p> <p>A measure to increase the minimum drinking age from 18 to 21 was another legislative policy that will impact revenues. Art Ilagan stated that the effect would be minimal as the monies would be spent in other sectors of the economy. Chairman Pangelinan stated that an effect would be lower collections as the GRT rate on non-alcoholic beverages was lower than that for alcoholic beverages. John Pangelinan, BBMR, gave an analysis of the impact of the raising the drinking age, which was deemed to be negligible. Debbie Philips, GVB, stated that the increase in the legal drinking age would not impact the tourist attractiveness of Guam.</p>	<p>Residual principal on outstanding COLA balances will be provided by DOA.</p>

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Legislative Agenda-Expenditures	<p>Bill 400 clarifies the process for the work hours for the participants in the apprenticeship program. Tony Blaz, GEDCA, indicated his office will study the impact of the work hours on the general fund collections.</p> <p>Bill 173 would raise the compensation of positions at Department of Revenue &amp; Taxation to be in line of those in the Internal Revenue Service.</p> <p>An act to transfer 7M from Guam Housing to DRT was another government expenditure discussed. Chairman Pangelinan stated the following to be a loan granted to DRT for the purpose of enhancing revenue collections at DRT. Ilagan stated however that the repayment terms were too soon and that more time was needed to train employees at DRT.</p> <p>An act to dedicate 1M from the Healthy Futures Fund for the payment of outside vendors for the Guam Memorial Hospital Authority was another measure discussed. Bertha Duenas, BBMR, projects a 16M increase in Healthy Futures Funds related to the 200% increase in taxes on Tobacco products.</p> <p>Bill 392 would create a Capital Building Fund, which would place <math>\frac{3}{4}</math> of 1% from GRT or 6M a year, to fund debt service related to capital expenditures.</p>	GEDCA will provide an analysis of the impact of Bill 400.
Revenue & Expenditure Challenges	Chairman Pangelinan presented several current revenue and expenditure challenges facing the Government of Guam. First, a proposal to modify the tax credits received by Core Tech for the temporary lease facility at JFK to cash payments results in unanticipated expenditure of 4M to 6M. Chairman Pangelinan inquired whether	

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<p>Revenue &amp; Expenditure Challenges (cont.)</p>	<p>credits transferred as payment for services are taxable. Mr. Ilagan stated that only the gains realized for the transfer are considered taxable.</p> <p>The third installment of the 10% increase in law enforcement compensation was another expenditure expected to have a significant impact on the general fund. At present, the executive request submitted by the Governor does not budget for the law enforcement increase. The total financial impact of the increase is anticipated to be around 8M for FY 2011 due to the compounding nature written into the law. Bertha Duenas, BBMR, inquired whether the increase was to be computed on a compounding or simple interest basis. Chairman Pangelinan stated that the Office of the Attorney General issued an opinion stating that the increase was to be computed on a compounding basis. The total financial impact after all the increases have been realized is anticipated to be around 60M.</p> <p>The Deficit Reduction Bond and the Solid Waste Bond were also discussed. The Solid Waste Bond is anticipated to be funded through imposition of tipping and service fees, with increases in subsequent fiscal periods. The projected revenues from these charges would fund both the debt service and operation of the new landfill. Bertha Duenas, BBMR, qualified that the projections presented by the receiver anticipates participation by the military. Without their participation, fees and charges are anticipated to be greater than initially projected.</p> <p>For the deficit reduction bond, the anticipated debt service payment is 21M based on the budget request submitted by the Governor for FY 2011. Bertha Duenas, BBMR, clarified however at a later portion of the meeting that the debt service may be 14M for FY 2011 and not 21M as initially presented. GEDCA will provide further</p>	<p>Aulii Limtiaco &amp; GEDA to verify and provide to SES.</p>

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<p>Revenue &amp; Expenditure Challenges (cont.)</p>	<p>clarification on the actual figure.</p> <p>The permanent injunction on the Department of Mental Health &amp; Substance Abuse (DMHSA) is another unanticipated expenditure. For FY 2011, the financial impact requested by the federal monitors is projected to be around 5M. The actual need however may be greater. Bertha Duenas, BBMR, stated that the total amount initially requested by the federal monitors was around 25M; some of which represent one time cost. However, the 5M requested for FY 2011 was the minimum amount needed for compliance with the permanent injunction.</p> <p>The government wide reclassification known as the Hay Study was another point of discussion. The recommendation of the study proposed the adjustment be done on a phase in basis. The five year total cost of the first phase will be 70M or an average one-time payroll increase of 14M over the current payroll cost.</p> <p>Bank fees were another unanticipated expenditure needed to be addressed. Mr. Ilagan stated that the merchant transactions have addressed the issues related to bounced checks and reduced float on funds. Chairman Pangelinan noted that the cost of the bounced checks based on historical data were not as significant as the bank fees. Ilagan stated that the greater benefit was due to the faster availability of funds. Chris Budasi also stated that the bank fees are taken out of gross revenue collections and amount to around 4M a year, which are not budgeted for.</p> <p>A discussion occurred in trying to establish policies and procedures related to the receipt of credit card payments. Kathy Kakigi, DOA, indicated they will explore the matter further.</p>	

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<p>Revenue &amp; Expenditure Challenges (cont.)</p>	<p>The PH Pro software of DPHSS is another unanticipated expenditure for the upcoming fiscal year amounting to 2.4M annually. The following software was not included in the budget request of the executive department.</p> <p>The Health Care Service Provider Act is a tax credit related to the lack of prompt payment for doctors that accept MIP payments. The tax credit reduces gross collections received by the government. As no data exist on the following, the exact financial impact of the following cannot be determined. Art Ilagan, DRT, stated that the rules and regulations for the following have been promulgated.</p> <p>Chairman Pangelinan summarized the challenges associated with collecting revenues related to the upcoming military buildup. Part of the challenge in collecting these revenues stem from being able to levy taxes on entities doing work related to the buildup in off island jurisdictions. Art Ilagan, DRT, stated that local statues should be reexamined to ensure that no local prohibitions exist to prevent the levy of taxes on off island entities. John Camacho, DOA, indicated that current language in local statues prohibits levying gross receipt taxes on off island entities. Chairman Pangelinan stated that amendment of these statutes represents a priority once DRT provides its recommendations.</p> <p>John Camacho, Acting Director, DOA, stated that audit adjustments were made to FY 09 revenues due to the improper recordation of the Make Work Pay credit. Rather than recording the Make Work Pay credit as a provision, it was improperly recorded as revenue in FY 09. In light of these adjustments, FY 2011 revenues may need to be revisited.</p>	<p>DRT will provide specific language in local statutes needed to be amended.</p>

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	Chairman Pangelinan adjourned the meeting, noting the next SES meeting to be on July 20, 2010.	