

SPECIAL ECONOMIC SERVICES MEETING

July 20, 2010

MEETING MINUTES

AGENDA	DISCUSSION/TOPIC	ACTION/STATUS
Attendance	<p>Speaker Judith Won Pat (D), Vice Chair of Committee on Appropriations, Taxation, Banking, Insurance, Retirement, and Land Senator Tina R. Muna-Barnes Senator Thomas C. Ada Senator Edward J.B. Calvo Artemio Ilagan-Director, Department of Revenue & Taxation Albert Perez-Chief Economist, Bureau of Statistics & Plans Bertha Duenas-Director, Bureau of Budget & Management Research Debbie Philips-Research Manager, Guam Visitors Bureau Kathy Kakigi-Deputy Financial Manager, Department of Administration Rodalyn Marquez-Chief Auditor, Office of Public Accountability Gary Hiles-Chief Economist, Department of Labor Tony Blaz-Director, GEDCA Chris Budasi- Director, Office of Finance & Budget</p>	
Overview	<p>The meeting was called to order by Speaker Judith Won Pat. Based on the attendance, quorum was established.</p>	
Amendments	<p>Acting Chairman Judith Won Pat gave an overview of the items to be discussed on the agenda primarily presentations by the Department of Revenue and Taxation, Department of Administration, and the Bureau of Budget & Management Research. Prior to the presentations by the departments of the executive branch, she inquired whether there were any amendments to the agenda,</p> <p>Chris Budasi, OFB, made two motions; one to include the approval of minutes to the top of the agenda and another to hear an update on general government finances by the administration. Both motions passed.</p>	

SPECIAL ECONOMIC SERVICES MEETING

July 20, 2010

MEETING MINUTES

AGENDA	DISCUSSION/TOPIC	ACTION/STATUS
<p>Approval of Minutes</p> <p>Government Finance Update</p>	<p>The minutes of the last SES meeting held on July 6, 2010 were unanimously approved without changes.</p> <p>Bertha Duenas, BBMR, gave an update on the government’s general finances, including a projected shortfall of 60M for FY 2010. Projection for FY 2010 began in December 2009 based on the tracking of revenues for FY 2009 and known economic factors at the time. Baseline revenue for FY 10 was projected to be 517M, a two percent growth from FY 2009. Growth factors amounting to 45M were added to the base, which were anticipated growth expected from activities related to the military buildup. Total revenue projections were 562M. To address the continuing decline in revenues, BBMR issued Circular 10-01, which placed a 3% reserve on legislative appropriations from the general fund.</p> <p>Actual revenue tracking for FY 10 was 4% higher than FY 09, but 4% lower than FY 10 estimates. The preliminary revenue tracking for June 2010 includes revenue adjustments of 20M from withholding due to Making Work Pay Credit. A similar adjustment was made in FY 09 audit amounting to 16M.</p> <p>Taking into account revenue adjustments, amounts held in reserve, the deficit reduction of 2%, the government is tracking a shortfall of 20M-30M for FY 10 based on appropriated revenues of 540M. The current spend rate up to June 30, 2010 was below 500M. Keeping the 3% held in reserve for the next two months, the government expenditures are expected to be in line with budget.</p> <p>In addition to current budget revenues, BBMR presented the composition of unbudgeted expenditures amounting to 46.6M and its effect on FY 09 budget. In spite of these unbudgeted expenditures and revenue adjustments in FY 09, allotment</p>	

SPECIAL ECONOMIC SERVICES MEETING

July 20, 2010

MEETING MINUTES

AGENDA	DISCUSSION/TOPIC	ACTION/STATUS
Government Finance Update (cont.)	<p>controls held FY 09 expenditures in line.</p> <p>Sen. Calvo inquired with Bertha Duenas, BBMR, regarding an anomaly in withholding for April, May, and June within the year. Bertha Duenas, BBMR, responded that no anomaly existed and that the following were due to adjustments for the Make Work Pay Credit.</p> <p>Speaker Won Pat requested why the adjustment was needed for the Make Work Pay Credit. Art Ilagan, DRT, stated that adjustment was needed to prevent an overstatement of revenues. The adjustment was to reduce revenues and increase the provision account. Kathy Kakigi, DOA also noted that because we did not include the Make Work Pay Credit in the Provision for Refunds in the budget for fiscal years 2009 and 2010, the advance payments for the Make Work Pay Credit can not be recognized as revenue until it is earned. This was the reason for the \$16.2 million revenue adjustment downward in the 2009 audit and the \$20 million revenue adjustment downward in the July 2010 revenue statement.</p> <p>Bertha Duenas, BBMR, inquired with DRT why there appears to be a different treatment between Additional Child Tax Credit and the Make Work Pay, with the former being recognized as revenue while the latter is not. Chris Budasi, OFB, stated clarified that unlike the Additional Child Tax Credit (ACTC), the Make Work Pay Credit (MWPC) represents an advance of the monies rather than a reimbursement which appears to be a source of confusion about when to recognize the MWPC as revenue.</p> <p>Kathy Kakigi, DOA, further stated that the revenues for MWPC will be recognized when they have been earned, when the FY 09 tax returns have been processed.</p>	

SPECIAL ECONOMIC SERVICES MEETING

July 20, 2010

MEETING MINUTES

AGENDA	DISCUSSION/TOPIC	ACTION/STATUS
<p>Government Finance Update (cont.)</p> <p>Tax Refunds</p>	<p>As a follow up, Chris Budasi, OFB inquired how the MWPC should be handled in the budget for the FY 2011. Art Ilagan, DRT, responded that the provision for refunds may need to be reexamined and possibly include in the MWPC.</p> <p>Art Ilagan, DRT, stated that Lorraine Guerrero and Paul Terlaje, both from DRT, will give an update on the status of refunds. However, John Camacho, DOA, provided the update on refunds. As of June 30, 2010, John Camacho presented a tracking sheet of the number of processed and unprocessed returns along with the principal and interest amounts. For TY 2009, Camacho stated that they anticipate processing 43,947 refunds for the year, representing a total payout of \$85.4M. As of June 30, 2010, the total combined refund liability including interest is 160M.</p> <p>Speaker Won Pat inquired the status of the 259M of total tax refunds owed as of the end of FY 09 based on the audit. John Camacho, DOA, responded that the difference represents payment of refunds and Earned Income Tax Credits (EITC) still owed.</p> <p>John Camacho, DOA, stated that the total outstanding EITC as of June 25, 2010 was around 7M. Bertha Duenas, BBMR, requested whether a breakdown of the 259M outstanding refund liability noted in the audit can be broken down. On this point, Speaker Won Pat requested a reconciliation to be provided by DOA between the audited 259M outstanding refund liability and the current 160M outstanding as of June 30, 2010.</p> <p>Speaker Won Pat inquired with John Camacho whether DRT has an existing strategy to minimize the interest payments on refunds. John Camacho, DOA, stated FY2009 payment on interest was roughly around 16M. Payment of the refunds becomes difficult especially when the provisions for refunds are not fully funded. Chris</p>	<p>DOA is to provide reconciliation between the refund liabilities outstanding as of 9/30/09 against the refund liability outstanding as of 6/30/10.</p>

SPECIAL ECONOMIC SERVICES MEETING

July 20, 2010

MEETING MINUTES

AGENDA	DISCUSSION/TOPIC	ACTION/STATUS
<p>Tax Refunds (cont.)</p>	<p>Budasi, OFB, stated that as of June 30, 2010 current refund payments amounted to 75.9M based on figures provided by DOA.</p> <p>Art Ilagan, DRT, stated that the FY10 provisional refund set aside is being used to pay out the prior year refunds, which becomes difficult to manage. Currently, the interest owed on prior year refunds is around 4%-5%, which depends on the value of the prime rate.</p> <p>As for the processing of returns and refunds, Art Ilagan, DRT, stated that a portion of the problem is attributable to a lack of personnel and funds to process these refunds.</p> <p>With regards to the lack of personnel, Speaker Won Pat inquired DRT whether they have explored the option of hiring contractual employees during the peak season. Art Ilagan, DRT, stated that he preferred to have applicants who consider it a career because of the complexity of the tax processing.</p> <p>Bertha Duenas, BBMR, inquired the funding sources for FY 09 refunds payments, whether these came from bond proceeds or from the current provision. Chris Budasi, OFB, responded that for FY 09 47.5M of refunds were paid by the General Fund. For the FY 2010, 75.9M paid were paid out of General Fund; almost double the amount from prior fiscal year.</p> <p>Speaker Won Pat requested a breakdown of the provision for tax refunds by tax year. John Camacho stated that he does not have a breakdown of the provision account of 102M.</p>	<p>DRT will need to provide a historical breakdown of tax provision for the current and prior years (FY 08-FY10).</p>

SPECIAL ECONOMIC SERVICES MEETING

July 20, 2010

MEETING MINUTES

AGENDA	DISCUSSION/TOPIC	ACTION/STATUS
<p>Unbudgeted Expenditures/Liabilities (cont.)</p>	<p>payables of the government as of June 30, 2010. Sen. Calvo (R) inquired the composition of the payable balances greater than 180 days. Kathy Kakigi, DOA, responded those amounts represent carryovers of prior year appropriations to the Unified Judiciary and other agencies with continuing appropriations.</p> <p>Kathy Kakigi, DOA, discussed the source of unfunded liabilities, which the government must pay for to avoid loss of federal funds or avert potential lawsuits. A majority of these prior year obligations stem from vendor payables, employee salaries, and court orders. Payment of prior year obligations were a result of P.L. 30-101, which authorized agencies to retire prior year obligations using current appropriations if current year funds are available. In relation to P.L. 30-101, Bertha Duenas, BBMR, stated she has not authorized any deficit reduction measures as we are tracking below estimated collections.</p> <p>Chris Budasi, OFB, inquired whether any of the items mentioned are included in the accounts payable aging schedule provided by DOA. Kathy Kakigi, DOA, stated that the following items are not recorded in the accounts payable schedule as clearance from BBMR is needed prior to their recordation.</p> <p>The outstanding retirement payables to GMHA (4.5M) and GDOE (5.7M) are another source of unbudgeted expenditures. The original amount of these payables was roughly 32M. Bertha Duenas, BBMR, stated that the law allowing for fixed repayments needs to be revisited as it appears interest is being paid upon interest. Likewise, she stated that a request to the retirement fund needs to be made for a reconciliation of payments against the interest and principal owed. Likewise, any credits should be issued back from the retirement fund in the event overpayments were made.</p>	

SPECIAL ECONOMIC SERVICES MEETING

July 20, 2010

MEETING MINUTES

AGENDA	DISCUSSION/TOPIC	ACTION/STATUS
<p>Unbudgeted Expenditures/Liabilities (cont.)</p>	<p>About 2M was received from GPA and GWA to pay down the COLA judgments, which are currently being processed. The following were interest checks due to judgment authorized by P.L. 30-101.</p> <p>The U.S. Bureau of Prison’s sanction was another unbudgeted expenditure to the government, which was around 9M. Of these amounts, 2M was garnished from federal funds. The balance currently owed stands at 5M. However, a payment plan was negotiated with the U.S. Dept. of Justice to retire the outstanding amount with a monthly payment of 250k. For FY 11, 3M needs to be budgeted based on the agreement with the U.S. Dept. of Justice.</p> <p>Kathy Kakigi, DOA, stated that with respect to bank fees, the merchant had reduced it from 3.5% to 2.5% since August 2009. Based on the reduction of fees, the projected bank fees for FY 11 was 3.6M. A committee was formed by DOA to reexamine policies and procedures related to bank fees. Current recommendations include passing on the fees to the customers.</p> <p>Based on Typhoon Paka reports, the government is anticipated pay around 2.3M for the entire government related to disallowed cost related to the use of federal monies. A large portion of the disallowed cost stem from GEPA.</p> <p>Relative to disallowed cost, Chris Budasi, OFB, requested a report be provided by DOA as to the total disallowed cost from federal grants that may need to be repaid.</p> <p>Total outstanding value of outstanding unbudgeted expenditures, less the COLA judgment, amount to 14M.</p>	<p>DOA is to provide a schedule of all federal grants with disallowed cost that may need to be reimbursed.</p>

SPECIAL ECONOMIC SERVICES MEETING

July 20, 2010

MEETING MINUTES

AGENDA	DISCUSSION/TOPIC	ACTION/STATUS
<p>Unbudgeted Expenditures/Liabilities (cont.)</p>	<p>Speaker Won Pat inquired with DOA how it expects to GDOE to service its 2.4M note payable to GPA without a revenue source and inclusion of GDOE in the 2% reserve for deficit reduction. Bertha Duenas, BBMR, responded that there are two mechanisms in place that will allow GDOE to address the issue, namely requesting DOA to be included in the deficit reduction reserve or request BBMR to use any excess appropriations from the current budget to retire the note.</p> <p>Chris Budasi, OFB, requested clarification whether there are any prohibitions within the law as to prevent GDOE from being included in the deficit reduction provisions. Bertha Duenas, BBMR, stated that GDOE should be able to apply for a portion of the deficit reduction reserve to retire the note.</p> <p>Kathy Kakigi, DOA, clarified a letter transmitted regarding agencies to be excluded from the 2% deficit reduction reserve. She stated that GDOE is not excluded from the reserve. Rather, she reiterated that it is not the responsibility of DOA to enter the invoices to the AS 400, but the responsibility of GDOE.</p> <p>Bertha Duenas, BBMR, stated that as revenue collections are not in line with estimates, the 2% deficit reduction reserve will be highly unlikely. Therefore, GDOE would need to work with BBMR in identifying items within their current appropriation that may be used to satisfy payment of the note payable to GDOE, namely their 3% reserve in funds held by BBMR for current year appropriations. In summary, Kathy Kakigi, DOA, suggested that these recurring unbudgeted expenditures should be included in the upcoming appropriations.</p>	

SPECIAL ECONOMIC SERVICES MEETING

July 20, 2010

MEETING MINUTES

AGENDA	DISCUSSION/TOPIC	ACTION/STATUS
<p>Continuing Appropriations</p>	<p>Bertha Duenas, BBMR, stated that the 3rd quarter continuing appropriations report has been processed. However, a hard copy was not brought to the meeting. She stated that continuing appropriations have been progressively reduced due to the legislature’s exercise of fiscal discipline by reducing the amount of continuing appropriations. Likewise, she suggested on a going forward basis to eliminate all continuing appropriations going forward basis, with the exception of DPHSS.</p> <p>Speaker Won Pat inquired the impact of eliminating all continuing appropriations on the deficit. Bertha Duenas, BBMR, stated that unless a commensurate reduction is made in current year appropriation, continuing appropriations increase the long term deficit.</p> <p>Speaker Won Pat clarified whether continuing appropriations are a sound fiscal tool even in a surplus budget. Bertha Duenas, BBMR, stated that continuing appropriations even in a surplus budget does not represent a sound fiscal policy tool. Rather, in a surplus budget prior year obligations such as GDOE’s GPA note should be given priority over continuing appropriations as they represent excess funds over actual current year expenditures.</p> <p>Speaker Won Pat stated that the third installation of the SES initially scheduled in July 30, 2010 has been rescheduled sometime in August. A public notice will be given.</p> <p>Bertha Duenas, BBMR, made a motion to adjourn. Motion passes with no objections.</p>	<p>BBMR is to provide the 3rd quarter continuing appropriations report to OFB for dissemination.</p>