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Economic Outlook for Guam Fiscal Year 2017

SUMMARY

Guam's steady expansionary economic trend is forecast to advance in FY 2017 at a moderate and very possibly increasing pace. The continuing expansion is expected to be driven primarily by growth in the visitor industry with both increasing numbers of visitors as well as increasing revenue as hotel rates increase and expenditures rise. Increasing diversity and growth in Asian tourist outbound traffic to Guam is expected to continue, boosting the record 1.37 million visitors who came to Guam last year. Capacity expansion to accommodate increased numbers of visitors is underway with increased air transportation, hotel accommodations, retail, entertainment and other commercial investments. Major private commercial investment, as well as public investment in utility infrastructure, is also planned.

The Department of Defense continues building Guam's defense infrastructure capacity and that pace is expected to accelerate with preparation for the Marine Corps relocation from Okinawa underway. During the last decade the Department of Defense construction contracts have totaled over \$2 billion and have averaged nearly \$240 million annually for the most recent six years. In 2016 multiple major projects are scheduled to commence in support of the planned relocation of Marine Corps personnel from Okinawa.

The continued economic expansion on Guam will be bolstered by simultaneous growth in tourist, resident and military populations; continued moderation of energy costs; and America's rebalancing of its strategic focus and defense posture toward the Pacific.

TOURISM

2015 was Guam's best year in tourism history with more tourists arriving than in any other year. December 2015 also made history as the top December with a record 132,418 visitors, a 10.5 percent increase over December 2014. The Guam Visitors Bureau reports visitor arrivals of 1,372,531 for FY 2015, and projects a two percent increase each year, for the next two years, with arrivals projected at 1,400,000 in FY 2016 and 1,430,000 in FY 2017.

Airline and hotel capacity increases will help support and promote the increase in projected arrivals. Eastar Jet Co. Ltd. is planning to start regular scheduled flights on the Seoul-Guam route in summer 2016. The airline plans to use Boeing 737-800 aircraft with a capacity of 186 passengers. The Department of Transportation granted the company a foreign air carrier permit. This increase should help offset the capacity loss due to United Airlines suspension of services on the route. Air Busan will offer services on a new route directly from Busan, Korea to Guam in July 2016 with four flights weekly. In 2015 T'Way Air and Air Busan launched services between Seoul and Guam. This will bring the number of Korean Air carriers serving Guam to a total of five. An estimated 2,500 potential visitors per month are anticipated. Cebu Pacific Air announced four times weekly service between Manila and Guam starting March 2016. As a low-cost carrier, it plans to expand the market and add 1,444 weekly seats to this route using new Airbus A320 aircraft.

Hotel capacity on Guam expanded in 2015 with the long awaited opening of the Dusit Thani Hotel and additional hotel construction is scheduled in the near future. The Guam Economic Development

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Authority board approved two applications for its special hotel Qualifying Certificate (QC) authorized under Public Law 32-233. A 500-room Citta di Mare Hotel with a construction cost of \$130 million is planned for a location behind the Acanta Mall in Tumon. P.H.R. Micronesia is constructing a 340 room hotel adjacent to the Hotel Nikko Guam with a total investment of approximately \$168 million. LGI Polaris – Ladera Towers Condominiums will be converted to Ladera Towers Hotel. The total room count is 218 with a total investment of approximately \$137 million including purchase of the condominium. All three of these hotels are scheduled to start construction in 2016. GEDA’s goal with the special hotel QC program is to add 1,600 rooms for Guam supporting the Guam Visitors Bureau’s Tourism 2020 goal of bringing in more tourists. The Guam Hotel and Restaurant Association statistical report shows that, in addition to increased number of visitor arrivals, visitor expenditures on hotels have also increased. In 2015 weighted average hotel rates increased from \$136 per night to \$148 or seven percent. The increase is on top of the 11 percent increase in 2013 and 9 percent increase in 2012. Hotel occupancy rates of 76 percent indicate there is still existing room capacity to permit additional arrivals.

Macy’s plans substantial retail space additions with a two-story 45,000-square-foot expansion in late summer 2016. The addition is currently under construction. Another development, the Tumon Bay Mall will offer about 200,000 square-feet of floor space on two levels. The mall structure is already constructed as an unfinished shopping center.

2015 was a banner year for tourism from several markets. Korea arrivals increased 39 percent to 429,900 visitors and arrivals from the People’s Republic of China increased 46 percent to 23,698 visitors. Japan’s numbers declined by 4.7 percent. This drop is in line with the Japan National Tourist Organization’s forecasted overall decline of 4.5% for outbound travel in 2015. The outbound downturn is a result of a weakened Japanese yen and Japanese travelers choosing domestic travel.

Four factors support the trend and projections for continued strong arrival growth from China. These include an economy with a high, albeit slowing, growth rate; direct United Airlines service from Shanghai to Guam with Boeing 737-700/800 aircraft since October 2014; less restrictive visa requirements for Chinese travelers which increased business and tourist visa validity from one to ten years, student and exchange visa validity to five years and added consular support to expedite visa processing to support the U.S. policy of increasing tourism from China to the U.S.

ENERGY PRICES

The dramatic drop in prices of petroleum products that occurred in 2015 has largely already been incorporated into the economic performance of Guam’s economy last year. However, some additional relief is in sight with the Public Utilities Commission authorizing a 9.2 percent drop in the average ratepayers bill which will become effective February, 2016. Additional price reductions may still be possible but far less so than the magnitude realized in 2015. The U.S. Energy Information Administration forecasts crude oil prices to remain relatively low through 2016 and 2017. Last year’s forecast was for oil prices to rebound somewhat in 2016. The lower oil prices are expected to continue as supply continues to outpace demand and more crude oil is placed into storage. The lifting of sanctions against Iran will add additional supply to the market. Lower energy prices translate to lower business and consumer costs not only for energy directly but also for goods and services which use energy. Fuel cost reductions are particularly important for aviation and price

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sensitive tourists. Consumer prices on Guam in the 4th quarter of 2015 declined by 2.1 percent over the year primarily due to reduced energy costs.

FEDERAL GOVERNMENT EXPENDITURES

Federal expenditures constitute one of the major flows of funds to Guam along with tourism and capital investment in construction. Federal expenditures are comprised of defense and non-defense categories. The defense category is likely to increase due to expansion of defense capacities on Guam, with substantial military construction projects in preparation for the relocation of marines from Okinawa along with substantial unrelated military construction projects. The FY 2017 federal budget to be released in 2016 will provide a clearer picture of the intensity of such activities. Slight increases in federal workers pay have been implemented. The budget agreement provides for an average 1.3 percent raise for federal employees starting January 10, 2016. Military pay has been increased, also by 1.3%, effective January 1, 2016. Retirees will not receive a Cost-of-Living adjustment (COLA) in 2016 and Social Security Cost-of-Living Adjustments will similarly not occur due to low consumer price increases over the past year.

The budget uncertainty in recent years due to the continuing possibility of a federal government shutdown and budgetary sequestration has been avoided for 2016. Congressional leaders reached a deal on a \$1.1 trillion spending bill that would end the threat of a year-end government shutdown and fund federal agencies through most of 2016. The Congressional Budget Office (CBO) confirmed that as a result of the omnibus Bipartisan Budget Act signed on December 17, 2015, automatic cuts through sequestration have been avoided.

CONSTRUCTION

Construction accounts for about 10 percent of Guam's economy in terms of civilian employment. It is the most volatile sector. To forecast future construction activity, Building Permits provide an excellent leading indicator of future activity for the civilian sector and U.S. military construction contracts for the defense sector. The combined total of permits and contracts is a strong indicator of construction activity levels in the following year or two. The total has been running somewhat above \$500 million for a five year period each calendar year since 2010. However, the total plunged from \$614.2 million in 2014 to \$385.6 in 2015, a 37 percent drop. Construction activity as measured by gross receipts tax collections dropped by ten percent in FY 2015. This was due to a combination of the completion of a number of major multi-year construction projects and the reduction in permitting and contracting of new projects. Major projects that were completed during 2015 include the Dusit Thani Hotel, the Guam Regional Medical City Hospital, the Port Authority of Guam's \$50 million Commercial Port Improvement Program and the A.B. Won Pat Guam International Airport Authority \$70 million runway extension project. While a temporary dip is expected due to the reduction in 2015 permits and contracts, the dip in construction will be much less than that of the permits and contracts as prior year multi-year projects will continue to fill the gap and new projects will come online soon.

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Chart 1 BUILDING PERMITS & CONSTRUCTION CONTRACTS (in thousands)						
Calendar Year:	2010	2011	2012	2013	2014	2015
Building Permits	184,837	211,097	364,504	449,147	308,451	221,285
U.S. Military Construction Contracts	370,413	334,597	152,095	88,001	261,234	164,377
Japan Funded Military Contracts		<u>89,720</u>			<u>44,500</u>	
TOTAL:	555,250	635,414	516,599	537,148	614,185	385,622

Building permits and construction contract data provide the most immediate leading indicator of construction projects ready to proceed and construction activity in the following years. Projects not yet contracted, but which are likely to be awarded by the Department of Defense in FY 2016 with continuing construction work in FY 2017 are as shown in the following tables published in the Marianas Business Journal December 28, 2015. These projects total \$277 million.

Chart 2

Projected military construction awards for fiscal 2016			
Project	Location	Projected amount	Projected RFP
Utilities and site improvements, Phase 1	Finegayan	>\$10 million	Q1 FY2016
Apr – Dispersed maintenance spares and SE storage facility	AAFB	\$19 million	Q1 FY2016
Low observable/corrosion control/composite repair shop	AAFB	\$34.4 million	Q1 FY2016
Par South Ramp utilities Phase 1	AAFB	\$7.1 million	Q1 FY2016
Sanitary sewer system recapitalization	AAFB	\$45.31 million	Q2 FY2016
Municipal solid waste landfill closure	AAFB	\$10.78 million	Q2 FY2016
Live-fire training range complex	Northwest Field, AAFB	\$125.68 million	Q2 FY2016
Apr – Installation Control Center	AAFB	\$22.2 million	Q2 FY2016
PRTC roads	AAFB	\$2.5 million	Q3 FY2016
* Projects awarded through both Naval Facilities Engineering Command Marianas and Pacific			
<i>Source: NAVFAC Marianas</i>			

In addition to these projects listed above, the sum of a number of projected Request for Proposals (RFP's) for military facility sustainment restoration and modernization in fiscal year 2016 range from \$46.0 to \$92.8 million.

Often, the procurement process for construction projects can add considerable delay in the project's commencement. The Department of Defense already has a number of contracting awards in place from which specific construction project task orders can be awarded. Substantial additional contracting authority is planned in 2016 according to the following schedule. The multiple award contracts are not primarily for specific projects but provide contracting authority under which task orders can be later issued for specific projects. Having the contracting authority in place should expedite future project awards.

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Chart 3

New construction Multiple-Award Construction Contracts and Indefinite Delivery/ Indefinite Quantity Contracts for fiscal 2016			
Contract vehicle	Type	Capacity	Projected RFP
NAVFAC Pacific Guam DBMACC (unrestricted)	MACC	\$990 million	Q1 FY2016
SDVOSB MACC (minor construction)	MACC	\$30 million	Q1 FY2016
SBMACC (non-DPRI)	MACC	\$240 million	Q1 FY2016
SB construction management services IDIQ	Construction IDIQ	\$40 million	Q1 FY2016
DPRI SBMACC (DPRI WFHL & MM)	MACC	\$240 million	Q1 FY2017
<i>Source: NAVFAC Marianas</i>			

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

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

Chart 4 APPROPRIATIONS (in thousands)							
Fiscal Year (FY):	2010	2011	2012	2013	2014	2015	2016
U.S. DOD Military Construction	737,654	176,030	83,600	101,904	494,607	133,680	272,268
DOD Civilian Guam Infrastructure					119,400		20,000
Japan - Fiscal Year (JFY)	<u>500,000</u>	<u>582,000</u>	<u>93,000</u>				
Combined:	1,237,654	758,030	176,600	101,904	614,007	133,680	292,268

PUBLIC FINANCING AND INFRASTRUCTURE

A leading indicator of Federal construction is contained in the appropriations. For the Government of Guam, since most of the major construction projects are bond or grant funded, a leading indicator of future construction is the availability of funds realized from bonds and other sources. Major Government of Guam projects for which funding has been obtained are underway and for those for which funding is planned are listed in the following table.

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Chart 5 – Government of Guam	
LIST OF PLANNED MAJOR CONSTRUCTION PROJECTS AND FUNDING SOURCES	
Planned/Ongoing Projects – Funds Available	Amount
Guam Waterworks Authority (GWA)	139,280,961
Guam Int’l Airport Authority (GIAA) – Airport B	96,710,000
Guam Power Authority (GPA)	76,470,000
Guam Int’l Airport Authority (GIAA) – Airport A	13,000,000
Port Authority of Guam (PAG)	10,000,000
Guam Community College (GCC)	6,000,000
Guam Legislature Building	4,000,000
Subtotal	345,460,961
Planned Projects –Bond/Loan Financing Proposed	Amount
Guam Waterworks Authority (GWA)	128,450,000
Department of Education	100,000,000
University of Guam (UOG)	21,700,000
Department of Land Management	15,750,000
Harmon Industrial Park Association (HIPA)	7,000,000
Subtotal	272,900,000
TOTAL:	\$618,360,961

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