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Testimony on H.R. 1466, the Consolidated Natural Resources Act  
July 14, 2011

Thank you, Mr. Chairman, for inviting me to testify. For the record, I am Eddie Baza Calvo. I am the Governor of Guam. This is my written testimony on the implementation of Public Law 110-229, regarding the Guam/CNMI Visa Waiver program. I beg your indulgence as I explain the thinking of Guam's new administration below.

As the new governor of Guam, in my first opportunity to testify before Congress, I want to be certain that the Members of the House are aware of the reasons it is critical for the Guam-CNMI Visa Waiver Program be implemented and that Chinese and Russian nationals be allowed to travel to Guam and the CNMI, as originally intended by Congress.

I have a simple and unique message for Congress today. Unlike previous testimonies you may have heard in years past, I am not here to ask for subsidies. Guam is going through a unique transformation that, if done correctly, will result in unprecedented economic self-sufficiency in the long term.

Today we are far from that self-sufficiency. This fiscal year Guam will receive \$369 million in federal grants and matching grants. These grants fund several federal and local programs, including our university land grants, the National Guard, public assistance, housing for the less fortunate, education programs, etc. These are the same grants the other States and territories seek and for which they compete. It costs the federal government far less to fund these programs in Guam because of our small population. For many of these programs, Guam does not receive the same relative share that other American communities do.

As a new governor, I hesitate to have the government of Guam rely so heavily on these grants to sustain local operations. We are taking steps to fix our financial house over the long term, but unfortunately, this funding has become critical to services. These grants have become increasingly important to Guam over the past 20 years. The year 1991 is an important year in Guam memory. That was the last time the government of Guam was able to pay tax refunds on time. We currently owe approximately \$280 million in tax refunds, going as far back as Calendar Year 2005. There are several reasons why this has occurred, including natural disasters such as super typhoons, which have wrecked havoc on our island, and global events beyond our control, such as SARS, H1N1, and two Gulf wars, which have wrecked havoc on our main economic industry, Asian-based tourism. While our people are resilient and have rebounded and rebuilt, our government finances were not as resilient. In addition, federal court orders in the hundreds of millions have placed a great burden on the backs of our taxpayers. This government had

to borrow to finance some of these orders. The annual debt service on the bonds to pay these court orders has significantly eroded our revenue base. The Earned Income Tax Credit, which we are obligated to pay under the mirror IRC tax code system we have, and which the federal government reimburses to the state governments, is not reimbursed to Guam. This is a drain on our General Fund of between \$32 to \$36 million annually.

Because of declining revenues, the result of Japan's financial downturn, the decline in military spending, and federal court-mandated new programs, imposed fines and application of EITC, the money that should be set aside for tax refunds continues to be used to pay for essential government services. All this, along with the growth of freely associated states of the Micronesia (FAS) migration in ever-increasing numbers, has created a structural imbalance in our General Fund. And while our community has been growing, along with a greater demand for public services, collections have not kept pace with this growth. The cumulative deficit that has grown over the years now is \$336 million, according to our FY 2010 audit report.

Distinguished Ladies and Gentlemen, our deficit is 51 percent of our current year's adopted revenues. It is unmanageable. It rides as a burden on the backs of taxpayers awaiting their refunds. I'm not here to ask you to solve our problems for us. We are working to do that on our own. I directed my Cabinet to begin personnel evaluations for performance and I have instituted a 10 percent cut in spending. An island-wide reassessment of property values currently is underway to increase revenues. Revenue agents also are going after non-filers and non-payers. I am not asking for a federal bailout. What I am asking is for the federal government to make good on its own mandates, with the same fervor and sense of urgency as it has imposed upon our government.

The year 1991 is the sixth year following the U.S. government's compact, or treaty, with the freely associated states of Micronesia. In 1985, these new countries entered into an agreement with the U.S. The U.S. government said the people of these former U.S. administered territories could migrate freely into the United States. Noting the dismal conditions of these countries' economies and education systems, the U.S. promised federal aid to them. Rightly so, our country wanted to leave a legacy of progress in former territories it liberated and held in trust. The U.S. government agreed to absorb and pay for the impact of their migration to the States and territories of the U.S.

It's been 26 years since then. The promise the U.S. made to the citizens of the FAS has resulted in meager improvements to their economies and school systems. As a result, the bulk of the FAS citizens, tens of thousands of them, have migrated to the closest U.S. port of entry: Guam. Our island absorbs well over half the migratory impact of the treaty the U.S. government entered with the FAS. Resultingly, Guam's unemployment rate now is 13.3 percent. The true financial impact of this migration has cost the government of Guam nearly \$1 billion since the Compacts were signed. Yet, Guam has only received \$xxx since the Compacts. To put this in perspective, our General Fund generates about a half a billion dollars annually. Guam has found itself the casualty of another unfunded federal mandate.

I understand, however, that the U.S. government is itself in a bad economic state and will probably never fully reimburse Guam for the impacts of the Compacts. But I want to put into perspective how this federal mandate has contributed to, and may even be said to have caused, our deficit and the structural imbalance of the General Fund. We have been able to quantify most of what it costs to pay for government services directly used by citizens of the FAS annually. **The figure is \$113 million a year, for which we have never been reimbursed more than \$14.5 million.** That is about \$100 million, or one-fifth of our local budget going to provide unreimbursed social services to FAS migrants. The rate of usage in each service category is alarming. I attached a breakdown, but here are some highlights:

Program	% of Participants Who Are FAS Citizens in Each Program
Medically Indigent Program	<b>67%</b>
Alternative School for At-Risk Youth	<b>42%</b>
Public Housing Vouchers	<b>32%</b>
Youth Detention and Rehabilitation	<b>36%</b>
Prisons	<b>25%</b>
Public Schools	<b>19%</b>
Emergency Shelters	<b>48%</b>

Three years worth of this impact outpaces the size of our General Fund deficit. If you consider the direct costs the government of Guam incurs because of this federal mandate, you can see that the appropriations needed to meet the demand for services will always outpace the revenues we collect. This federal mandate, Distinguished Ladies and Gentlemen, is driving up the cost of government services in Guam; costing us approximately \$100 million annually.

We are told that we need to understand the federal government's financial situation. We are told we must take into consideration the federal bureaucracy's hardships and ability to pay. That is reasonable. What is most unreasonable is the hardship unfunded federal mandates, such as the FAS Compacts and EITC, place on our island people, forcing us to withhold tax refunds as our government continues to use their monies to subsidize the cost of providing government services to our residents as a result of the Compacts. Adding insult to injury, while the federal government sees no need to reimburse us beyond its ability, some would say its willingness, to pay us, it imposes on us additional mandates, orders, receiverships and fees without any regard for *our* ability to pay and sustain services for our residents. Here is a list of these orders and fines:

Consent Decree and receivership filed by the U.S. EPA	<b>\$202,425,000</b>
Court order to pay the federally-	<b>\$72,845,303</b>

unfunded EITC	
Stipulated Order filed by the U.S. EPA	<b>\$118,825,000</b>
Permanent Injunction and receivership filed by the U.S. Department of Justice	<b>\$15,950,000</b>
Consent Decree filed by the U.S. Bureau of Prisons	<b>\$9,636,593</b>

The government of Guam has repeatedly asked the federal court and the federal agencies pursuing these fines and orders to consider the progress we were making in meeting the demands of the federal mandates. We have repeatedly asked for consideration on the rigid timelines imposed to provide the local cash to fund our compliance initiatives. We were told such considerations were not possible. It is a tragic irony that the federal government can withhold from us just reimbursement for its federal mandates because of its cash situation, despite the overwhelming impact of its failure to meet its own mandates, yet give us no consideration of the effect that its failure to reimburse us has on our ability to pay its other mandates.

On top of this, the U.S. Environmental Protection Agency now wants the government of Guam to install secondary wastewater treatment facilities at the cost of \$400 million. The U.S. EPA does not care how this will impact our people; nor has it considered other less expensive and environmentally sensitive technological solutions for wastewater treatment.

How is it right that we are made to pay for more than three-quarters of a billion dollars in federal mandates when the federal government still owes us a billion dollars in reimbursements for its obligation to us?

The federal government is strangling us with mandates it expects our cash-strapped government to meet upon unreasonable timelines and demands. There has been no consideration for our ability to sustain our financial house while meeting these orders and paying for what is supposed to be the federal government's bill. These extraordinary demands not only drain our financial resources, they rob us of the attention and focus we need to pay to our own local programs and initiatives to combat poverty and increase wealth among Guamanians. Make no mistake about it; we are good American citizens who are doing our part to deal with these problems ourselves. We have a full throttle economic and financial agenda. The only thing getting in our way is the federal government's burdensome bureaucracy, mandates, rules and regulations.

Despite these challenges, we are moving forward with viable economic initiatives to improve the quality of life for Guamanians and increase our presence in the Asia Pacific Rim.

My administration is developing a long-term economic strategic plan, which leverages the military buildup investment with our strategic location between Asia and

the mainland United States. I am bringing the community together to use available information and academic methodologies and best practices to forecast Guam's economy and its community of the future. We will project our needs, identify budding industries, shore up our workforce goals and create a community model supported by the infrastructure, workforce and regulatory environment fit to meet these projections. We will align curriculum in our schools, colleges and university to meet these goals, creating certainty in our future in much the same way several Asian nations went from lands of scarce natural resources to the economic tigers they are today.

As this planning and implementation process occurs, we have already launched an affordable housing initiative to spark construction and generate interest in mortgages for first-time homeowners. Our goal is to build 3,000 affordable homes over the next five years. We launched the initiative two weeks ago. Already, 188 homes are slated for development in the near future.

The much-anticipated and recently much-debated military buildup is causing increased interest in the island. Our economic development agency, along with our Chamber of Commerce, has been organizing trade missions to Guam from Taiwan, Korea, China, the Philippines and Japan. We want Asian capital to flow into our economy. I will be leading trade missions to these countries later this year to court investors personally.

The University of Guam is aggressively networking to build research and development parks as incubators of new business and new industry. More so than ever before, the University is taking a commanding role in community development. It has become a regional leader in economic initiatives. More importantly, it has begun a long-overdue dialogue on sustainability in the islands. One of the initiatives this is leading to is the creation of the University of Guam School of Engineering. These initiatives will lead to solutions to which both Micronesia and the U.S. government have long aspired.

Stagnation and an increasingly competitive field of nearby emerging destinations have impacted tourism, our number one industry. The Japanese disasters of March 2011 have also had their most recent effect on our Asian-based tourism industry. We are adapting and coping as best we can, but there is only so much we can do.

My message is this: We can make it on our own if the federal government makes good on its own mandates, and releases us from restrictions that do not make sense for our very unique economy and for the United States. We believe this is an especially appropriate message to send to you as Congress and President Obama try desperately to curb federal spending and reduce the federal deficit. But that's just one narrow way of seeing things.

Guam and the CNMI are geopolitically positioned in a way no other U.S. community is. Our location, tied with our reputation in Asia and the Pacific of being the strongest, closest, most stable and hospitable American community in that part of the world presents the United States with an opportunity to increase American clout

militarily, economically and diplomatically with the fastest growing economies in the world. Put simply, we are in a political and geographic position to make our country shine. Not only are we proud to be in this position, we are excited to take a lead role. This is, after all, in the spirit of the bipartisan call from Congress for American communities to exhibit leadership in gaining financial independence and economic development.

I offer to you solutions to make this happen:

### **Release Travel Visa Restrictions on Chinese and Russian Outbound Visitors to Guam and the CNMI Only**

The United States currently does not have a visa waiver program with China and Russia. Two of the main reasons for this are concerns for national security and of Chinese and Russian nationals violating their visa conditions and overstaying in the U.S. These issues are of obvious significant concern for the U.S. I reiterate, though, what Congress already understood when it passed the Consolidated Natural Resources Act of 2008.

Guam is not part of the contiguous United States. We have 212 square miles of land surrounded by the deep blue Pacific. It is not difficult to find people in our island, but it is hard to get past customs and immigration officers at our airport. Even Congress supports this in its own findings. When Congress established the Guam VWP in 1987 as an amendment to the Immigration and Nationality Act (INA), Congress emphasized the inherent protections afforded the United States' welfare, safety and security by Guam's geographical isolation. Congress determined that:

The unique conditions prevailing on Guam and its isolated location provide sufficient safeguards for the welfare, safety and security of the United States to justify a broad application of the visa waiver system. Guam's isolation as an island in the Pacific Ocean easily allows for the restriction of visa waiver recipients to the Territory thereby preventing them from traveling onward to Hawaii and the mainland. Guam's small area and its relatively small population ensure that any non-immigrants who overstay the visa waiver period . . . can be quickly located and removed. . . . Given the inherent protections which Guam offers the welfare, safety and security of the United States the visa waiver system should be liberally applied to a broad range of countries. . . . It is intended that the visa waiver program should initially be given wide application. If threats to the welfare, safety or security of the United States develop those threats should be dealt with on a country by country basis.<sup>1</sup>

Although China and Russia are currently excluded from the Guam-CNMI Visa Waiver Program, because of our remote location allowing Chinese and Russian outbound tourists

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<sup>1</sup> 132 Cong. Rec. S4844 (Apr. 24, 1986); see also 132 Cong. Rec.H5274 (Aug. 1, 1986).

to vacation in Guam and the CNMI should not cause such alarm to our national and homeland security agencies.

Guam has long sought visa waiver programs with China and Russia. It makes sense when you consider what this can do for our island economy and for the investment of Chinese and Russian capital into the U.S. economy. Our local considerations are obvious. Guam has relied upon Japanese outbound tourists since the 1960s to fuel tourism, our number-one industry. It is this strong economic alliance we've built with the Japanese that built the Guam economy. That transformation from the rubbles of World War II bombardments and the devastation of a Category 5 storm is nothing short of miraculous.

Unfortunately, when the Japanese economy tanks, Guam feels it. Over the last decade, we've felt its stagnation. Tourists are not staying as long as they used to. They're not spending as much as they did before. On March 11, 2011, Japan was hit by a major earthquake, followed by a devastating tsunami and damage to a nuclear power plant. Guam is still feeling the economic effects of the Japan triple disaster. Tourism numbers from Japan have declined over 20 percent. We've been fortunate to increase our share of the Korean market and to attract further interest from Taiwan, the Philippines and Australia, but these other countries represent only a small portion of our tourism base. While we have struggled to reinvent our market and to diversify into markets with existing visa waiver programs, we find ourselves competing with several other Asian destinations that have recently emerged. They are all attracting the 55 million outbound Chinese and the 13 million Russian tourists. Guam is anxious to have its share of these markets and we have the infrastructure to support it. Access to Chinese and Russian visitors has the potential of increasing our gross domestic product by the billions and creating thousands of jobs. But Guam isn't the only body politic that stands to gain from these proposed visa waiver programs.

In fact, the State Department has collaborated with the National Governors Association to bring provincial governors from China to the NGA Annual Meeting in Salt Lake City, Utah, later this month, and is also scheduling a state visit by U.S. governors to China for the Fall of 2011. President Obama in 2008 also issued a National Export Initiative designed at doubling U.S. exports, which recognizes tourism as an export component.

Part of the United States' National Export Initiative is to reduce the huge trade deficit with China. Guam can help facilitate that. The 55 million Chinese outbound visitors are exporting Chinese capital, yet the easiest markets accepting them are not U.S. markets. They are other Chinese cities and Asian destinations that are fast depleting opportunities for the U.S.

Allowing China to participate in the visa waiver program for Guam and the CNMI, will bring billions of dollars in Chinese currency to the U.S. The capital will flow into U.S. banks on Guam, and then be invested into the imports we receive from the U.S. mainland. This program can be part of a winning strategy to meet the objectives of the National Export Initiative and begin reclaiming economic strength in Asia.

We need Congress's help in affirming China and Russia's participation in the Guam-CNMI Visa Waiver Program.

### **Provide Funding Certainty to the Defense Department for the Military Buildup on Guam**

A growing pillar in our economy is Defense-related activity, spurred by Defense spending on Guam. The pending military buildup caused a mini-boom of development when plans were announced a few years ago. Unfortunately, uncertainty and anxiety about the buildup has been increasing because of Defense cuts over the past year by Congress.

To date, little has been said or released about the United States' funding commitment to the Global Realignment of the Armed Forces initiative affecting Guam and Okinawa-based forces. The Japanese government has made similar commitments and has deposited vast sums of money to the U.S. Treasury. The uncertainty is on the part of the U.S. government, which lately has seemed reluctant to honor the bilateral agreements effectuated by the State Department.

We do recognize Congress is in a bind because the cost of the buildup is still unknown. However, even the Senate recognizes there is a buildup happening and there are costs. At this point, reducing those costs without any notice of how the buildup will proceed and what investments will be made each year sends mixed signals and causes confusion. There is a need for federal officials to communicate more effectively with Congress, the Government Accountability Office, and the government of Guam on buildup plans and the outlay of spending over the next decade.

The anxiety on the part of our local government, our private sector and prospective investors has been exacerbated by recent cuts to Defense spending in Guam. The Senate Armed Services Committee recently removed an appropriation for improvements to Andersen Air Force Base, and a \$33 million appropriation to help mitigate the impacts of a firing range and other buildup activities. This, while just a fraction of the total cost, is significant to us because it was part of a very much criticized negotiation that finally led to the signing of the Programmatic Agreement over the disposition of historic artifacts and other such finds during the proposed buildup.

These so-called 'signals' from Congress have triggered a standstill on development and business activity related to the buildup. Investors now are taking a 'wait and see' stance with Asian capital that they would have already invested into the U.S. via Guam. It is critical to our development that Congress makes good on the United States' promises and provide assurances that it will fund this buildup.

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## **Inclusion in the Korea Free Trade Agreement and All Current and Future Agreements**

The sad part about Guam's enduring relationship with the United States is it seems the U.S. government picks and chooses when to apply mandates and benefits to our territory. Sometimes Guam is included as a U.S. territory, many other times we are treated as an international community not eligible for the same benefits and protections the rest of the country receives. This is the case with the Korea-U.S. Free Trade Agreement.

The President's Office of the United States Trade Representative says, "If approved, the Agreement would be the United States' most commercially significant free trade agreement in more than 16 years.

"The U.S. International Trade Commission estimates that the reduction of Korean tariffs and tariff-rate quotas on goods alone would add \$10 billion to \$12 billion to annual U.S. Gross Domestic Product and around \$10 billion to annual merchandise exports to Korea." It goes on to state:

"In addition to strengthening our economic partnership, the KORUS FTA would help to solidify the two countries' long-standing geostrategic alliance.

As the first U.S. FTA with a North Asian partner, the KORUS FTA could be a model for trade agreements for the rest of the region, and underscore the U.S. commitment to, and engagement in, the Asia-Pacific region."

Guam is, without a doubt, at the center of U.S. interests in this Asia-Pacific region. Why, then, have we been excluded from the agreement? We ask Congress to push for Guam's inclusion in the agreement.

Guam can play a pivotal role as the United States expands its interests in our region. We are important for American interests in Asia. We are important for Asian interests in America. At the heart of this strategic geopolitical value are many factors all related to our location and our proud heritage as the westernmost frontier of the United States:

1. The major strategic importance of the military bases – present and future – on Guam, the "Tip of the spear"
2. The airline hubs connecting Asia with Micronesia
3. The frontline role we have in the potential for development in Micronesia
4. The international web of fiber optic cables based beneath the island
5. The transnational shipping routes that flow through our oceanic backyard
6. The international conventions and treaties on fisheries and fishing that is a multi-billion dollar industry in our waters

7. The academic research and consortiums of marine science based out of our university.
8. The opportunity to reduce the U.S. trade deficit and bring billions of Asian currency to America through Guam.

There is a clear connection between Asia and America. Guam is that bridge. We are the hosts to American interests in the Western Pacific. We set the stage for Asian entrance to U.S. markets. We can be leaders in an economic alliance between Asia and America. Give us the opportunities to make it on our own and we will help America to shine.

The American Dream is powerful. It is no wonder we are a nation of immigrants. People from across the globe saw from their borders the bright and shining promise that is the American Dream. In America, you can work hard and earn a living. It doesn't matter whether your father is a king or your mother is a pauper, or whether you grew up poor or you didn't think you had the right skin color or faith. You can own a home. You can be your own boss. You can compete against the best, and you can win. This dream is attracting people to our shores in much the same way. While we are a small island, we represent America's heritage of warmth and hospitality to all those looking for freedom and opportunity. If you haven't been to Guam, you may be surprised when you get there. People from all walks of life go about their business trying to make ends meet and build something great for their families. It is a microcosm of these contiguous United States, where freedom is celebrated and people take advantage of opportunity.

We are asking you for those opportunities so the American Dream can become a reality for your fellow Americans in Guam. In doing so, we can do our part in bringing the American Dream to more Americans.

We are pursuing a Guamanian Century of Prosperity at the dawn of an American Millennium of Leadership and Hope. Some have said the great American Century is over. They say that, like Greece and Rome, the Holy Roman Empire and Spain, America's light above the world is destined to dim. I see the light of the world every morning on my porch as warm ocean winds blow upon the Star Spangled Banner and the Guam Flag that fly high above Government House. Freedom has no end, nor can time limit its virtue. No other country was built upon these ideals. It is a blessing from God to see the majesty of His creation illuminated by the dawn of a new day. Distinguished Ladies and Gentlemen, as an American living in a land that wakes to the first sunrise of this vast nation, I can tell you that the light of the world touches America first. Let us be leaders in this country's future.