



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

SEP 14 2010

The Honorable Felix P. Camacho
Governor of Guam
Hagåtña, Guam 96932

Dear Governor Camacho:

Thank you for your letters dated September 2, 2010 to Secretary Salazar requesting a decision whether the Secretary needs to approve a lease agreement between the Government of Guam and CaPFA Capital Corp. 2010A (CAPFA) and September 10, 2010 to Assistant Secretary Babauta notifying the Department of amendments made to the agreements submitted with your first letter. The Secretary has asked me to respond on his behalf.

In 1952, the United States Department of the Interior, pursuant to Executive Order 10178 (Executive Order), conveyed to the Government of Guam title to lands under the administrative supervision of the Secretary of the Interior. The transfer agreement provided that the Government of Guam could sell, lease, or otherwise dispose of any of these lands, without the approval of the Secretary of the Interior, for rehabilitation and resettlement or homestead purposes in accordance with section 40 and Article 8 of Public Law 33 of the First Guam Legislature. Lands conveyed under Executive Order could also be designated by the Government of Guam for conservation, recreational, and other public purposes. Lands set aside for these purposes could not be sold, leased, or disposed of without prior approval of the Secretary. The sale, lease, or disposal for any purpose other than homestead or rehabilitation and resettlement purposes would automatically cause a reversion of the title to the United States unless the conveyance had been approved by the Secretary.

As mentioned in your letter, the John F. Kennedy High School (school) is located on land that was transferred to the Government of Guam under the Executive Order. This parcel is being used for "public purposes" and therefore, the sale, lease, or disposition of this parcel must have approval by the Secretary in order for it not to revert back to the United States.

The school has been closed because of safety reasons and needs to be repaired or replaced. In order to replace the school, the Government of Guam is proposing a "lease-leaseback" financing structure. It proposes to lease the site to CAPFA who will in turn, after demolishing the existing high school and constructing a new one in its place, transfer the school back to the Government of Guam in exchange for annual leaseback payments. We understand this arrangement, to build a new John F. Kennedy High School, has your support along with the island's community and the Guam Legislature, which enacted legislation allowing the proposed financing structure. Given the island's broad consensus to rebuild the school and service the associated debt over the course of thirty years, the Department of the Interior approves the lease agreement as submitted with your letter on September 10, 2010.

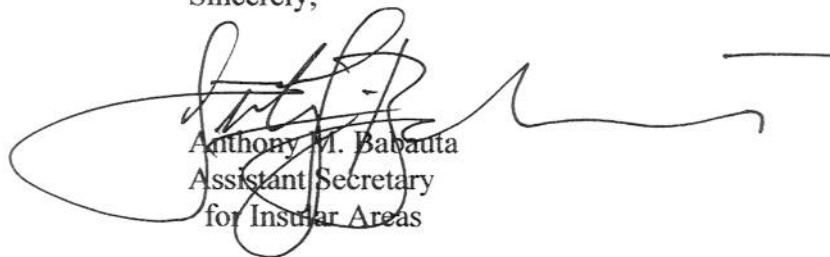
As good stewards of public lands, however, we want to highlight a potential ramification under the terms of the default provisions of the lease agreement.

The agreements between the parties involved in the “lease-leaseback” provide that in the case of a default, the property may be sold or released subject to the “Ground Lease”. The Ground Lease provides that in the event that the lease agreement is terminated, the site and facility could be sold or released to a different entity subject to various conditions until the end of the term of the lease agreement. One of the conditions is that it be used in accordance with Guam’s land use and zoning laws, which we understand means that the land could be used for various purposes other than that contemplated by the “lease-leaseback” arrangement.

While there is enormous benefit to Guam’s community in reconstructing the John F. Kennedy High School, there is a possibility for the site to be used for a purpose other than a school in the event of a default. We have confidence that the Government of Guam will adhere to the scheduled lease payments in good faith, therefore ensuring the existence of the school. In any event we hope that in the case of a default that all parties involved would continue the initial and intended use of the property as a high school.

Maintaining the concerns outlined above, we share your goal of rehabilitating the school and opening it once again for the community. Accordingly, the Department of the Interior supports and approves the agreement.

Sincerely,



Anthony M. Babauta
Assistant Secretary
for Insular Areas