



OFFICE OF PUBLIC ACCOUNTABILITY

Suite 401 DNA Building, 238 Archbishop Flores Street, Hagåtña, Guam 96910
Tel (671) 475-0390 · Fax (671) 472-7951 · Hotline: 47AUDIT (472-8348)
www.opaguam.org

Government of Guam – FY 2019 Financial Highlights

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Hagåtña, Guam – The Office of Public Accountability (OPA) has released the Government of Guam (GovGuam) financial statements for fiscal year (FY) 2019. Independent auditors Deloitte & Touche, LLP, issued an unmodified (“clean”) opinion on the GovGuam’s financial statements. OPA will release a separate commentary on the Single Audit Reports (SAR) and Management Letter.

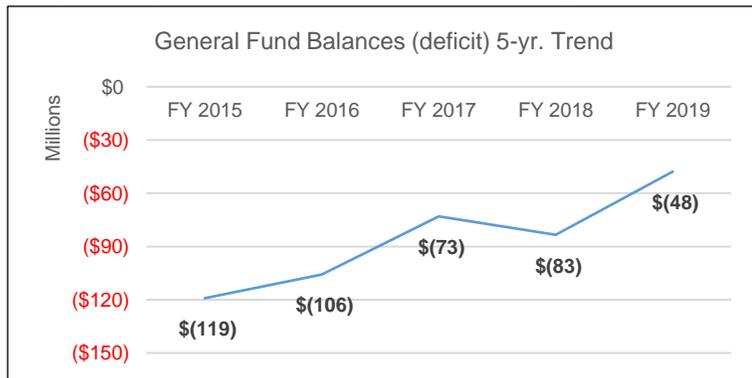
Delay of GovGuam’s Financial Reporting Impacted by GHURA

The issuance of the GovGuam audited financial statements due on June 30th has been significantly delayed because of the Guam Housing and Urban Renewal Authority’s (GHURA) lack of timely completion of its audited financial statements. Failure to include GHURA in GovGuam’s financial statements may result in an adverse opinion on GovGuam’s financial statements. This in turn impacts the ability of GovGuam to timely report to its stakeholders, including bondholders, [Guam legislators], and the federal government.

General Fund Surplus but Net Position Deficit Remained

The General Fund is the chief operating fund of GovGuam, and is required to assume the burden of any shortfalls in other government funds and activities.

GovGuam’s General Fund ended FY 2019 with a surplus of \$35.6M compared to the previous year’s deficit of \$10.4M. This year’s surplus improved the General Fund’s net position from a deficit of \$83.4M to a deficit of \$47.8M as of FY 2019.



Historically, over the last ten years, the General Fund has been in deficit except for FY 2012 and FY 2013. It reached its lowest mark in FY 2010 at \$321.3M, but steadily been improving over the years. In FY 2015 it reached a new high of \$119M. The deficit was due to some

factors such as debt service costs relating to the closure of the Ordot landfill facility and in support of the Guam Department of Education, unanticipated expenditures, and revenue shortfalls.

General Fund Revenues Increased while Expenditures Decreased

General Fund reported total revenues of \$738.1M (inclusive of operating transfers in), which increased by \$22.4M from the prior year. This was mainly due to the changes in the Gross Receipts Tax (GRT) rate which increased it by \$45.3M from last year’s tax collection of \$270M. GovGuam’s tax abatement program to stimulate economic growth, however, partially reduced GRT by \$13.1M. Income taxes decreased by \$37.3M due to the Tax Cuts and Jobs Act reducing income tax rates. The law likewise increased GovGuam’s payable to federal agencies due to expanded child tax credits.

Total expenditures (inclusive of operating transfers out) of \$702.4M decreased by \$23.7M compared to FY 2018. The biggest decrease came from transfer out (\$11.9M), protection of life and property (\$9.7M), public health (\$4M), and individual and collective rights (\$2.3M).

General Fund Budget vs Actual

On a budget-to-actual basis, actual revenues were \$687.5M, more by \$34.8M than the estimated collections of \$652.7M. The net increase is primarily attributed to the combined income tax and gross receipt tax collections exceeding the budget by \$35.3M. This net increase was, however slightly offset by Section 30 federal income tax collection below the budget by \$953K.

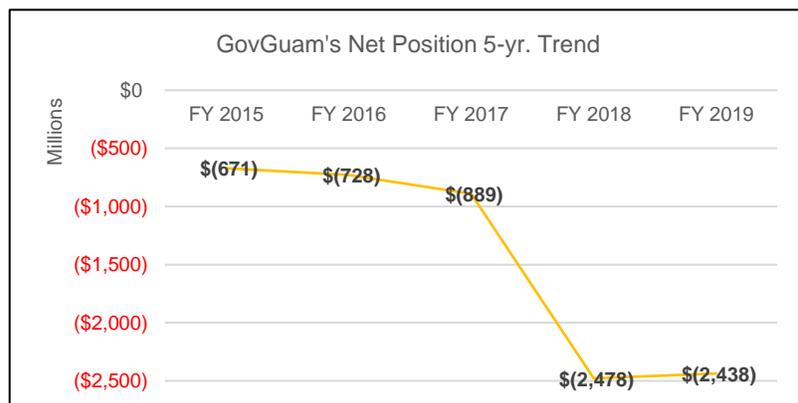
Budgetary expenditures (including operating transfers out) of \$651.7M were lower by \$32.1M than authorized appropriations of \$683.8M. This was mainly was due to the continued cost reduction measures by line agencies of \$17M. Among the executive branches, the Department of Health and Social Services and the Department of Education had the biggest savings totaling \$6.4M against their budgeted expenditures.

GovGuam’s (Primary Government) Net Position Improved and Deficit Decreased

GovGuam’s decline to a billion-dollar deficit in net position reached its peak at the end of FY 2018. FY 2017’s deficit of \$889.5M fell further by \$1.6 billion (B) to \$2.5B in FY 2018. This was due to the implementation of General Accounting Standards Board No. 75, Accounting and Reporting of Post-Employment Benefit (OPEB), that needs to be recognized and recorded. In the past five years, FY 2018 has been the highest deficit GovGuam faced.

In FY 2019, however, GovGuam ended with a surplus of \$40.1M, which decreased GovGuam’s prior year’s negative Net Position of \$2.5B to its present negative Net Position of \$2.4B.

Overall, GovGuam’s surplus was attributed to revenues for governmental activities of \$1.4B exceeding expenses activities by \$48.7M. General revenues derived primarily from taxes, increased by \$21M compared to the prior year. The three highest tax increases were from gross receipts tax (\$45.3M), tobacco tax (\$6.9M), and real property taxes (\$3.4M). Section 30 federal income taxes, however, decreased by \$749K. Locally sourced tax revenues and federal and other grants are the major sources of GovGuam revenues.



Expenses for governmental activities increased by \$28.1M as well as contributions to permanent funds by \$6M. The largest expenses were for public education and public health which comprised 56.8%, protection of life and property 9.8%, and general government 9.1%. GovGuam’s expenses for governmental activities were funded by federal supplements and taxes and other general revenues.

Pension and Other Post-Employment Benefits (OPEB)

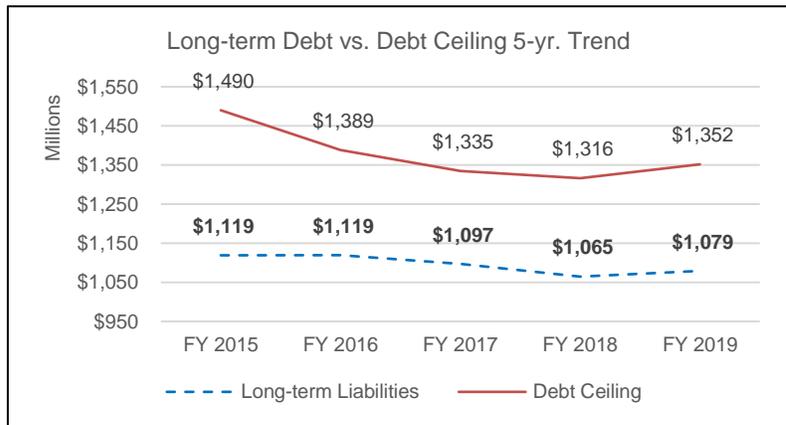
Included in GovGuam’s other long-term debts are pension and OPEB liabilities. As of FY 2019, GovGuam’s Net Pension liability stood at \$1B which increased by \$8.4M while OPEB Liability at \$1.3B decreased by \$394.8M from the prior year. The significant decrease in the OPEB liability has likewise contributed to the decrease in GovGuam’s net position deficit.

OPEB pertains to post-employment medical, dental, and life insurance benefits to retirees, spouses, children, and survivors. The Guam Legislature appropriated annually for OPEB and funding the program on a “pay-as-you-go” basis making it a promised benefit to the employees. Currently, GovGuam has no OPEB Trust Fund. Relatively, GovGuam’s pension expense of \$97.9M increased by \$75.9M while OPEB expense of \$43.4M decreased by \$88.4M.

GovGuam-wide Long-term Debt and Debt Ceiling

Within the past five years beginning in FY 2015, GovGuam’s long-term debt had been steadily increasing at an annual average rate of 16%, wherein FY 2018 was the highest at \$4.1B. In FY 2019 however, these long-term debt reduced by \$403M to \$3.7B.

According to the Organic Act, GovGuam’s public indebtedness must not exceed 10% of the aggregate value (assessed value) of the property in Guam which is \$1.35B as of October 2019. As of September 30, 2019, outstanding



debt subject to the debt ceiling is \$1.08B or \$272M below the limit. Since 2015, GovGuam’s long term debts averaged \$280M below the debt ceiling limit.

Impact of COVID-19 Uncertain

In March 2020, the Governor of Guam declared a public health emergency in response to the COVID-19 pandemic. Schools, non-essential government offices, and private businesses were temporarily closed. GovGuam injected funds into the private sector economy which includes deferral of a portion of Business Privilege Tax, advance local funding to begin the payment of Economic Impact Stimulus Payment (EIP), and deferral of due dates of business license renewals.

In April 2020, GovGuam received CARES Act funding and Economic Impact Stimulus Funds. From May 2020 to June 2020 GovGuam started to make cash payments to certain lower-income households, Pandemic Unemployment Assistance and its associated Federal Pandemic Unemployment Compensation, and business interruption payments to businesses affected by the economic turndown. The public health emergency is continuing and its duration is unknown. The length and depth of the economic turndown cannot be determined. Nevertheless, GovGuam is committed to paying its debt obligations and maintaining all essential and necessary services to the people of Guam. Due to uncertainty surrounding the duration of the state of emergency GovGuam is unable to estimate its ultimate financial impact.

Compliance

A separate commentary on SAR and Management Letter will be issued. For a detailed discussion on GovGuam’s FY 2019 operations, refer to the Management’s Discussion and Analysis (MD&A) in the audit report at www.opaguam.org.