



**General Fund of the Government of Guam  
Financial Highlights  
For the Year Ended September 30, 2009**

June 30, 2010

The General Fund closed fiscal year (FY) 2009 with a \$265.4 million (M) deficit, a significant improvement from the \$415.5M deficit in 2008. The main factor contributing to the decline in the deficit was the issuance of the \$271.1M General Obligation Bonds known as the deficit financing bonds to pay tax refunds, court ordered COLA payments, and other operating expenditures.

FY 2009 is the third consecutive year the government of Guam's (GovGuam) financial statements were issued with an unqualified "clean" opinion. The audit was conducted by independent auditors Deloitte & Touche, LLP.

**Revenues Decrease \$30M**

Guam's overall economic performance remained static throughout FY 2009, and economic growth is expected to remain flat until the latter part of FY 2010. The increase in economic activity is contingent upon the commencement of scheduled Marine relocation construction. Tourism on Guam has been challenged in the past two years due, in part, to the global financial crisis, economic contraction, record high fuel prices necessitating airline fuel surcharges, and the H1N1 virus scare.

As a result, FY 2009 revenues of \$483.2M were \$30M lower than the \$513.2M collected in 2008 and \$48M lower than budgeted revenues of \$531.2M.

*Decreased Tax Collections*

Income taxes brought in \$12.3M less or \$241.9M compared to \$254.1M in 2008. In addition, gross receipts taxes dropped \$3.2M to \$182.6M from the prior year of \$185.8M, reflecting the static economy.

*Decreases in Other Revenue Sources*

Section 30, licenses and fees, and contributions also decreased. Section 30 decreased \$1.3M from \$40.2M in 2008 to \$38.9M in 2009. In 2008, there was a one time contribution of \$8.3M, which represented the refinancing of the Tobacco Bonds. Licenses, Fees, and Permits also declined \$1.1M from \$5.6M to \$4.5M, again reflecting the stagnant economy.

**Expenditures Exceed Revenues by \$92.9M**

GovGuam continues to live beyond its means, as evidenced by the gap between revenues and expenditures and transfer payments. General Fund revenues of \$483.2M did not cover expenditures of \$524.5M, resulting in a deficiency of revenues over expenditures totaling \$41.4M. When net transfer payments of \$69.9M are added, the deficiency jumps to \$111.3M. However, when the expenditures are adjusted to remove bond-related expenditures of \$18.4M, the current operational deficit is \$92.9M.

**Graph 1: Total Revenues, Total Expenditures, & Net Transfers, and Net Over-Expenditures (in 000's)**



### Unbudgeted Expenditures

Unbudgeted expenditures and increased operating costs contributed to the net deficiency. Among these unbudgeted expenditures were interest on tax refunds of \$16.2M, off-island detention of prisoners owed to the United States Department of Justice of \$9.6M, credit card charges and bank fees of \$5.8M, interest on COLA payments of \$17.9M, and interest only payments to the Retirement Fund of \$4.6M. However, several of these “unbudgeted items” have been recurring for the past five years, such as interest on tax refunds, credit card fees, and interest only payments to the Retirement Fund.

Operating expenditures increased in the Department of Education (DOE) by \$14M or \$207.1M compared to \$193.1M in the prior year. Other notable expenditure increases were in Public Health (Department of Public Health and Social Services and Department of Mental Health and Substance Abuse) of \$4M and Guam Fire Department (GFD) of \$2.2M. The increase for Public Health was due to two additional Mental Health programs added in FY 2009 - a Permanent Injunction of \$1.9M and service contracts totaling \$1.6M. GFD’s increase was due to increases in salaries for the Fire Suppression division.

### Payments from Bond Proceeds

Among the payments from bond proceeds included in the overall expenditures are past-due retirement contributions on behalf of the Guam Memorial Hospital Authority (GMHA) of \$10.5M and the DOE of \$10.5M, past-due income tax refunds of \$112 million, and COLA payments of \$85 million. Of these amounts, \$12.4M million were included as General Fund expenditures. While \$21M in bond proceeds were used to pay past due retirement contributions of GMHA and DOE, GMHA still owes \$5.4M and DOE still owes \$7.3M to the Retirement Fund.

### Tax Refunds and COLA

Interest on tax refunds nearly doubled to \$16.2M in 2009 from \$8.6M in 2008 as a direct result of bond proceeds released. Despite paying \$112M in tax refunds from the deficit bond proceeds, outstanding tax refunds remain at \$259.2M. Interest on tax refunds will continue to accrue as

GovGuam is still unable to pay tax refunds timely. COLA payments of \$85M were paid from bond proceeds leaving \$26.9M still owed to retirees.

Credit card charges and bank charges totaled \$5.8M, with the costs mainly attributed for credit card fee processing. These fees went up by \$1.8M from \$4M.

#### *Debt Service*

Annual payments on outstanding bonds were \$47.2M compared to \$41.4M in 2008. With the 2009 deficit financing bonds of \$271.1M and landfill bonds of \$202M, the outstanding debt of GovGuam increased to \$767M. Beginning in 2010, the annual debt service requirements will jump to \$69M. Of this amount, the average annual debt service for the deficit bonds will be \$21.8M, and the limited obligation bonds will average \$15.7M.

#### *Transfers*

Transfers are payments from the General Fund to other government entities and funds that are segregated by law. These payments include the Judiciary, the Legislature, MIP, GMHA Pharmaceutical Fund, Supplemental Annuity Payments to retirees and other similar obligations.

Among the transfers were payments of:

- \$22.3M to the Unified Courts of Guam Fund,
- \$12M to the GMHA Pharmaceuticals Fund,
- \$11.9M to the Supplemental Annuity Benefits Fund,
- \$10.6M to the Medically Indigent Program Payment Revolving Fund,
- \$7.7M to the Guam Legislature Fund,
- \$8.6M to the Health and Human Services Fund, and
- \$8.6M to other GovGuam agencies and funds.

#### *Payments to Retirees*

The General Fund expended \$39.7M on behalf of retirees in 2009, a slight increase from the prior year. This was comprised of \$20.4M for retiree healthcare premiums, \$11.9M for supplemental annuity benefits fund, \$6.7M for COLA, and \$684,000 for Medicare reimbursements. As of September 30, 2009, there were 7,085 retirees and survivors. This equates to an average of \$5,600 in benefits paid for GovGuam's retirees and survivors.

#### *Elimination of Unfunded Liability*

In December 2009, the Department of Administration designated GovGuam's Defined Benefit (DB) Pension Plan as a cost-sharing multiple-employer pension plan, from a single-employer pension plan. This resulted in a reversal of the previously reported unfunded pension liability of the governmental activities of \$192.7M and the component units of \$50.1M. In addition, the FY 2009 GovGuam financial statements, as well as those of the component units of the government of Guam, will no longer report their respective unfunded liabilities. This change had no effect of the General Fund deficit, which is on a modified accrual basis of accounting.

A separate document to the Governor of Guam was issued by the auditors outlining strategies, emphasis, required communications, and adjustments. Please refer to OPA's Compliance Highlights for a separate commentary on the Single Audit Reports and Management Letter. For a more detailed commentary of GovGuam's operations, refer to the Management's Discussion and Analysis in the report or visit [www.guamopa.org](http://www.guamopa.org).