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Government of Guam – FY 2018 Financial Highlights

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Hagåtña, Guam – The Office of Public Accountability (OPA) has released the Government of Guam’s (GovGuam) financial statements for fiscal year (FY) 2018. Independent auditors Deloitte & Touche, LLP, issued an unmodified (clean) opinion on GovGuam’s financial statements. OPA will release a separate commentary on the Single Audit Reports and Management Letter.

The GovGuam General Fund ended FY 2018 with a \$10.4 million (M) deficit, while the prior year posted a surplus of \$32.7M. The prior year surplus was due to the \$17.5M surplus from the Guam Department of Education (GDOE) and \$14.0M permanent transfers from special revenue funds. The General Fund’s cumulative deficit stands at \$83.4M as of FY 2018.

Decreased Revenues and Expenditures

In FY 2018, the General Fund’s total revenue was \$688.0M, a \$21.0M or 3% decrease from FY 2017. The decrease was primarily due to the (1) implementation of 2018 Trump Tax Cuts and Jobs Act (TCJA), which reduced GovGuam’s income tax collections by \$36.6M; and (2) GovGuam not receiving prior year supplemental payments, which decreased Section 30 Federal income taxes by \$9.4M. These decreases were slightly offset by a \$32.6M increase in Gross Receipts Tax (GRT) due to the Business Privilege Tax rate change from 4% to 5%, which became effective in April 2018. The overall decrease in General Fund’s revenue would have been higher if not for the \$29.0M tax amnesty collections in FY 2018.

In FY 2018, General Fund’s total expenditures were \$683.8M, a \$30.8M or 4% decrease from FY 2017 due to cost reduction measures by line agencies and decreased subsidies to autonomous agencies.

Transfers In/Out of General Fund

In FY 2018, the General Fund transferred out \$42.2M to other funds, which mainly included (1) \$33.9M local match requirements for various federal grant awards, and (2) \$7.4M to finance charter schools administered by GDOE.

On the other hand, other funds transferred \$27.6M into the General Fund, which mainly included (1) \$15.8M to finance public schools operations and debt service requirements, and (2) \$3.4M to finance General Fund operations. Therefore, General Fund’s net transfer out to other funds was \$14.7M in FY 2018, whereas FY 2017 was a net transfer in of \$11.4M.

Tax Abatement Program

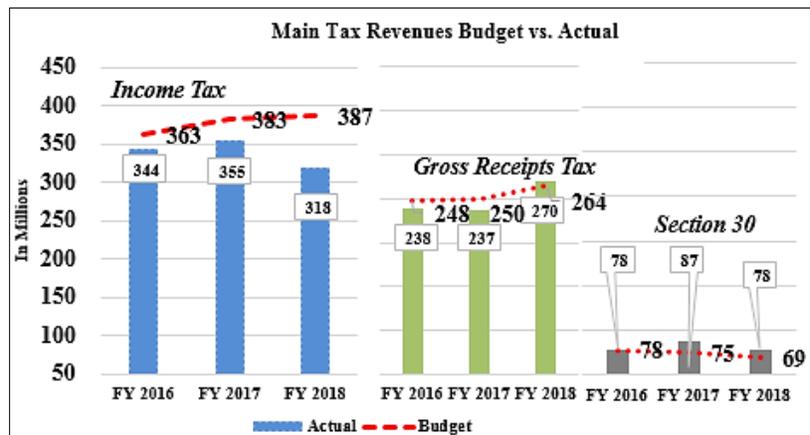
Tax abatements represent reductions in tax revenues that result from an agreement between GovGuam and individuals or entities where GovGuam promises to forego tax revenues to which it is otherwise entitled to, and the individuals or entities’ promise to take specific actions that contribute to economic development. In FY 2018, GovGuam abated \$15.9M for Guam Registered Apprenticeship and Qualifying Certificate Programs, of which 99% pertained to GRT.

General Fund Budget versus Actual Revenues

On a budgetary basis, GovGuam's FY 2018 total actual revenues were \$679.0M, or \$57.2M less than budgeted. For the last three years, revenues fell short of projections by an average of \$35.7M annually. Income Taxes continue to fall short of the budget in FY 2018 by \$69.0M.

The auditors commented that a robust analysis by the Department of Revenue and

Taxation (DRT) was not possible due to the significant limitation of human resources and the manual nature of income tax processing. As of May 2019, DRT processed only 18% of the total expected returns for the 2018 tax year. The income tax refund liability did not consider the impact of the TCJA.



Outstanding Debt versus Debt Ceiling

According to the Organic Act, GovGuam's debt ceiling limitation or public indebtedness must not exceed 10% of the aggregate tax value (assessed value) of property in Guam, which was \$1.3 billion (B) as of October 2018. As of FY 2018, GovGuam's total outstanding debt subject to the debt ceiling limitation was \$1.1B, only \$251.7M away from the limit.

Other Post-Employment Benefits (OPEB)

The auditors' report on the financial statements included an emphasis on GovGuam's implementation of Governmental Accounting Standards Board (GASB) No. 75 in FY 2018, which pertains to the accounting and reporting of post-employment medical, dental, and life insurance benefits to retirees, spouses, children, and survivors. This had a material effect on the government-wide and agencies' financial statements as they recorded the liability for the first time, and restated the prior year's financial statements. As of FY 2018, the additional liability due to OPEB amounted to \$1.7B for the primary government¹ and \$769.0M for the component units².

Although the numbers appear significant, the requirement of GASB No. 75 was merely to quantify promised benefits. The Guam Legislature annually provides for OPEB through appropriations and therefore became a promised benefit to the employees. Rating agencies are aware of the OPEB recording requirement by GASB No. 75, which is a theoretical liability. GovGuam currently has no established OPEB Trust Fund (similar to how GovGuam Retirement Fund maintains funds for expected employee retirement). Instead, it finances OPEB on a substantially "pay-as-you-go" basis.

For a more detailed discussion on GovGuam's operations, refer to the Management's Discussion and Analysis or view the report in its entirety at www.opaguam.org or at www.da.doa.guam.gov.

¹ Primary government includes line agencies, legislature, GDOE, Public Defender Service Corporation, Unified Courts of Guam, and GTA.

² Component units include GIAA, GGFR, GCC, GEDA, GHC, GHURA, GMHA, GPA, GVB, GWA, PAG, and UOG.