



Government of Guam Solid Waste Operations Fund FY 2011 Financial Highlights

December 3, 2012

In April 2011, Governor Eddie Baza Calvo signed Public Law 31-20, which created the Guam Solid Waste Authority (GSWA). In preparation for the full establishment of GSWA, the Government of Guam Solid Waste Operations Fund (GGSWOF) was separately audited for the first time this year. GGSWOF ended fiscal year (FY) 2011 with a combined total fund balance of \$107.5 million (M), a \$31.7M or 23% decrease from \$139.2M combined total fund balance in FY 2010. GGSWOF consists of three funds: the chief operating fund being the Solid Waste Operations Fund, the Capital Projects Fund, and the Debt Service Fund.

Independent auditors, Deloitte and Touche, LLP gave GGSWOF an unqualified “clean” opinion on its FY 2011 and FY 2010 financial statements and its internal controls. Auditors identified one finding on compliance related to procurement, where they found several instances where documentation demonstrating full compliance with applicable procurement requirements was incomplete.

No Cost Benefit Analysis for Hiring Temporary Staffers

During tests of compliance with procurement regulations, the auditors found that there was no documentation providing the relevant rationale/considerations for obtaining temporary staffing. While GSWA management represented that it considered hiring full time employees instead of obtaining temporary staffing, the auditors could not find evidence that a cost benefit analysis was performed to support the decision that obtaining temporary staffing is the most advantageous and cost effective option under the circumstances. With the absence of sufficient documentation to support the decision to hire temporary staffers, it is difficult to assess where the services were obtained efficiently and economically.

Appointment of Federal Receiver

In February 2004, the U.S. Environmental Protection Agency and the U.S. Department of Justice filed a Consent Decree in the U.S. District Court that included deadlines for the opening of a new landfill and implementing an Ordot Dump closure plan. After several years of GovGuam’s failure to meet any of the stipulated deadlines under the Consent Decree, the U.S. District Court placed the Solid Waste Division (SWD) of the Department of Public Works (DPW) under federal receivership and appointed federal receiver Gershman, Brickner & Bratton Inc. in March 2008. The receiver was given full power and authority to enforce the terms of the Consent Decree, including closure of Ordot Dump and opening of a new landfill, and assume all of the responsibilities for the operations of DPW’s SWD. Since the appointment, receiver fees have amounted to \$9.7M. In FY 2011 and 2010, receiver fees were \$2.8M for each fiscal year.

Bond Issuance and Debt Service

The Limited Obligation (Section 30) Bonds, 2009 Series A were issued for the purpose of constructing a new landfill, closure of Ordot Dump, prepaying a bank loan and funding capitalized interest. Debt service payments for these bonds totaled \$11.2M in FY 2011, and \$10.7M in FY 2010. Debt Service in FY 2010 was funded solely by bond proceeds. For FY 2011, Debt Service was funded by bond proceeds (\$4.1M) , tipping fees (\$3.7M), and transfer from General Fund (\$3.4M) representing Section 30 revenues to cover the remaining balance. FY 2012 debt services will remain the same at \$11.2M.

However, with debt service requirements increasing to \$15.7M in FY 2013, which will include both Principal and Interest payments, tipping fee rates will have to increase. If tipping fees are unable to cover the debt service payments, Section 30 Funds will be used. It is estimated that \$7.5M would be needed from Section 30 Funds to cover the remaining balance for debt service in FY 2013.

Tipping Fee Rates to Increase

The Receiver has developed three rate options for presentation to the Guam Public Utilities Commission. Each option would provide for adequate funding for GGSWOF for 2013 and thereafter. The Full Government Reimbursement Rate option is required if GovGuam is to be fully reimbursed for the use of Section 30 revenue. Under this option, commercial rates would rise more than 30% and residential rates would increase from \$30 per month to \$35 in 2013, \$40 in 2014, and \$45 in 2015, at which time reevaluation of the rates would need to be considered.

Closure and Post Closure of Ordot Dump

The Ordot Dump was officially closed in August 2011. Closure and post closure costs for Ordot Dump were \$1.7M in FY 2011, and it is estimated to cost a total \$45M to perform all closure and post closure care. The expected timeframe for closure completion is unknown at this time.

Opening of Layon Landfill

The Layon Landfill opened in September 2011 and consists of two cells and has an estimated lifespan of 50 years. Expenditures for the opening of Layon Landfill were \$26.6M in FY 2011 and \$39.1M in FY 2010, which brings the total cost for the new landfill to \$65.7M. Herzog Environmental, Inc. has been contracted to operate the Layon Landfill.

Solid Waste Operations

Revenues from Tipping fees were \$13.9M in FY 2011, an increase of 53% or \$4.8M from the \$9M in FY 2010. The \$13.9M is from commercial haulers (61% or \$8.4M), residential (37% or \$5M), and government (3% or \$405 thousand (K)). The increase in revenue was mainly attributed to incremental increases in tipping and associated monthly fees for Commercial haulers, which went from \$128 (October 2009 to June 2010) to \$156 (July 2010 to June 2011) to \$171 (July 2011 to September 2011). Additionally, Residential tipping fees have increased four times, going from \$10 (October 2009 to June 2010) to \$17 (July 2010 to December 2010) to \$24 (January 2011 to June 2011) to \$30 (July 2011 to September 2011).

Operating Cost reached \$11.1M in FY 2011, a \$1.8M increase from \$9.3M in FY 2010. Operating costs are paid from two funding sources, the Solid Waste Operations Fund (\$4.8M) and the Capital Projects Fund (\$6.3M). The top expenses were receiver fees, personnel costs for both government and contracted personnel, roll out carts, repairs and maintenance, and other services. Receiver fees remained about the same at \$2.8M for each FY. Personnel Costs for government employees decreased by 7% or \$151K, going from \$2.2M in FY 2010 to \$2.1M in FY 2011, and the number of full time employees also decreased from 54 in FY 2010 to 45 in FY 2011. With the decrease in government personnel, there was a 22% or \$93K increase in personnel costs for contracted employees, which went from \$426K in FY 2010 to \$520K in FY 2011. Roll out carts increased by 44% or \$522K, going from \$1.2M to \$1.7M. Repairs and maintenance increased by 44% or \$258K, going from \$592K to \$850K. Other Services also increased by 59% or \$269K, going from \$454K in FY 2010 to \$723K in FY 2011.

Creation of New Solid Waste Management Authority

Public Law 31-20 enacted the Guam Solid Waste Authority Act, which allowed Solid Waste Management Division, a sub-entity of the DPW to continue in existence as an autonomous, public corporation now referred to as the GSWA. All powers vested in GSWA shall be exercised by a Board of Directors comprised of five members appointed by the Governor with the advice and consent of the Legislature. As of the release of this report, four board members have been appointed and confirmed. However, the board has not taken any actions with regards to GSWA.

Subsequent Event

In November 2012, a Superior Court order was issued for the payment of approximately \$21.7M plus interest at 6% calculated from January 24, 2008 for the condemnation of land for the Layon landfill. It is not possible to predict the ultimate impact this matter would have on the accompanying financial statements.

Management Letter

A separate management letter was issued in which the auditor identified deficiencies and made several recommendations related to GGSWOF's internal control over financial reporting to include the following for GSWA: (1) differences in billings be reconciled and establish policies and procedures relative to delinquent accounts; (2) batch reports be made available and that collections per payment coupons be reconciled to deposits per bank statements; (3) revenue related transactions be summarized and provided for recording to the general ledger; and (4) establish formal policy relative to the recognition of an allowance for doubtful accounts. The auditors also recommended Department of Administration approve encumbrances and review ongoing pertinence.

For a more detailed discussion on GGSWOF's operations, refer to the Management's Discussion and Analysis or view the reports in its entirety at our website at www.guamopa.org.