



## Performer and A.F.T.E.R. Analysis

March 29, 2010

On a scale of 1 to 10, with 10 being the most favorable, what was the government of Guam's financial health for Fiscal Year (FY) 2008? According to the most recent Performer and Audit Findings Timeliness and Exception Resolution (AFTER) Analysis, conducted by Crawford & Associates P.C. for the Department of the Interior, Office of Insular Affairs (DOI-OIA), the government of Guam received an overall score of **1.31**. This is Guam's lowest score in the six years of the Performer Analysis and the lowest score among the 10 other insular areas similarly analyzed. Guam's highest score, 2.86, came in 2004. See table below for Guam's consolidated Performer scores.

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
1.31	2.66	1.32	1.70	2.86	2.21

For FY 2008, the Performer concluded that 121.3% of the government of Guam's \$985.5 million (M) in assets was funded with debt or other obligations. This means that for every \$1.00 of assets, the government of Guam's owes \$1.21. The ratio remains relatively consistent with prior years and indicates that the government of Guam does not live within its means.

### **General Fund Deficit**

The Performer takes into account the full accrual version of the government of Guam's total assets and liabilities. At the end of FY 2008, the government of Guam's net asset deficiency increased by \$78.2M (59.4%) from the prior year's \$131.5M, indicating a continued deterioration of its financial condition. The increase in the deficit was due to an increase in expenses of approximately \$100M, while revenues increased only by \$14M. The deficit is being financed primarily by delaying the payment of income tax refunds, which totaled \$278M at the end of FY 2008.

### **Government of Guam's Ability to Pay Liabilities**

Although there was a slight improvement in the current ratio (current assets to current liabilities) of 0.28 to 1, compared to the past three years, the government of Guam has just 28 cents of current assets to pay \$1 of current liabilities. An adequate current ratio is 2.0 to 1. In addition, the government has a quick ratio (total cash and short-term investments to current liabilities) of 0.08 to 1, which indicates that it only has eight cents in cash and short-term investments to pay \$1 of current liabilities. A desirable quick ratio is 1.0 to 1. These unfavorable current and quick ratios are indicators of the government's cash flow difficulties and distressed financial health. The General Fund struggles daily to fund bi-weekly payroll, vendor payments, tax refunds, and other routine obligations.

### **Elimination of the Unfunded Pension Liability and Prior Period Adjustment**

In December 2009, the Department of Administration (DOA) re-designated the Defined Benefit Plan from a single-employer plan to a cost-sharing multiple-employer plan, pursuant to the Government Accounting Standards Board Statement No. 27. As a multiple-employer retirement plan, the unfunded liability will no longer be recorded as a liability, but instead will be footnoted in the financial statements. As of September 30, 2008, the unfunded pension liability was \$192.7M, which will be eliminated in the FY 2009 financial statements. The unfunded pension liability; however, will be offset by the issuance of \$473.5M Deficit Financing Bonds in June 2009 with a debt service in excess of \$30M. The elimination of the unfunded liability has had no effect on cash.

### **Issuance of Additional Debt in FY 2009**

Public Laws 29-116, 30-1, and 30-7 authorized the issuance of Deficit Financing Bonds to pay certain General Fund liabilities and other past due obligations, and to fund facilities of the Solid Waste Management System. With the authorization to borrow, the government of Guam issued two bonds totaling \$473.5M in June 2009.

The first Bond amounted to \$271.1M. Of this amount, \$112M was used to pay delinquent tax refunds), \$85M paid liabilities associated with the court-ordered COLA settlement, \$21M was used to pay the past-due retirement contributions of Department of Education and Guam Memorial Hospital Authority, and \$35M paid bond fees and capitalized interest, leaving a balance of \$18M. The General Obligation Bonds received a “B+,” or highly speculative non-investment grade, due largely to the General Fund’s \$415.5M deficit as of September 30, 2008.

The remaining \$202.4M in bonds financing was acquired to comply with the Consent Decree to close the Ordot Dump and open a new landfill. These bonds received “BBB-” or investment of medium grade quality. These bonds received a higher rating because Section 30 revenue is guaranteed.

### **Debt Ceiling**

The government of Guam has nearly reached its debt capacity of \$879.1M, with \$753.1M of outstanding debt considered “public indebtedness.” The remaining \$126M is available for future debt; however, there are two potential loans that will bring the remaining debt availability down to only \$7M. As of October 2009, government of Guam’s annual debt service payment was \$76.2M.

The first potential loan is for \$88.5M from the U.S. Department of Agriculture to finance the construction of the Layon Landfill. A letter of conditions requesting supporting documents for the loan application was issued to the government of Guam in July 2009. The loan has yet to be closed.

In March 2010, the Governor signed Public Law 30-101, the *Supplemental Budget Act of 2010*, which obligates the General Fund to guarantee a \$30M loan for the Guam Waterworks Authority to fund Moratorium Projects, certain debt reserve accounts, and other purposes approved by the Consolidated Commission on Utilities. This \$30M guarantee is subject to the full faith and credit of the government of Guam and is counted towards the debt ceiling.

### **Improved Audit Findings and Questioned Costs Resolution**

The analysis found favorable results for the resolution of audit findings. This is the fourth consecutive year that the government-wide audit was issued timely and the second year that its financial statements had no qualifications. The compliance report remains qualified due to material weaknesses, significant deficiencies, and questioned costs. DOA made significant efforts to resolve cumulative questioned costs, now at \$1.8M, down from \$51.3M in 2002.

### **Acknowledgement**

The Performer and AFTER Analysis developed by Crawford and Associates P.C. is one of several methods utilized by the Graduate School's Pacific Islands Training Initiative to assist DOI-OIA in assessing insular governments' tracking of their financial health and performance. It is an overall rating of the government and is intended to complement the government of Guam's annual financial reports. It should not be used as the only source of financial information to evaluate performance. The analysis can be viewed at our website at [www.guamopa.org](http://www.guamopa.org) or at [www.pitiviti.org](http://www.pitiviti.org), the official website of the Pacific and Virgin Islands Training Initiatives.