



General Fund of the Government of Guam FY 2011 Financial Highlights

July 3, 2012

The General Fund is the chief operating fund of the Government of Guam (GovGuam). Our analysis focuses on the General Fund and not the government-wide statements. For Fiscal Year (FY) 2011, the General Fund had an operational deficit of \$46.9 million (M), due primarily to an overestimation of budget to actual revenues of \$17.3M, \$35.9M unbudgeted expenditures, and \$11.1M in other expenditures. However, the cumulative deficit decreased by \$18.2M, going from \$321.3M in FY 2010 to \$303.1M in 2011, primarily due to the Guam Department of Education's (GDOE) operational surplus of \$58.9M from unexpended American Recovery and Reinvestment Act (ARRA) funds, and a \$6.2M surplus in Other Miscellaneous funds. The GDOE operating surplus will reverse next year when ARRA/local funds are expended for school capital projects.

For the fifth consecutive year, independent auditors Deloitte & Touche, LLP issued an unqualified or "clean" opinion on GovGuam's FY 2011 financial statements. Twenty seven audit adjustments were made, which increased the General Fund's operating deficit by \$7M. Such adjustments are indicative of an accounting infrastructure in need of technical assistance and upgrade. While the audit is timely filed on the 269th day, because of the government's antiquated financial management systems, which has outlived its usefulness in today's modern technological world, the non-integration of the tax systems at Department of Revenue and Taxation with the Department of Administration, manual operations for major areas such as capital improvement projects and inventory of equipment, the General Fund financial audit was not completed sooner.

GovGuam's Compliance over Financial Reporting and Internal Controls remains problematic. Of the ten findings, eight were material weaknesses, resulting in a qualified opinion on Compliance.

Record High Revenues, Yet Deficit Increases

GovGuam's General Fund collected \$552.4M in revenues, a \$56.2M increase from \$496.1M in FY 2010 and the highest recorded revenue in 14 years. Despite the \$56.2M increase in revenues, the General Fund ended the fiscal year with a \$46.9M deficit.

Increased Tax Collections

Income taxes increased by \$43.1M from \$239.2M in 2010 to \$282.3M in 2011. Gross receipts taxes also increased by \$11.4M from \$188.6M in 2010 to \$200M in 2011. According to the Department of Revenue and Taxation, the increases in income taxes and gross receipts taxes may be attributed to numerous ARRA-funded projects, increased military activities, and a decrease in the unemployment rate. Additionally, public sector autonomous agencies as well as the mandated law enforcement 20% salary increase have substantially contributed to higher income taxes.

Federal Contributions

Federal contributions include Section 30 Federal income tax collections, immigration fees, and indirect cost reimbursement. Federal contributions increased by \$10.5M from \$44.2M in FY 2010 to \$54.7M in FY 2011.

Expenditures

General Fund expenditures were \$487.3M plus net transfers of \$105.1M, resulting in total expenditures of \$592.4M. Total expenditures exceeded operational revenues of \$542.6M, resulting in the deficit of \$46.9M. The increases in operational expenditures were primarily due to increases in debt service of \$13.6M, \$35.8M in unbudgeted items, and the recognition of capital lease acquisition of the new John F. Kennedy (JFK) High School.

Debt Service and Lease Payments

Debt service increased by \$13.6M from \$43.0M in FY 2010 to \$56.6M in FY 2011. The increase was due to the General Obligation and Limited Obligation (Section 30) Bonds, 2009 Series A. Proceeds from the bonds were used to fund past due tax refunds and for the construction of Layon Landfill.

In September 2010, GovGuam issued \$65.7M in Series 2010 Certificates of Participation to finance the new JFK High School. Annual lease payments of \$6.7M started in December 2010. Another \$4.5M was paid in the form of tax credits for the Tiyan facility used to house JFK students in 2011. The \$4.5M lease payment was also unbudgeted. The Tiyan facility is currently being used by Untalan Middle School.

Unbudgeted Items

Expenditures of \$35.9M not covered by appropriations consist of: (1) \$6.2M for the temporary reduction of Retirement contributions and \$2.5M in other retirement contributions; (2) \$4.7M interest on tax refunds; (3) \$4.5M for the Tiyan JFK High School lease payment; (4) \$3.5M for the Department of Mental Health and Substance Abuse Receiver; (5) \$3.4M in credit card charges and bank fees; and (6) \$11.1M for others. Of these, interest on tax refunds, interest-only payments to the Retirement Fund, and credit card charges have been recurring for several fiscal years, and total \$8.9M in FY 2011.

Planned Budget Deficit and Operational Deficit

Best practices call on governments to enact a balanced budget. The vast majority of States have balanced budget legislation, unlike Guam, which does not require it. The FY 2011 budget called for estimated revenues of \$559.9M, authorized expenditures of \$504.3M plus net transfer payments of \$103.9M, for total authorized expenditures of \$608.2M, resulting in a planned deficit of \$48.4M. The actual deficit was \$46.9M.

Increased Retiree Benefits

Retiree benefits increased 20% or \$7.8M from \$38.3M in the prior year to \$46M. These benefits consist of healthcare premiums at \$27.3M, Cost of Living Allowance at \$18.3M, and Medicare reimbursement of \$690K. The main increase in benefits was due to healthcare premiums, which increased significantly by 43% or \$8.2M, going from \$19.1M to \$27.3M. Retiree health insurance now exceeds COLA and supplemental annuity benefits combined by 52% or \$9.3M.

For the 7,117 retirees and survivors as of September 30, 2011, GovGuam paid an average of \$6,509 per retiree during the year, separate from their retirement annuities. The 2011 average of \$6,509 is 20% higher or \$1,094 more than the \$5,415 paid per retiree in 2010.

Subsequent Bond Issuances

For years, GovGuam has been operating in a deficit and has sustained this deficit by delaying tax refunds. As of September 30, 2011, the income tax refund liability was \$326M. In December 2011, GovGuam issued a \$235M bond, of which \$198M was used to pay additional tax refunds. In June 2012, GovGuam issued a \$108M bond, of which \$60M was used to pay income tax refunds. Approximately \$33.3M previously set aside for the 2012 tax refunds were also used to pay 2011 tax refunds. However, GovGuam will need to find additional funds to cover the remaining balance owed for 2011 of \$30M plus the estimated \$105M for 2012 income tax refunds. As of June 30, 2012, minimal funds have been set aside to pay 2012 tax refunds. GovGuam continues to live beyond its means.

Compliance

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.