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Government of Guam Solid Waste Funds – Fiscal Year 2018 Financial Highlights

April 25, 2019

Hagåtña, Guam - The Office of Public Accountability released the Government of Guam Solid Waste Funds Financial Statements, Report on Compliance and Internal Controls, and Letter to Those Charged with Governance for fiscal year (FY) 2018. Independent auditors Deloitte & Touche, LLP rendered an unmodified (clean) opinion on the financial statements. There was one finding on internal control over financial reporting and compliance pertaining to procurement, which is a repeat finding since FY 2011.

The Guam Solid Waste Funds financial statements include three funds: (1) Operations Fund, (2) Capital Projects Fund, and (3) Debt Service Fund. These funds collectively ended FY 2018 with a net loss of \$3.8 million (M), which is a significant decrease of \$4M from the prior year's net loss of \$7.8M.

Transition from Receiver to GovGuam

In 2008, the United States District Court of Guam (the Court) appointed Gershman, Brickner, and Bratton (GBB) to enforce the Consent Decree¹ and assume operations of GSWA from the Government of Guam (GovGuam).

In FY 2018, GBB completed capital projects under the Court Order, such as: (1) repair of the Dero Road, (2) refurbishment and upgrade of the Malojloj and Agat Residential Transfer Stations, and (3) closure of the Dededo Transfer Station. In December 2018 and March 2019, GBB hired a new controller and general manager, respectively, to manage GSWA's operations.

In April 2019, the Court will issue an order where GovGuam will take back GSWA's operations ending most of the receivership. The GSWA Board, GBB, and GovGuam (via the Department of Administration) should discuss how the transition would occur, including what assets, operations, and accounting functions would be transferred.

Receiver fees paid to GBB amounted to \$1.6M in FY 2018 or a total of \$20.8M since 2008. Of the total, \$3.8M was paid by the General Fund.

GovGuam Payments for Solid Waste Related Bonds

In 2009, GovGuam issued \$202.4M Section 30 Bonds 2009 Series A in response to a Court Order mainly for the construction of a new landfill and the closure of the Ordod Dump. The bond was refunded in August 2016 with a new Section 30 Bonds 2016 Series A for \$236.6M. GovGuam assumed the interest and principal payments for these bonds from the Section 30 federal income tax collections.

In FY 2018, GovGuam paid \$14.1M for the principal and interest on the 2016 bonds. These bonds will mature in 2047 where GovGuam's cumulative payment will total \$395.4M of which \$158.8M is for interest.

¹ Consent Decree includes opening a new landfill and closure of the Ordod Dump.

Table 1: Limited Obligation Bonds, 2016 Series A Payment Schedule

<u>Year ending September 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,630,000	\$ 9,277,876	\$ 10,907,876
2018	2,380,000	11,689,250	14,069,250
2019	5,410,000	11,494,500	16,904,500
2020	9,860,000	11,112,750	20,972,750
2021	10,375,000	10,606,875	20,981,875
2022 - 2026	51,565,000	45,066,125	96,631,125
2027 - 2031	57,555,000	31,972,125	89,527,125
2032 - 2036	59,380,000	16,047,250	75,427,250
2037 - 2041	14,895,000	7,825,125	22,720,125
2042 - 2046	19,120,000	3,594,250	22,714,250
2047	<u>4,435,000</u>	<u>110,875</u>	<u>4,545,875</u>
	\$ <u>236,605,000</u>	\$ <u>158,797,001</u>	\$ <u>395,402,001</u>

GovGuam will continue to assume the bond payments using the Section 30 funds at GSWA’s current rate. Should GovGuam seek reimbursement, GSWA will apply to the Public Utilities Commission for the adjusted rates. To date, GovGuam has not taken any action for rates adjustment.

Table 2: Rates Options

Customer Type	Current Rate*	Full Gov’t Reimbursement Rate
Commercial (per ton)	\$ 172	\$ 225
Residential (per month)	\$ 30	\$ 35
Residential Transfer Station	\$ 7.50 / \$ 15	\$ 7.50 / \$ 15
Cost to GovGuam	\$ 7,483,397	\$ -

Revenues and Expenditures Increased

Solid Waste Funds reported total revenues of \$36.3M in FY 2018, an increase of \$9.8M from the previous year. A major portion of the increase was from the transfer of \$16.9M from the General Fund for bond payments. Prior year’s fund transfer of \$7.3M increased by \$9.7M or 133% in the current year. Operating revenues of \$19.3M minimally increased by 0.35%. Tipping Fees, GSWA’s major source of revenue, slightly increased by 0.42% from \$18.9M in FY 2017.

Total expenditures increased by \$5.8M from \$34.3M in FY 2017 to \$40.1M in FY 2018. This increase was mainly due to the increases in bond payments of \$3.2M and GSWA’s operations of \$5.1M. Operating expenditures increased by \$3.1M from \$22.9M in FY 2017 to \$26M in FY 2018. Capital outlays in the operating fund increased by 611% due to the purchase of nine rear loaders totaling \$2.6M.

Compliance Report

The independent auditors consistently find GBB not following Guam’s procurement regulations since FY 2011. In FY 2018, GBB procured temporary staffing services of \$1.2M and a supervisor position of \$74 thousand via sole source procurement. GBB continues to strongly disagree with this finding.

For a more detailed discussion on GSWA’s operations, refer to the Management’s Discussion and Analysis or view the reports in their entirety at www.opaguam.org.