



OFFICE OF THE PUBLIC AUDITOR

Territorial Highway Fund FY 2006 Financial Highlights

August 1, 2007

Deloitte & Touche, LLP conducted the FY 2006 financial audit of the Territorial Highway Fund (THF). Total revenues for the year amounted to \$15.2 million, which represents a decrease of 14% from FY 2005 revenues of \$17.7 million. The decline in revenue was due in part to a \$3.9 million upward audit adjustment in FY 2005. Actual revenue from fuel consumption is up \$834,915 from FY 2005 levels.

Expenditures increased to \$35.6 million, up from \$14.1 million in FY 2005, with the increase attributed mostly to the \$12 million spent from the construction fund to begin construction on the Islandwide Village Street Restoration projects and \$7.6 million to the General Fund in the form of expensing a receivable. Approximately \$23 million in construction contracts related to highway improvements were obligated in FY 2006, of which, \$12 million was expended in 2006, leaving \$11 million to be paid in FY 2007 and subsequent years.

Other expenditures included \$5 million for the Department of Public Works (DPW) highway maintenance division, a 10% increase from \$4.6 million in 2005. Of the \$5 million, \$3.9 million went to salaries, wages, and benefits for this division's 96 employees. Other expenses include \$6.2 million for debt service, \$2.3 million to the Guam Mass Transit Authority for their fiscal year operations, and \$1.7 million in payments to the Village Streets Fund. By law \$500,000 is paid annually to the University of Guam Capital Improvements Fund for debt service incurred for the design, construction, and collateral equipment of the College of Business and Public Administration and for building repairs.

In FY 2001, power charges of \$9.2 million owed to Guam Power Authority (GPA) for streetlights were recorded. With interest, the liability has grown to \$10.9 million. However, there have been no appropriations to pay GPA and the Attorney General has yet to opine on the legitimacy of the liability. The THF has a deficit of \$13.2 million comprised primarily from the \$10.9 million liability to GPA.

In March 2007, the government of Guam's "disclosure of the need to borrow up to \$6 million from local banks to meet its current payroll obligation for public school system employees" caused Standard & Poor's Ratings Services to place a "B" rating on the General Fund's General Obligation (GO) debt on CreditWatch with negative implications. In June 2007, Standard & Poor's affirmed its "B" rating on the GO debt and removed it from CreditWatch with negative implications.

Public Law 28-151 authorized the transfer of funds from the THF Construction Fund to the General Fund to pay part of the court-ordered COLA. On November 2, 2006, \$4 million was transferred to the General Fund.

There were no findings for FY 2006. However, in a separate management letter, four areas for improvement were raised. Three items proposed adjustments in the amounts \$522,377 to the encumbrances account, \$115,621 to reconcile amounts between DOA and Department of Revenue and Taxation account, and \$20,601 in the overstatement of the investment account. The fourth item required an audit adjustment to accrue expenditures in the amount of \$2,016,799 due to lack of communication between DPW and DOA.