



Guam Economic Development Authority FY 2017 Financial Highlights

May 03, 2018

The Guam Economic Development Authority's (GEDA) financial audit report includes two reports: 1) GEDA Operating Fund, the State Small Business Credit Initiative (SSBCI), and the Tobacco Settlement Authority (TSA); and 2) two trust funds, Guam Development Fund Act (GDFA) and Agricultural Development Fund (ADF), administered by GEDA. For fiscal year (FY) 2017, total combined funds closed with an increase in net position (net income) of \$13.1 million (M), an increase of \$13.0M from FY 2016's net income of \$103 thousand (K). This was mainly due to the recognition of \$12.9M in grants as a result of the expiration of the SSBCI program. The FY 2016 financial statements were restated due to the implementation of the Governmental Accounting Standards Board (GASB) Statement No.73.

Independent auditors Deloitte & Touche, LLP issued an unmodified (clean) opinion on GEDA's FY 2017 financial statements and did not identify any material weaknesses or significant deficiencies in GEDA's Report on Internal Control over Financial Reporting. GEDA is commended for its 14th year of having no instances of noncompliance in their financial statements.

SSBCI Fund Revenues Increased

SSBCI Fund revenues of \$12.9M in FY 2017 significantly increased by \$12.7M from the prior year of \$118K, due to the expiration of the SSBCI program.

The SSBCI program provides additional sources of credit to support and help small businesses located in under-served communities, and provide credit opportunities to women-owned and minority-owned businesses with the main goal of adding new jobs to Guam's economy. A total of \$13.2M was allocated for Guam in 2011. GEDA is the guarantor of 30 loans totaling \$5.5M. In March 2017, the Allocation Agreement expired. The policy guidelines will remain in effect and govern the funds disbursed by the SSBCI program. GEDA intends to maintain the same SSBCI program and has not made any modifications on the Agreements with the participating lenders.

GEDA Operating Fund Revenues Decreased

GEDA's main operating fund had a decrease in net position (net loss) of \$198K. Revenues decreased by \$424K or 14%, from \$3.1M in the prior year to \$2.6M in FY 2017. This was due to the decrease in the number of bonds issued in FY 2017. Revenues were derived mainly from three sources comprised of 45% in rental income (\$1.2M), 25% in Qualifying Certificate (QC) fees (\$647K), and 10% in bond fees earned (\$249K). Rental income slightly decreased by \$12K or 1%. QC application and other fees decreased by \$227K or 26%. Bond fees decreased by \$679K or 73%.

Operating expenses for FY 2017 was \$3.1M, a \$236K or 7% decrease over the prior year of \$3.4M. This was mainly due to decreases in legal and professional services by \$85K, office space and equipment rent by \$61K, salaries and benefits by \$42K, and travel expenses by \$31K.

Bond Issuance Outlook

In March 2018, Moody's Investors Service changed the outlook on the Government of Guam (GovGuam) 'Ba1' Issuer Rating to negative from stable. At the same time, S&P Global Ratings

has placed its 'BB-' rating on GovGuam's general obligation debt and its 'B+' rating on the various certificates of participation on CreditWatch with negative implications. The change in outlook is triggered by the significant budget gap and liquidity pressures resulting from a reduction in income tax revenues as a result of the federal tax cuts in December 2017. During the same month, Public Law 34-87 was enacted imposing a 2% general sales tax effective October 2018 and increasing the Business Privilege Tax by 1% effective April 2018. This is to fund certain GovGuam agencies' operation and capital needs, and to address the tax base erosion resulting from the passage of the Tax Cuts and Jobs Act of 2017.

TSA Fund Revenues Slightly Decreased

TSA Fund revenues for FY 2017 amounted to \$2.4M, a slight decrease by \$48K or 2%. The TSA Fund is a separate fund that records the annual tobacco settlement revenues allocated to Guam. In turn, these revenues are used to pay annual debt service on the outstanding balance of TSA bonds, which was \$2.4M as of FY 2017. The original principal amount of TSA bonds issued was at \$37.0M and will be paid off in 2034.

GDA and ADF Trust Funds

GEDA's two trust funds, GDA and ADF, had investments of \$9.9M. Investment income, GDA and ADF's main revenue source, was \$1.0M in FY 2017, compared to the prior year's investment income of \$676K. Meanwhile, interest income on the remaining loans amounted to \$23K in FY 2017, a slight increase by \$684 or 3%. There are 21 remaining loans in these funds totaling \$503K. GEDA has not issued a loan since 2014.

Post-Employment Benefits

In FY 2017, GEDA implemented the GASB Statement No. 73, which aligns the reporting of pensions, ad hoc Cost-of-Living Adjustments (COLA), and Supplemental Annuity Payments. The implementation of this statement resulted in the restatement of its FY 2016 financial statements, which increased the net pension liability by \$499K and decreased the net position by \$404K. As of FY 2017, GEDA's net pension liability of \$5.3M includes its proportionate share in the GovGuam's pension, ad hoc COLA, and supplemental annuity payments. Pension expense amounted to \$663K in FY 2017 and \$649K in FY 2016.

In addition, GASB No. 75 (Post-Employment Benefits Other than Pensions) is effective and will be recorded in GEDA's FY 2018 financial statements. This pertains to post-employment medical, dental, and life insurance benefits to retirees, spouses, children, and survivors. Upon implementation, it is anticipated that GEDA will record an additional \$2.1M liability as of FY 2017 arising from other post-employment benefits.

Management Letter

A separate management letter cited two deficiencies relating to: 1) long outstanding and inactive accounts receivable amounting to \$42K may no longer be collectible; and 2) inactive long outstanding accounts payable of \$25K and accounts receivable suspense for \$3K should be reassessed to determine validity.

As a matter of disclosure, the Public Auditor's stepson is one of GEDA's two legal counsels.

For a more details, see the Management Discussion and Analysis in the audit report at www.opaguam.org and www.investguam.com.