



**Government of Guam
FY 2017 Financial Highlights**

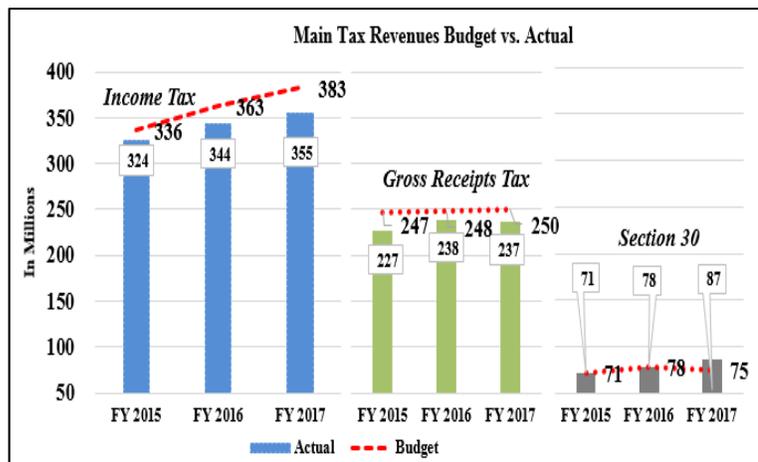
June 27, 2018

The Government of Guam (GovGuam) General Fund ended fiscal year (FY) 2017 with a \$32.7 million (M) surplus. The Administration is to be commended as FY 2017 was the first year that the General Fund had a true surplus in 20 years, despite other financing resources. This surplus is a \$19.4M increase from the \$13.4M surplus in FY 2016, and was mainly due to the \$17.5M surplus from the Guam Department of Education and the \$16.4M surplus from the Department of Administration (DOA), of which \$14.0M was from permanent transfers from Special Revenue Funds.

While there was a surplus to reduce the cumulative deficit, the General Fund’s deficit stands at \$73.0M as of FY 2017. The government-wide financial statements also showed an overall deficit as of FY 2017 at \$889.5M primarily due to net pension liability. Independent auditors Deloitte & Touche, LLP issued an unmodified or “clean” opinion on GovGuam’s financial statements.

General Fund Budget versus Actual Revenues

On a budgetary basis, GovGuam’s FY 2017 total actual revenues were \$698.7M, or \$23.2M less than budgeted. For the last three years, revenues had fallen short of projections by \$76.6M, or an average of \$25.5M. Among the main tax revenue sources, only the Section 30 Federal income tax has been meeting or exceeding the budgeted amounts, while local Income Taxes and Gross Receipts Taxes (GRT) fell short of the budget.



General Fund’s Increased Revenues and Decreased Expenditures

FY 2017 General Fund revenues of \$709.0M increased by \$23.3M from FY 2016 primarily due to the growth in income taxes of \$10.9M and Section 30 Federal income taxes of \$8.7M. These taxes were slightly offset by the reduction in GRT of \$1.2M.

FY 2017 General Fund expenditures, net of transfers, were \$703.3M, a \$42.9M decrease from \$746.2M in FY 2016. This was primarily due to: (1) net transfers in from other funds of \$11.4M in FY 2017 as opposed to net transfers out of \$11.8M in FY 2016, and (2) \$19.8M reduction in overall expenditures.

Permanent Special Revenue Funds Transfers to General Fund

Governmental Accounting Standards Board (GASB) Statement No. 34 requires amounts due between funds to be booked as a permanent transfer if repayment is unlikely. As a result, \$14.0M

was permanently transferred from Special Revenue Funds to the General Fund. The top three funds transferred out totaled \$8.9M, or 63% of the \$14.0M, and comprised the following: Territorial Education Facilities Fund (\$4.3M), Recycling Revolving Fund (\$2.5M), and Guam Highway Fund (\$2.0M). From FY 2013 through FY 2017, a total of \$43.7M, or an average of \$8.7M per year, has been transferred from the Special Revenue Funds to the General Fund. Net transfers averaged \$2.9M.

Earned Income Tax Credit (EITC)

The EITC is for low to mid income filers who meet certain criteria and who usually do not contribute or have any taxes withheld. This allows opportunities to receive tax refunds in excess of taxes paid. For tax year 2016, EITC represented \$55.2M or 41% of total tax refunds of \$135.0M. EITC has averaged 40% of total refunds since 2006. However, EITC started at only \$6.2M or 11% of total refunds in 2000. Unlike the Additional Child Tax Credit, the EITC is an unfunded federal mandate that GovGuam is required to pay without any contribution from the taxpayer or the federal government.

Government-Wide Financial Deficit and Net Pension Liability

As of FY 2017, the Primary Government's unrestricted net position was at a \$2.1 billion (B) deficit, primarily due to the \$1.1B net pension liability. The \$2.1B deficit was offset by the \$568.7M net investment in capital assets and \$595.5M restricted net position, bringing the Primary Government's overall deficit to \$889.5M as of FY 2017.

Adoption of Other GASB Statement Nos. 73 and 77

In FY 2017, GovGuam implemented GASB No. 73, which aligns the reporting of pensions, ad hoc cost-of-living allowance (COLA), and supplemental annuity payments. The implementation caused the restatement of the Primary Government's financial statements further reducing the net position by \$213.4M to \$941.2M as of FY 2016. The \$1.1B net pension liability as of FY 2017 included \$204.1M in COLA and supplemental annuity payments. Pension expense amounted to \$86.4M in FY 2017.

GovGuam also implemented GASB No. 77, which disclosed \$25.3M in tax abatement programs. Tax abatements represent reductions in tax revenues that result from an agreement between GovGuam and individuals or entities where GovGuam promises to forego tax revenues to which it is otherwise entitled to, and the taxpayer promises to take specific action that contributes to economic development.

Another GASB (No. 75, Post-Employment Benefits Other than Pensions) will be effective for GovGuam'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 GovGuam will record an additional \$1.1B liability as of FY 2017 arising from other post-employment benefits.

Compliance

OPA's Compliance Highlights, which will be made available soon, offers a separate commentary on the Single Audit Report and Management Letter. For details of GovGuam's operations, refer to the Management's Discussion and Analysis in the audit report or visit www.opaguam.org.