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Guam Economic Development Authority – FY 2018 Financial Highlights

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Hagåtña, Guam – The Office of Public Accountability (OPA) has released the Guam Economic Development Authority's (GEDA's) financial statements, report on compliance and internal control, management letter, and letter to those charged with governance for fiscal year (FY) 2018. GEDA's total combined operating funds closed with a decrease in net position (net loss) of \$790 thousand (K), a decrease of \$13.6 million (M) from FY 2017's net income of \$12.8M. This decrease was mainly due to the expiration of the State Small Business Credit Initiative (SSBCI) program, which led to the recognition of \$12.7M in one-time, non-recurring grants revenue in FY 2017.

Independent auditors Deloitte & Touche, LLP issued an unmodified (clean) opinion on GEDA's FY 2018 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 15th year of having no instances of noncompliance in their financial statements.

GEDA's financial audit report includes two reports: 1) the GEDA Operating Fund, the SSBCI, and the Tobacco Settlement Authority (TSA); and 2) two trust funds, the Guam Development Fund Act (GDFA) and the Agricultural Development Fund (ADF), administered by GEDA.

GEDA Operating Fund

GEDA's main operating fund had a decrease in net position (net loss) of \$318K. Net operating revenues decreased by \$411K, from \$2.6M in FY 2017 to \$2.2M in FY 2018. This was due to the increase in bond fees from various revenue bonds of \$252K. This was offset by the increase in the provision for bad debts of \$388K and a decrease in Hotel Occupancy Tax (HOT) Bond fees of \$360K. Operating expenses decreased by \$534K, from \$3.4M in FY 2017 to \$2.9M in FY 2018. This was mainly due to a decrease in salaries and benefits and adjustments for pensions and other post-employment benefits (OPEB).

State Small Business Credit Initiative (SSBCI) Fund

SSBCI fund revenues significantly decreased by \$12.7M, from \$12.9M in FY 2017 to \$118K in FY 2018. This was due to the expiration of the SSBCI program in FY 2017. The SSBCI program provides additional sources of credit to support small businesses and provide credit opportunities to women-owned and minority-owned businesses. Although expired, GEDA intends to maintain the same SSBCI program and has not made any modifications relating to the Agreements with the participating lenders.

Tobacco Settlement Authority (TSA) Fund

TSA fund revenues decreased by \$1.2M, from \$2.4M in FY 2017 to \$1.2M in FY 2018. 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 bond principal and interest of \$1.4M in FY 2018. The remaining principal amount of TSA bonds issued was at \$40M as of FY 2018 and will be paid off in 2034.

Guam Development Fund Act (GDFA) and Agricultural Development Fund (ADF)

GEDA's two trust funds, GDFA and ADF, had investments of \$12.4M. Investment income, GDFA and ADF's main revenue source, was \$952K in FY 2018, compared to the prior year's investment income of \$1M. Meanwhile, interest income on the remaining loans amounted to \$6K in FY 2018, a decrease of \$18K or 76%. There were 17 remaining loans in these funds totaling \$889K. GEDA has not issued a loan since FY 2014.

FY 2017 Financial Statements Restatement and Other Post-Employment Benefits (OPEB)

Governmental Accounting Standards Board (GASB) No. 75 pertains to post-employment benefits other than pensions. These benefits provided by the Government of Guam (GovGuam) include medical, dental, and life insurance to retirees, spouses, children, and survivors. For FY 2018, GEDA's proportionate share of GovGuam's OPEB liability of approximately \$2.4 billion (B) amounted to \$3.9M or 0.16%.

The implementation of GASB No. 75 resulted in a restatement of GEDA's financial statement for FY 2017. The beginning net position decreased by \$3.4M resulting in an ending net position (net loss) from \$14.5M to \$17.9M in FY 2017. GEDA's OPEB expenses for FY 2017 and 2018 amounted to \$348K and \$342K, respectively.

Bond Outlook

In March 2018, S&P placed GovGuam's General Obligation and lease bond rating on "Credit Watch" with negative implication due to the fiscal challenges as a result of the Tax Cuts and Jobs Act of 2017. Likewise, Moody's Investor Service changed their outlook on GovGuam's Issuer Rating from stable to negative and changed the outlook on Guam Waterworks Authority, Guam Power Authority, and Guam International Airport Authority from stable to negative. S&P placed the bonds back on Stable Outlook in September 2018, while Moody's changed the outlook to "Stable" in January 2019.

In October 2018, S&P announced that they were going to change the criteria for rating priority-lien tax revenue debt issued by U.S. municipal governments where the pledged revenue stream was typically treated as limited obligations. This new criteria caused the downgrade of the following Guam Bonds: GovGuam Limited Obligation (Section 30) Bond rating lowered from "BBB+" to "BB"; HOT Revenue Bond credit lowered from "A-" to "BB"; and Business Privilege Tax (BPT) Bond credit lowered from "A" to "BB". The new ratings will not have any immediate effects on Guam's outstanding HOT, Section 30 or BPT bonds as those bond interest rates were locked in at the time of the sale. The new rating may only affect future borrowing efforts pledged by these revenues by the Government of Guam.

Management Letter

A separate management letter cited one deficiency relating to long outstanding and inactive accounts receivable from FY 2017 amounting to \$315K, mainly from bond-related reimbursable expense, which may no longer be collectible.

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