



Government of Guam Solid Waste Operations Fund FY 2016 Financial Highlights

May 30, 2017

The Guam Solid Waste Authority (GSWA) financial statements include three funds: (1) Operations Fund, (2) Capital Projects Fund, and (3) Debt Service Fund. These funds collectively ended fiscal year (FY) 2016 with overall net loss of \$549 thousand (K), which was dramatically lower than the \$20.2 million (M) loss in FY 2015. Although the Operations Fund ended the year with a net income of \$3.6M and cumulatively increased the fund balance (retained earnings) to \$23.4M, the Capital Projects Fund's net loss of \$4.3M resulted in the overall net loss.

Independent auditors, Deloitte & Touche, LLP, expressed an unmodified (clean) opinion on the Government of Guam Solid Waste Operations Fund (GGSWOF) FY 2016 financial statements. There was one finding on internal control over financial reporting and compliance pertaining to procurement, which has remained a finding since FY 2011. A separate Management Letter identified two deficiencies.

Transition of GSWA Operations to GovGuam

By Court Order, the Federal Receiver, Gershman, Brickner, and Bratton, Inc. (GBB) is expected to transition control of GSWA to the Government of Guam (GovGuam) in December 2017. In January 2017, the Receiver has begun the process of soliciting candidates for General Manager and Chief Financial Officer. Both local and off-island individuals have shown interest in applying for the positions. The GSWA Board, GBB, and GovGuam (via the Department of Administration) should begin discussions on how the transition will occur, including what assets, operations, and accounting functions will be transferred.

Ordot Dump Post-Closure Reserve Fund (Reserve Fund) and Estimated Future Liabilities

In May 2016, the District Court Judge adopted the Receiver's plan for financing the post-closure care of the Ordot Dump over the GovGuam's financing plan. Under the Receiver's plan, beginning in FY 2016 through FY 2023, approximately \$2M will be set aside annually and deposited into the Reserve Fund to fund the post-closure care. During the remaining receivership period (FY 2016 and 2017), GBB will deposit approximately \$4M into the Reserve Fund. To assure the needed funds are set aside and remain available after the receivership has terminated, the District Court will appoint a trustee to manage the Reserve Fund. In addition, the District Court has ordered all commercial refuse haulers on island to make payments directly to the trustee. Any remaining balance after the trustee deducts payments for the Reserve Fund will be set aside for GSWA operations.

As of FY 2016, GovGuam recorded a post-closure care liability of \$12.7M for the Ordot Dump. Future costs maybe higher due to inflation, changes in technology, and regulations.

Layon Landfill, Land Condemnation, and Estimated Future Liabilities

The Layon Landfill, which opened in September 2011, is a capital asset with a cost of \$106M. GovGuam negotiated tax credits with the landowners, of which a total of \$25.9M was redeemed as of FY 2016. Any estimated unpaid balance will continue to accrue interest at 6% per annum.

The Layon Landfill was designed for 11 cells with a capacity in excess of 15.8M cubic yards and an estimated life span of 50 years. Currently, GovGuam is utilizing two cells that were included in the initial construction. These two cells have a projected life of ten years and are estimated to be full by 2021.

Estimated future costs for the Layon Landfill closure is \$95.8M. Post-closure care liability of \$4.3M has been recorded based on 4.48% estimated landfill usage as of September 30, 2016. GovGuam will recognize the remaining estimated cost of \$91.5M based on its landfill usage. Again, future costs may be higher due to inflation, changes in technology, and regulations.

Increase in Revenues While Expenses Decreased

Operating revenues increased by 6% or \$1.1M from \$18.3M in FY 2015 to \$19.4M in FY 2016. Of the total Tipping Fees, \$5.3M or 28% was generated from one major commercial customer. Although Tipping Fees continue to increase, the current monthly tipping fee rates of \$172 per ton (commercial), \$30 per month (residential), and \$7.50/\$15 (residential transfer stations) are insufficient to pay for the annual debt service of \$15.7M. GovGuam General Fund continues to pay for this debt service.

Expenditures of the Operations Fund for FY 2016 increased by \$2.3M, from \$13.4M in FY 2015 to \$15.8M in FY 2016. However, overall GSWA expenditures decreased by \$18.7M from \$54.4M in FY 2015. Among those expenditures that decreased, the largest decrease was from the contractual services of \$20.5M. Capital Outlays, on the other hand, increased to \$1.9M from \$65K in FY 2015.

The Receiver expenditures amounted to \$1.6M in FY 2016, for a total of \$17.7M as of September 2016. Of this amount, \$3.8M was funded by the General fund, while \$13.8M came from the GGSWOF.

Capital Projects Fund Nearly Exhausted

From the 2009 Series A Limited Obligation Bond proceeds, the Capital Projects Fund initially received \$139.7M for the construction of Layon Landfill, Ordot Dump closure, and other consent decree-related projects. As of FY 2016, \$1.7M cash now remains in the Capital Projects Fund. Among the District Court-ordered remaining capital projects GBB is tasked to complete are Dero Road, Residential Transfer Stations in Malojloj and Agat, and Dededo Transfer Station. These projects, along with other capital projects, have a minimum remaining estimated cost of \$2.2M. With only \$1.7M left in the fund, the balances of on-going and future projects will be paid from the Operating Fund.

Compliance Report and Management Letter

The independent auditors continue to find GBB's handling of procurement a finding since 2011. In FY 2016 compliance report, GBB procured temporary staffing services of \$1.2M and independent contractor services of \$118K for the Solid Waste Management Division via sole source procurement.

In a separate letter, the auditors identified two deficiencies pertaining to the lack of verification of invoices for services performed and timely monitoring and periodic assessment of receivables.

Audit Adjustments and Uncorrected Misstatements

The auditors proposed eight audit adjustments of which seven were corrected which increased the Operating Fund balance by \$339K. The one uncorrected audit adjustment refers to the overstatement of accounts receivables by \$66K.

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