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A.B. Won Pat International Airport Authority – FY 2020 Financial Highlights

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Hagåtña, Guam – The Office of Public Accountability (OPA) has released the Antonio B. Won Pat International Airport Authority's (Airport) fiscal year (FY) 2020 financial statements, reports on compliance and internal controls, management letter, auditor's communication with those charged with governance, and schedule of passenger facility charges (PFC) collected and expended, and corrective action plans.

Independent auditors Ernst & Young, LLP rendered an unmodified (clean) opinion on the Airport's financial statements and compliance over major federal programs. The Airport closed FY 2020 with a decrease in net position (net loss) of \$4.4 million (M), a decrease of \$7.7M from FY 2019's net income of \$3.3M. For FY 2020, the independent auditors did not identify any material weaknesses or significant deficiencies in its report on compliance and internal control over major federal programs. The Airport did not qualify as a low-risk auditee this fiscal year due to a material weakness finding identified in FY 2018. The Airport will be eligible for low-risk auditee status in FY 2021. Issuance of a separate management letter identified three deficiencies in internal control on customs fees, operating procedures on federal awards, and provision for doubtful accounts.

Operating Revenues Significantly Decreased by \$25.8M

With the Airport's primary business operations significantly dependent on visitors from Japan, Korea, and the Philippines, the novel coronavirus (COVID-19) pandemic had adversely impacted the financial position, results of operations, and/or cash flows of the Airport. The Airport's operating revenues significantly decreased by \$25.8M, going from \$69.0M in FY 2019 to \$43.2M in FY 2020. Facilities and systems usage charges took the biggest hit, taking in \$13.8M less than the previous fiscal year. Concession fees declined by \$8.7M, rental income decreased by \$1.7M, and miscellaneous revenues dropped by \$1.6M when compared to the previous fiscal year.

Operating Costs and Expenses Decreased by \$3.5M

The Airport's operating costs and expenses decreased by \$3.5M, going from \$44.9M in FY 2019 to \$41.4M in FY 2020. Contractual services primarily attributed to the \$4.9M decrease, specifically from a reduction of \$2.5M in professional services, \$1.3M in power, \$752 thousand (K) in repairs and maintenance, \$326K in advertising and promotions, and \$181K in travel/training and certifications.

The decrease in operating costs and expenses was offset by a \$1.1M increase in personnel services, going from \$18.1M in FY 2019 to \$19.3M in FY 2020. In FY 2018, personnel services totaled to \$13.9M, an increase of \$5.4M when compared to FY 2020, primarily due to the FY 2018 personnel services impacted by the initial implementation of GASB Nos. 68 and 73. The implementation significantly reduced personnel services due to the decrease in retirement contributions from

\$3.9M in FY 2017 to negative \$132K in FY 2018. The Airport reduced full-time employee count from 203 in FY 2019 to 202 in FY 2020.

The Airport's total non-operating revenues (expenses) net, showed a significant increase of \$9.5M, going from (\$477K) in FY 2019 to \$9.0M in FY 2020, primarily due to a \$14.7M increase in grants from the United States (U.S.) government.

Capital Improvements

In spite of the pandemic, the Airport proceeded with its capital improvement program focused on developing programs and the infrastructure to create future opportunities for the island and communities throughout the region. Capital improvement projects in excess of \$200M are currently underway or in the planning/design phases. Some projects currently underway include the:

- *3rd Floor International Arrivals Corridor with Seismic Upgrades*: This project will allow the Airport a permanent solution to conform with the Transportation Security Administration's (TSA) mandate to separate departing TSA-screened passengers from non-TSA-screened arriving passengers. A topping-off ceremony was held for the last phase of this project in January 2021 and is anticipated to be completed in 2021.
- *Aircraft Rescue and Firefighting Facility*: A new state-of-the-art facility that will improve response time in the event of a crisis is currently under construction. This project is funded in large part by \$20.5M in discretionary grant funds from the Federal Aviation Authority.
- *Runway 6L/24R Rehabilitation*: This project is currently in progress and is to be completed in phases. Phase Ia will provide rehabilitation and reconstruction to over 1,550 linear feet covering 155,000 square feet.

Debt Service Coverage (DSC) Ratio at 1.72x

Despite the impacts of COVID-19 on operations and finances, the Airport was able to achieve a DSC Ratio of 1.72x, achieving the minimum required DSC ratio of 1.25x under the bond indenture for the issuance of the 2013 General Revenue Bonds. This was attributable to the reduction in debt service due to the 2019 General Revenue Bond Restructuring combined with the additional federal funding received.

Leases

In response to the impact of the global pandemic and the 95% decline in passenger traffic, the Airport approved several financial relief programs throughout FY 2020. The first relief package was a deferral of all rents, fees, and charges for all airport tenants for the months of March 2020 through May 2020. Subsequent financial relief was provided for in terminal concessionaires whose contract payment terms required the higher of minimum annual guarantees or percentage of sales. In addition, the signatory airlines were provided financial relief during the 4th quarter of the fiscal year with a seventy percent discount on office rent at the Main Terminal Building.

Lotte Duty Free, LLC (Lotte)

In March 2013, Lotte was selected as the primary concessionaire for the airport terminal for a ten-year term commencing July 2013. The Airport recorded rental income under the Lotte Agreement totaling \$9.0M in FY 2020 and \$13.3M in FY 2019. In April 2018, the Airport and Lotte entered into mediation in an effort to resolve issues and disputes concerning ongoing construction and

litigation. As a result of the mediation, they entered into a Mediation Term Sheet that confirmed and reaffirmed its obligations under the Lotte Agreement.

Pac Air Properties, LLC (Pac Air)

In February 2008, the Airport and Pac Air entered into a lease agreement for 50 years, with an option on the part of Pac Air to renew for an additional 10 years. As part of the agreement, Pac Air was to make agreed-upon capital improvements at a cost of no less than \$25M to the lease premises with an area of approximately 540,000 square feet. The monthly rent will escalate every five years until the end of the lease term. Starting September 2019, monthly rent increased from \$24K to \$26K. Beginning in September 2021, the minimum lease income will be \$313K.

The Airport has a leaseback agreement expiring in 2024 with Pac Air to lease 32,500 square feet of space in the completed facility on the lease premises. Rent expense for FY 2019 and 2020 totaled \$1.1M and is included under contractual service. In September 2021, the Airport expense from this leaseback agreement amounted to \$956K. The Airport has a sublease agreement with the Government of Guam's Customs and Quarantine Agency to lease 25,000 square feet of the aforementioned 32,500 square feet for an annual rental of \$780K.

Transfer of Autonomous Agency Revenues to Autonomous Agencies Collections Fund

Pursuant to 5 GCA Chapter 22 §22421, certain autonomous agencies, including the Airport, are to remit certain amounts to the Government of Guam General Fund at the end of each fiscal year. The Airport is prohibited by its 2013 General Revenue Bond Indentures (2013 Indentures) and federal law from transferring any funds from its operating surplus to the General Fund. Any diversion of Airport revenues will place them in breach of the 2013 Indentures and jeopardize ongoing and future federal funding. As of September 2020, there was no substantive progress of discussions with the Executive and Legislative branches to repeal 5 GCA §22421 or on the issue of the Government of Guam assessment.

Litigation

The Airport is involved in ongoing disputes with its former concessionaire, DFS, over DFS' concession agreement that expired in 2013. DFS initiated arbitration in 2014, and in 2016, the arbitration panel awarded DFS \$1.9M in damages plus attorneys' fees, arbitration costs, and interest. In December 2018, the Superior Court of Guam confirmed the arbitration award, which the Airport appealed. However, because of pending motions by the parties in the Superior Court, the Supreme Court of Guam does not yet have jurisdiction to hear the appeal.

In January 2019, DFS demanded that the Airport immediately pay \$2.2M due under the arbitration award plus interest. In February 2020, the Airport filed a motion to reverse the Confirmation Order and vacate the arbitration award. The motion is still pending before the Superior Court. In the event the Airport must pay any judgment on the arbitration award, the range of loss amounts to approximately \$1.9M to \$3.4M. As of September 30, 2019, the Airport recorded a provision for loss of approximately \$3.1M.

Report on Compliance and Internal Control

Independent auditors did not identify any material weaknesses or significant deficiencies in its Report on Compliance and Internal Control over major federal programs. In its schedule of expenditures of federal awards, the Airport expended \$27.1M in federal awards for five programs.

The programs include: the (1) COVID-19 airport improvement program and (2) airport improvement program from the U.S. Department of Transportation, (3) national explosives detection canine team program and (4) law enforcement officer reimbursement agreement program from the U.S. Department of Homeland Security, and (5) the U.S. drug enforcement administration task force officer overtime program from the U.S. Department of Justice.

Management Letter

A separate management letter issued identified three deficiencies in internal control on customs fees, operating procedures on federal awards, and provision for doubtful accounts. Specifically, the auditors noted that customs fees were received late from signatory air carriers, but interest was not levied; the Airport had not completed formalizing their written documentation of internal controls over federal awards auditors, despite having formalized policies/procedures over cash management; and the Airport had not modified its policy for providing allowance for doubtful accounts in response to the impact of COVID-19 on its tenants.

Report on Compliance for Passenger Facility Charge Program

In a separate report on compliance and internal control and schedule of PFCs, auditors noted two significant deficiencies related to the remittance of PFCs and submissions of air carrier Quarterly Reports later than the required due dates. Despite the Airport's efforts to communicate the due dates of monthly PFC revenues and quarterly reports, certain air carriers continue to make late payments and turn in quarterly reports late.

COVID-19 Response

COVID-19 monies granted to the Airport in FY 2020 totaled \$20.7M. Of this amount, \$14.7M was disclosed as being utilized in FY 2020. The Airport utilized \$5.3M to cover operational expenses, \$5.2M for salaries and wages, and \$4.2M for debt services. The Airport's plan to address COVID-19-related impacts is to continue to exercise financial prudence in containing its costs of operations while prioritizing safety and security at the Airport. Federal grants will continue to be pursued, as well as bond refunding and restructuring opportunities to reduce annual debt service payments. The Airport anticipates additional relief from the Federal Aviation Administration through the Coronavirus Response and Relief Supplemental Appropriation Act of 2021 and further relief from the anticipated American Rescue Plan Act.

For more details on the Airport's operations, see the Management's Discussion and Analysis in the audit report or visit our website at www.opaguam.org.