



Financial Highlights
Guam Economic Development Authority (GEDA) Financial Audit
Fiscal Year 2023

August 5, 2024

The Guam Economic Development Authority (GEDA) received an unmodified (clean) opinion in its Fiscal Year (FY) ended September 30, 2023, financial statements from Ernst & Young LLP (EY). In GEDA's Report on Internal Control over Financial Reporting, EY did not identify any deficiencies in internal control that were considered to be material weaknesses.

GEDA ended FY 2023 with a net position of \$17.4 million (M), or a \$20M increase compared with the prior year's negative net position of \$2.5M.

Revenues and Expenses Decrease for Fiscal Year

Operating revenues decreased by \$7.6M (or 64%) from \$11.8M in FY 2022 to \$4.2M in FY 2023. There were decreases in all revenue categories, as operating grants and Tobacco Settlement revenue decreased for a total amount of \$6.5M. Rental income, Guam Ancestral Lands Commission (GALC) lease commissions, and Qualifying Certificate (QC) revenues also decreased for a total amount of \$127 thousand (K), which was attributed to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 87, paying off additional outstanding balances, and the timing of QC payments received. Additionally, there was a \$948K (or 85%) decrease in bonds fees resulting from closing one bond of the Guam International Airport Authority (GIAA).

Operating expenses decreased by \$95K (or 1%) from \$7.5M in FY 2022 to \$7.4M in FY 2023, with decreases across the board. Legal and professional services decreased by \$1.2M (or 45%) due to completing Task orders focused on marketing activities of specific programs and grants related to professional consultations for FY 2022. Office space and equipment rental decreased by \$190K (or 41%) from additional year-end adjustments related to GASB 87 in the prior year. However, there were some growth as salaries and benefits grew by \$860K (or 31%) due to the hiring of limited-term employees to support the short-term childcare programs. Additionally, travel expenses rose by \$4K (or 3%) due to increased conferences and training.

Bond Market Update and Financing Summary

In FY 2023, the municipal markets faced volatility due to the ongoing Russia-Ukraine conflict that began in 2022, and the Federal Reserve's dramatic interest rate increased to combat high inflation. Despite this, GEDA was able to work with various government agencies to secure savings and favorable rates. Notable financings included the GIAA's successful sale of \$47M in refunding bonds, reducing its debt service payments, and achieving net present value savings of \$2.3M. Despite a negative outlook due to the COVID-19 pandemic, the GIAA bonds were oversubscribed by eight times, allowing for lower borrowing rates and higher savings. The bonds closed in July 2023.

Bond Rating Agency Activity

In 2023, GEDA conducted meetings with bond rating agencies to update them on Guam's economic and financial status, with significant preparations involving financial analysts to present a comprehensive report. Due to Typhoon Mawar, additional meetings were requested for all credits. The General Fund and Special Revenues Fund obligations maintained stable ratings from S&P and saw a rating upgrade from Moody's for General Obligation Bonds from "Stable" to "Positive". The GIAA, heavily impacted by the pandemic, had its S&P outlook downgraded to "Negative" while Moody's upgraded its outlook to "Stable". The Guam Waterworks Authority maintained its rating but saw its outlook downgraded to "Negative" due to Typhoon Mawar.

Qualifying Certificate Community Contribution (QCCC) Grants

In response to a performance audit report by the Office of Public Accountability regarding Community Cash Contributions from October 1, 2012 to September 30, 2017, GEDA established the QCCC Program. The initiative, which GEDA launched Series 5 in November 2021 and Series 6 in June 2022, was accessible to projects within five service areas. These areas included health care, public safety, higher education, cultural preservation, and economic development. In FY 2023, because of the flurry of activity to benefit nonprofits under Prugramman Pinilan, GEDA did not launch a QCCC grant cycle.

Loan Programs

GEDA operates two loan programs to support different sectors of the economy, the Agriculture Development Fund (ADF) and Guam Development Fund Act (GDFA). The ADF focuses on individuals, corporations, and partnerships that engage in commercial agriculture businesses, offering financing for working capital needs and supplies/inventory purchases. In FY 2023, GEDA had no new farm loans, but serviced a total of six existing loans. On the other hand, the GDFA targets businesses in agriculture, fishing, manufacturing, tourism, and their support industries. GDFA provides long-term financing for fixed assets, working capital, and supplies/inventory. In FY 2023, the compliance division monitored a total of 28 loans.

Fiscal Year 2024 Initiatives

Child Care Assistance Grant Program

In April 2022, the Office of the Governor provided over \$100M in grant funds to further support other sectors of the childcare industry in FY 2024 to include after-school programs, village youth programs, new childcare facilities, and childcare employee retention grants. The program has been launched and GEDA will continue to work with the applicants for completion.

Guam HealthCare Campus and Guam Department of Corrections Lease Back Financing

Public Laws (P.L.) 36-56 and 36-57 pledges \$35M and \$5M, as annual lease payment for the new Healthcare Facility for up to 40 years and for the new and modernized Correctional Facility for up to 30 years, respectively. The first payments for both buildings will be funded by the federal reimbursement of the Earned Income Tax Credit and subsequent payments by the General Fund. GEDA expects to issue a Request for Proposal for a developer in FY 2023 after all preliminary site work, studies, and leases terms are finalized.

Challenges and Issues

In FY 2023, GEDA faced several significant challenges and issues, which had or could hamper its operations.

1. **Unfunded Mandates:** Reiterated from last year's challenges, GEDA is often tasked by the Guam Legislature with unfunded mandates. Unlike line agencies, GEDA does not receive Legislative appropriations meaning all expenses incurred to meet these mandates come out of GEDA's operating revenue. Some examples include mandates for the used oil task force, Tumon Bay parametric insurance task force, intraregional commerce commission, task force on submarine cables, and three tax credit programs.
2. **Revenue Constraints:** Majority of the commercial leases, a primary funding source for GEDA, were largely negotiated in the 1970s and 1980s with the goal of spurring economic activity. Despite achieving this goal, many leases are locked until 2065, generating insufficient revenue to sustain GEDA's operations and future initiatives. GEDA has entered into memorandums of understandings with GALC and the Chamorro Land Trust Commission to manage leased properties, but the success of these arrangements depends on the partner agencies' willingness to pursue economic development-driven leasing activities and the alignment of strategic directions among stakeholders.
3. **Legislative Restrictions:** P. L. 32-40, amended by P. L. 34-99, imposes a five-year limit on commercial leases, complicating the leasing process and making government-owned lands less attractive to developers.
4. **Financial Management Role:** As the Central Financial Manager and Consultant for the government of Guam, GEDA has to record hundreds of thousands in write-offs due to incomplete financing requests resulting from failure to secure legislative support.

Fiscal Year Outlook

In FY 2023, Guam's economy showed signs of recovery from the COVID-19 pandemic, with unemployment declining to 4.1% and visitor arrivals reaching about 600,000, approximately 38% of pre-pandemic levels. Building and construction permits decreased to \$254 million from a high of \$580 million in 2022, which had seen a spike due to pent-up demand. In addition, the H2B Visa population reached record highs near 5,000.

GEDA was also tasked by the Office of the Governor and the 36th Guam Legislature to implement the Local Employers Assistance Program (LEAP), aiding over 900 local businesses and affecting 6,834 employees. Despite ongoing distress in tourism, the industry lobbied for \$20 million in additional funding, which was authorized but not funded until FY 2024. GEDA emphasized economic diversification in aquaculture, additive manufacturing, and transshipment and increased its participation in trade missions, including the Select USA summit and missions to Taiwan and the Philippines. The Small Business Services Division also supported local businesses through trade missions in Palau and Las Vegas, Nevada, utilizing United States Department of Agriculture and Small Business Association funding.

Operating Expense Anomaly (Vendor Impersonation Fraud) and Management Letter

The management letter noted that in FY 2023, GEDA was affected by a social engineering attack that led to a payment fraud incident resulting to wire transfers that were made to an illegitimate account. Of the \$604K in fraudulent transactions, \$179K was recovered, resulting in a net loss of \$425K.

In November 2022, GEDA management identified the agency as a victim of vendor impersonation fraud. The vendor provided valid payment instructions via email, but their email was compromised with fraudulent banking information. GEDA's standard operating procedures for updating vendor information were not equipped to address such sophisticated fraud schemes at the time, but they have implemented new procedures to ensure secure transaction verification. EY recommended that GEDA continuously revisit their process to identify and mitigate risks to its business processes.

For more details, refer to GEDA's FY 2023 Financial Statements, Reports on Compliance and Internal Control, Management Letter, and The Auditor's Communication With Those Charged With Governance at www.opaguam.org or www.investguam.com.