



Government of Guam Solid Waste Fund FY 2012 Financial Highlights

September 11, 2013

With the closure of the Ordot Dump in August 2011, fiscal year (FY) 2012 marked the Layon Landfill's first full year of operation. The Government of Guam Solid Waste Fund (GGSWF) received an unqualified "clean" opinion. The GGSWF is comprised of three funds: the Solid Waste Operations Fund (SWOF), the Capital Projects Fund (CPF), and the Debt Service Fund. Collectively, the GGSWF generated \$23.5 million (M) in revenues and paid \$35.8M in expenses. The FY 2011 financial statements were restated due to certain accounts not being recorded in the appropriate funds.

Land Condemnation

In October 2012, a Superior Court order was issued for the payment of approximately \$25.1M for the condemnation of the land which encompasses the Layon landfill. As of September 2012, \$3.4M has been deposited to the Court, and the \$21.7M plus calculated interest at 6% from January 24, 2008 has yet to be made because the funding source to pay this obligation has not been determined. Interest of more than \$110 thousand (K) per month is accruing on the judgment. The Government of Guam (GovGuam) General Fund may be further obligated to pay for the land condemnation judgment if other legally available options are not considered.

Proposal to Increase Tipping Fee Rates to Pay for Debt Service

The court-appointed Receiver developed three rate options, which were presented to the Public Utilities Commission in June 2012. If the Full Reimbursement Rate for tipping fees was enacted, it would cover 75.92% of the debt service contemplated by Gov Guam's 2009 Limited Obligation Section 30 Bond indenture. The annual debt service principal payments of \$15.7M will begin in FY 2013. Under this option, monthly commercial rates would increase from \$172 to \$225 and monthly residential rates would rise from \$30 to \$35 in 2013.

Solid Waste Expenses

The GGSWF received \$23.5M in revenues, of which \$16.4M was from Tipping Fees, \$1M in interest earned, and \$6M in transfers in from GovGuam. Tipping Fees were paid by the commercial haulers at a monthly fee of \$156 (October 2010 to June 2011) and \$172 (July 2011 to September 2012). Additionally, monthly Residential tipping fees were \$24 (January 2011 to June 2011) and \$30 (July 2011 to September 2012). Of the total billing for tipping fees amounting to \$17.1M, \$10.7M (63%) is from commercial haulers, \$6M (35%) from residential, and \$349K (2%) from the government.

There are two major contractors involved in Solid Waste operations, one for the Hauler-only Transfer Station and the other for the Layon Landfill. Of the total FY 2012 costs of \$35.8M, the SWOF paid \$16M and the CPF paid \$8.6M. The Debt Service Fund paid \$11.2M in interest on the bonds. The CPF paid for Ordot Dump closure and post closure costs of \$3.9M, Layon Landfill costs of \$3.2M, and building/facility improvements of \$0.2M. The SWOF paid for landfill operations of \$3.1M, waste hauling services of \$2.9M, repairs and maintenance of \$1M, and personnel costs for contracted employees of \$0.9M. Costs for 36 full-time government employees was \$1.6M, while personnel costs for 22 contracted employees was \$867K.

During FY 2012, the Layon Landfill collected 92K tonnage of waste, a growth of 11.2K or 13.9% from FY 2011 of 80.8K. The growth was mainly from the military, which was an additional customer in FY 2012, having 8.3K tonnage of waste. Fifty-four thousand tons of wastes were

collected from commercial customers (59%), 20K from residential customers (22%), 6K from residential transfer stations (6%), 2K from government customers (2%), 1K from the mayors (2%) and 0.1K from other category (.1%). The other category increased by 117% due to the addition of the Bulky Item Collection Program.

Federal Receiver Fees

In March 2008, the United States District Court of Guam issued a Court Order that placed the Solid Waste Division of the Department of Public Works in Receivership. For FY 2012 and FY 2011, receiver fee expenditures were \$1.7M and \$2.8M, respectively. Of the \$1.7M spent in FY 2012, \$0.7M was paid from the SWOF and \$0.9M from CPF. Since the appointment of the Receiver in March 2008 through September 2012, total Receiver fee expenditures amounted to \$11.4M. Of this amount, \$3.9M was funded by the General fund, while \$7.5M was funded by the GGSWF.

Closure and Post Closure of Ordot Dump

Closure costs for Ordot Dump were \$3.9M in FY 2012. GovGuam estimates the Dump closure and post-closure costs at \$41.1M at September 2012. The Ordot Dump's closure design is now complete and the Receiver recently issued a Request for Bid for the closure of the dump.

Opening of Layon Landfill

The Layon Landfill opened in September 2011 and presently consists of two cells with capacity up to 11 cells, and has an estimated lifespan of 50 years. The two existing cells have an expected life span of 10 years. While the present tipping fees sets aside a portion of the funds for the eventual construction of additional cells as the existing cells become exhausted, these reserves may be inadequate if they are used to fund the closure of Ordot Dump or diverted to pay the former landowners. Total construction cost for the Layon Landfill infrastructure amounted to \$69M. With an average cell size of 11.2 acres, the Receiver estimated the closure costs for two cells at approximately \$4.6M and construction of new cells at \$10.4M each. The landfill closure and post closure care liabilities as of September 2012 amounted to \$974K, and are recorded in the General Fund.

Compliance Report, Management Letter, and Passed Adjustments

Independent auditors Deloitte and Touche, LLP identified a repeat compliance finding related to procurement, in which there was incomplete documentation to demonstrate full compliance with applicable procurement requirements. For example, one item awarded in 2004 had an original amount of \$1.3M, but was up to \$8.2M due to several amendments and change orders, and any periodic assessments made, if any, to support continuation of related services, were not evident. In another sample, the initial contract of \$0.9M increased to \$2.6M after two contract amendments, but there was no justification or analysis as to why no further procedures were necessary for the change orders. The Receiver disagrees with the finding.

A separate management letter identified four deficiencies, of which three were repeats from the prior year. The auditors made several recommendations, including: (1) encumbrances be approved and reviewed by DOA for ongoing pertinence; (2) other revenue related transactions be summarized and provided to DOA for recording to the general ledger; (3) establish formal policy relative to the recognition of allowance for doubtful accounts; and (4) approval of overtime work authorization be documented.

The auditors proposed journal entry adjustments with a net effect of increasing net assets by \$0.2M, which management posted subsequently in FY 2013. However, the Receiver disagreed with the postponement of the adjustments. For a more detailed discussion on GGSWOF's operations, refer to the Management's Discussion and Analysis or view the reports in its entirety at our website at www.guamopa.org.