



Government of Guam Solid Waste Operations Fund FY 2017 Financial Highlights

June 26, 2018

The Operations Fund, Capital Projects Fund, and Debt Service Fund are contained in the Guam Solid Waste Funds financial statements. The Guam Solid Waste Authority's (GSWA) transactions are accounted for in the Operations Fund. In fiscal year (FY) 2017, these funds collectively decreased total fund balance by \$7.8 million (M) mainly due to increases in contractual service payments for transfer station projects. Independent auditors, Deloitte & Touche, LLP, expressed an unmodified (clean) opinion on the Government of Guam Solid Waste Operations Fund (GGSWOF) financial statements. There was one finding on compliance with Guam procurement requirements that has not been cured since FY 2013. A separate Management Letter identified three deficiencies.

Transition from Receiver to GovGuam Postponed

The Federal Receiver, Gershman, Brickner, and Bratton, Inc. (GBB) was expected to transition GSWA operations to the Government of Guam (GovGuam) in December 2017. However, the District Court of Guam (the Court) extended the transition to June 30, 2018 because the Post-Closure Plan for the Ordot Dump has still not been approved, there is insufficient time to familiarize the new Comptroller, and the promulgation of the revised rules and regulations has not occurred.¹ The Court is expected to revisit this transition date before June 30, 2018.

The Receiver began solicitation for the Ordot Dump post closure management in June 2017. Subsequently, in May 2018, a contract has been negotiated with a party to operate the Ordot Dump Closure Facility. The contract will be implemented beginning June 2018.

In FY 2017, Receiver fees were \$1.6M. Cumulative payments to the Receiver since GBB was appointed in March 2008 were \$19.3M.

Capital Projects Fund

Cumulative expenditures for capital projects totaled \$199.3M as of September 2017, of which \$525 thousand (K) was paid in FY 2017 zeroing out the fund balance. However, there are several ongoing projects including residential transfer stations, the Ordot Gas Mitigation Project, and the Cell 3 Project. These projects will require funding from the Operations Fund.

Layon Landfill and Tax Credits for Land Condemnation

The Layon landfill opened in September 2011 with a cost of \$106.0M and estimated life of 50 years. GovGuam is currently utilizing two of the 11 cells (with a capacity of 15.8 million cubic yards) which are expected to be full by 2021. The Cell 3 Project (design and construction) is ongoing to address this with an expected cost of at least \$16.8M. GovGuam negotiated long-term tax credit certificates with the landowners encompassing the Layon landfill. In FY 2017, \$1.3M in tax credits were

¹ Civil Case No. 02-00022, December 1, 2017.

redeemed leaving \$4.8M in outstanding tax credits. Any estimated unpaid balance will continue to accrue interest at 6% per annum.

Estimated future costs for the Layon landfill closure and post closure care is \$101.7M. Post-closure care liability of \$5.2M has been recorded based on 5.43% of the estimated landfill usage as of September 30, 2017. GovGuam will recognize the remaining estimated cost of \$96.5M based on its landfill usage. Future costs may be higher due to inflation, changes in technology, and regulations.

Net Loss from Increase in Operations Fund Expenditures

The Operations Fund reported a net loss of \$3.6M compared to the previous year's net income of \$3.6M. Although FY 2017 total revenues slightly decreased by \$86K to \$19.3M, total expenditures increased by 45%, or \$7.1M, from \$15.8M in FY 2016 to \$22.9M in FY 2017. The increase was mainly due to contractual services payments for the Agat, Dededo, and Malojloj transfer stations projects and Layon leachate analysis.

The Solid Waste Funds collectively reported a net loss of \$7.8M compared to FY 2016's net loss of \$549K. Total revenues collectively decreased by \$8.6M due to decreases in General Fund transfers for debt service. In August 2016, the Section 30 2016 Series A Bonds were issued to refund the Section 30 2009A Series Bonds, which resulted in lower debt service payments. The 2009 Bonds were issued to finance the Solid Waste Management facilities (Ordot and Layon).

Tipping Fees are GSWA's main source of revenue which decreased by \$66K in FY 2017. GSWA reported \$1.8M commercial haulers receivables in FY 2017, of which one customer accounted for 27%. Total receivables estimated to be uncollectible amounted to \$1.3M in FY 2017 compared to \$1.2M in FY 2016.

Procurement Authority Granted to Receiver by the Court

The independent auditors cited one finding for noncompliance with Guam procurement requirements. Local funds of \$1.3M spent for temporary staffing and contractor services did not demonstrate competitive procurement. The Department of Administration agreed with the finding while the Receiver disagreed. The Court authorized the Receiver to enter into contracts necessary to satisfy the Consent Decree projects. GSWA intends to enter into new agreements after the receivership and provide a corrective action plan for this finding.

Management Letter

In a separate letter, the independent auditors identified three deficiencies pertaining to: (1) untimely reconciliation of accrued expenditures, (2) difference of \$2.8K in accounts receivable aging schedule, and (3) the need to reassess the adequacy of the allowance for doubtful accounts.

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