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Government of Guam Solid Waste Funds – Fiscal Year 2020 Financial Highlights

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Hagåtña, Guam – The Office of Public Accountability released the Government of Guam (GovGuam) Solid Waste Funds financial statements and reports of compliance and internal controls, management letter, and letter to those charged with governance for fiscal year (FY) 2020. Independent auditors Deloitte & Touche, LLP rendered an unmodified (clean) opinion on financial statements.

The Guam Solid Waste Funds (GSWF) financial statements include three funds: (1) Solid Waste Operations Fund, (2) Capital Projects Funds, and (3) Debt Service Fund. These funds collectively ended FY 2020 with a net loss of \$19.3 million (M), which is a significant decrease of \$55.1M from the prior year's net gain of \$35.8M. The decrease in fund balance was primarily due to the construction and contracting cost of Layon Landfill's new cell.

Coronavirus (COVID-19) Impact

In March 2020, the Governor of Guam issued Executive Order 2020-03 ordering the closure of all schools and non-essential GovGuam agencies and private sector businesses. The Guam Solid Waste Authority (GSWA) closed its offices to the public and required all non-essential employees to work from home. GovGuam expects this matter to negatively impact commercial tipping fee collections. Due to the uncertainty surrounding the duration of the state of emergency caused by COVID-19, GSWA is unable to reasonably estimate its ultimate financial impact. GovGuam allotted \$34 thousand (K) to GSWA from the Coronavirus Act Relief, and Economic Security Act (CARES Act) to fund certain hazard pay to employees.

Transition from Receiver to GovGuam

In April 2019, the United States District Court of Guam (the Court) issued an order regarding the partial end of receivership turning day-to-day operations of GSWA from the Receiver to GSWA management, effective May 2019. The Receiver's remaining responsibilities include the closure of Ordot Dump. Receiver fees paid to Gershman, Brickner, and Bratton amounted to \$318K in FY 2020 for a total of \$22.1M since 2008. Of the total, \$3.8M was paid by the General Fund.

GovGuam Payments for Solid Waste Related Bonds

In July 2019, GovGuam issued \$27.6M Series A General Obligation Bonds. The bonds were primarily used to finance the construction of a new cell for the Layon Municipal Sanitary Landfill operated by GSWA, and to pay costs associated with the issuance of the bonds. Section 30 Bonds 2016 Series A issuance of \$236.6M continues to be backed by GovGuam with interest and principal payments for these bonds from the Section 30 federal income tax collections.

In FY 2020, GovGuam paid \$21M for the principal and interest on the 2016 bonds. These bonds will mature in 2046 where GovGuam's cumulative remaining payments will total \$332.5M, of which \$115.2M is interest.

Table 1: Limited Obligation Bonds, 2016 Series A Payment Schedule

<u>Year ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 10,375,000	\$ 10,606,875	\$ 20,981,875
2022	10,915,000	10,074,625	20,989,625
2023	11,475,000	9,514,875	20,989,875
2024	10,140,000	8,974,500	19,114,500
2025	9,280,000	8,489,000	17,769,000
2026 - 2030	54,800,000	34,781,000	89,581,000
2031 - 2035	69,335,000	19,265,125	88,600,125
2036 - 2040	14,165,000	8,551,625	22,716,625
2041 - 2045	18,190,000	4,527,000	22,717,000
2046 - 2047	<u>8,650,000</u>	<u>438,000</u>	<u>9,088,000</u>
	\$ 217,325,000	\$ 115,222,625	\$ 332,547,625

GovGuam will continue to assume the bond payments using the Section 30 funds at GSWA's current rate. Should GovGuam seek reimbursement from GSWA, it will need to adopt the full government reimbursement rate. To date, a new rate study has been planned to adopt a new rate for GSWA.

Table 2: Rate Options

Customer Type	Current Rate*	Full Gov't Reimbursement Rate
Commercial (per ton)	\$ 172	\$ 225
Residential (per month)	\$ 30	\$ 35
Residential Transfer Station	\$ 7.50 / \$ 15	\$ 7.50 / \$ 15
Cost to GovGuam	\$ 7,483,397	\$ -

Revenues Decreased and Expenditures Increased

GSWF reported total revenues of \$39.5M in FY 2020, a decrease of \$1M from FY 2019. The reduction was primarily due to the decline in tipping fee revenues impacted by the economic downturn associated with the COVID-19 pandemic. The prior year's fund transfer of \$21M minimally decreased by \$39K or 0.18% in the current year. Operating revenues of \$18.2M decreased by \$1.1M or 5.8%. Tipping fees, GSWA's major source of revenue, slightly decreased by \$1.1M or 5.9% from \$18.9M in FY 2019.

Total expenditures increased by \$22.4M, from \$36.4M in FY 2019 to \$58.8M in FY 2020. This gain was mainly due to increases in capital projects, principal retirement, and interest and fiscal charges. Capital projects increased \$16.6M from \$2.7M in FY 2019 to \$19.4M in FY 2020. Principal retirement increased by \$5M from \$5.4M in FY 2019 to \$10.4M in FY 2020. Interest and fiscal charges increased by \$721K from \$11.5M in FY 2019 to \$12.2M in FY 2020. Lastly, Solid Waste Operations Fund expenditures decreased by \$1.2M from \$18.4 in FY 2019 to \$17.1M in FY 2020.

Compliance Report and Management Letter

In the compliance report, there was one finding pertaining to sole-source procurement for temporary staffing services for \$960K. GSWA cited Title 10, Chapter 51A, §51A118(b) of the Guam Code Annotated to continue the contract for no more than three (3) years from the date of transfer of management from federal receivership. However, GSWA plans to bid out the services before the 3-year period lapses. In a separate letter, auditors identified one deficiency related to accounts receivable reconciliation.

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