



FY 2009 Performer and A.F.T.E.R. Analysis Highlights

March 4, 2011

For fiscal year (FY) 2009, the government of Guam received an overall score of **1.30** on a scale of 1 (least favorable) to 10 (most favorable) from the most recent Performer and Audit Findings, Timeliness, and Exception Resolution (A.F.T.E.R.) Analysis conducted by Crawford & Associates, P.C. for the Department of the Interior, Office of Insular Affairs (DOI-OIA). This is Guam's lowest score in seven years of the Performer Analysis and the lowest score among the 10 other insular areas similarly analyzed. The government of Guam's unfavorable rating continues primarily due to its deficit of \$157 million (M).

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
1.30	1.31	2.66	1.32	1.70	2.86	2.21

The Performer is an analysis of a government's financial statements used to measure government financial performance. The Performer uses 12 individual ratios to identify financial warning signals and provides an overall rating as a collective benchmark of a government's success as a whole. In FY 2009, the government of Guam received 11 unfavorable ratings out of the 12 ratios and an unfavorable overall rating, indicating the continued deterioration of its financial condition.

Of the government of Guam's \$1.2 billion (B) in assets, 113% was funded with debt or other obligations. This means that for every \$1.00 of assets, the government of Guam owes \$1.13 to others. The ratio remains consistent with prior years and indicates that the government of Guam continues to live beyond its means.

General Fund Deficit

The Performer considers the full accrual version of the government of Guam's total assets and liabilities. In FY 2009, the government of Guam's net asset deficiency (deficit) increased by \$140M or 826% from the restated amount of \$17M to \$157M. The increase in the deficit was due to continued over-expenditures as expenses increased from \$454M to \$524M, while revenues decreased from \$513M to \$483M. The deficit is primarily financed by delaying the payment of income tax refunds totaling approximately \$259M.

No Cash Reserves (Unrestricted Net Assets)

Most states in the U.S. have developed cash reserves or surpluses known as unrestricted net assets, which they have accumulated over the years, as they have lived within their means. These reserves fund emergencies, shortfalls, or other unexpected needs. Because the government of Guam has been in a deficit position for over a decade, it does not have any available resources to fund for a rainy day nor does it have cash to carry over in the following fiscal year. In FY 2009, the level of unrestricted net assets ratio showed a negative 81% of total unrestricted net assets. The Government Financial Officers Association recommends the

establishment of unrestricted net assets or cash ranging from 5% to 15% of its operating expenses. Guam has a long way to go to achieve this benchmark.

Cost of Services

In FY 2009, the intergenerational equity ratio reflected that the government of Guam funded 86% of its expenses with current year revenues. This ratio measures whether the government lived within its means or was required to use other resources to fund a portion of current year costs. The 14-cent shortfall for every \$1 of revenue was again financed by delaying tax refund payments.

Taxes and Debt per Capita

Taxes per capita, which measure the government's tax burden on its citizens, showed total taxes of \$505M or \$3,264 per person in FY 2009. Total taxes of \$505M is comprised of gross receipts, income and other taxes, except for hotel taxes. This was a \$132 per person increase from FY 2008. In addition, the financing margin of debt per capita, which measures the government's debt burden on its citizens, revealed that the government of Guam had a \$1.15B long-term debt that increased by \$1,492 per person from \$5,495 in FY 2008 to \$7,437 in FY 2009. The \$1.15B long-term debt consists of \$747M in long-term debt, \$259M in provisions for tax refunds, and \$141M in other non-current liabilities. Both the government's tax and long-term debt place high burdens on its citizens compared to other insular governments.

Debt Ceiling and Issuance of Additional Debt in FY 2010

Public Law 30-7 redefined assessed value from 70% to 90% of taxable appraised value, with the debt ceiling calculated at 10% of the assessed value. With that change, the debt capacity was calculated at over \$1B (\$1,020,506,079) as of December 31, 2010. At December 31, 2010, the government of Guam has \$753M in obligations, leaving a balance of \$267M available for future debt obligations. There are five approved financing items totaling \$186M, which will bring the amount available for future financing to \$81M. The five approved items are for the Department of Land Management Building (\$16M), Guam Fire Department (\$8M), Guam Memorial Hospital Authority (\$25M), Tourist Attraction Fund (\$97M), and University of Guam Capital Improvement Projects (\$40M). In February 2011, the GMHA loan was completed with borrowing limited to \$12M. As of December 31, 2010, the government's annual debt service payment was \$148M.

Elimination of Unfunded Pension Liability and Prior Period Adjustment

In December 2009, the Department of Administration re-designated the Defined Benefit (DB) Plan from a single-employer plan to a multi-employer plan. As a multi-employer retirement plan, the unfunded liability was no longer recorded as a liability, but instead footnoted in the financial statements. The \$193M unfunded pension liability was eliminated in the FY 2009 financial statements, but was offset by the issuance of the \$474M Deficit Financing Bonds in June 2009. The elimination of the unfunded liability had no effect on cash.

The government of Guam Retirement Fund Board of Trustees, however, continues to maintain that the DB Plan has operated as a single-employer plan since its inception, and will be treated as such until the Board finds it necessary to change the status of the plan.

Improved Audit Findings and Questioned Costs Resolution

The A.F.T.E.R. Analysis is used to monitor a government's progress towards resolving its most significant findings and exceptions and timely submission of the resolution to the Federal Clearinghouse. The analysis found favorable results for the resolution of audit findings. This is the fifth consecutive year that the government-wide audit was issued timely and third year that its financial statements had no qualifications. Despite the compliance report being qualified due to due to material weaknesses and significant deficiencies, there were no questioned costs. The government of Guam is to be commended for making significant efforts to resolve cumulative questioned costs, now at \$5M from \$51M in FY 2002.

Acknowledgement

The Performer and A.F.T.E.R. Analysis developed by Crawford and Associates, P.C. is one of several methods utilized by the Graduate School's Pacific Islands Training Initiative to assist DOI-OIA in assessing insular governments' tracking of their financial health and performance. It is an overall rating of the government and is intended to complement the government of Guam's annual financial reports. It should not be used as the only source of financial information to evaluate performance. The analysis can be viewed at our website at www.guamopa.org or at www.pitiviti.org, the official website of the Pacific and Virgin Islands Training Initiatives.