



Government of Guam Solid Waste Funds FY 2013 Financial Highlights

September 4, 2014

In its second full year of operations at the Layon Landfill, the solid waste operations closed FY 2013 with an increase in fund balance (surplus) of \$2.7 million (M) and cumulative fund balance (retained earnings) of \$13.9M. The current tipping rates are insufficient to meet full debt service on the \$202M bonds. The 2013 budget appropriation estimated reimbursement of \$12M for debt service, but only \$4.5M was reimbursed by the Receiver. In May 2014, the Receiver suspended the debt service reimbursement to the General Fund.

Future Layon Landfill Cost

To date, total cost of the Layon landfill is \$73.2M. The Layon landfill consists of 11 cells with a capacity in excess of 15.8 M cubic yards and an estimated life span of 50 years. From the \$73.2M, two cells were built and the infrastructure of the remaining cells. For future estimated Layon closure costs, a liability of \$1.9M has been recorded at the Government Wide level based on the estimated usage to date. The remaining estimated liability of \$106.7M will be recognized proportionally as the remaining capacity is used. Actual costs may be higher due to inflation, changes in technology, and regulations.

In the Receiver's June 2014 report, construction of a new cell at Layon is \$10.8M. Closure cost for cells 1 & 2 is \$5.5M. Future cost to build the remaining 9 cells is \$97.2M and closure of the 11 cells to \$30.3M for total future cost of \$127.5M.

Ordot Dump Closure and Post Closure Costs

The Receiver awarded a contract for closure and post closure preparation of \$7.7M. Another \$1.2M has been obligated for land acquisition. In December 2013, two contracts totaling \$47M were awarded for the main construction of the Ordot Dump closure (\$40.5M) and construction management services (\$6.5M). In the Receiver's May 2013 report, there is an additional post closure cost for Ordot Dump of \$14.3M.

Land Condemnation

In October 2012, a Superior Court Judge awarded \$25.1M for the condemnation of the land measuring approximately 1,382,428 square meters, which encompasses the Layon Landfill. As of September 30, 2013, total cost of the land amounted to \$32.5M, composed of the principal of \$25.1M plus interest of \$7.4M (computed at 6% per annum from January 24, 2008). The cost of the land is \$18.17 per square meter plus interest per square meter of \$5.36 for a total cost per square meter of \$23.53. This cost per square meter will continue to rise as interest accrues. The Government of Guam (GovGuam) has already issued tax credit certificates to some landowners to satisfy this obligation.

Current Tipping Rates Insufficient for Debt Service and Future Costs

The current tipping rates are insufficient to the pay annual debt service of \$15.7M on the \$202M landfill bonds. Debt service will continue to be borne by the General Fund should tipping rates not be raised to cover some of these costs. As previously mentioned in prior year highlights, the Receiver developed three rate options, which were presented to the Public Utilities Commission in June 2012. No further action on these rate proposals has been pursued.

Solid Waste Revenue & Expenses

Total revenues of \$18.8M increased slightly by \$1.4M or 8.1% from \$17.4M in FY2012. Tipping fees were \$18.7M, a \$2.3M increase from prior year. Two commercial haulers accounted for 42% of the total tipping fee revenues. Of the tipping fee billings, commercial haulers accounted for \$10.5M (60%), residential customers for \$6M (34%), and government customers for \$1.1M (6%). During FY 2013, the Layon Landfill

collected 94 thousand (K) tonnage of waste, a growth of 2K from FY 2012 of 92K. Residential and commercial accounts waste disposal declined, government accounts doubled, and Mayor's accounts grew by 11%.

Other revenues include interest on investment of \$479K, the new Host Community Premium Surcharge fees of \$314K, and decrease in the fair value of investment of \$653K. Host Community Premium Surcharge fees of \$ 314K is based on \$3.57 per ton of waste for commercial and government customers and \$0.38 per month for residential customers beginning October 1, 2012. These fees are given to the villages of Inarajan and Ordot annually pursuant to Public Law (PL) 30-165 and amended by PL 32-021.

Of the total FY 2013 expenditures of \$37.3M, \$15.7M was for debt service, \$12.5M for operations, \$8.8M for capital projects and \$314K for the host communities of Inarajan and Ordot. Of the total debt service payment of \$15.7M, \$11.2M came from the General Fund and \$4.5M from the operations fund controlled by the Receiver.

Since March 2008, a total of \$12.9M in receiver fees were paid, of which \$1.5M was paid in FY 2013. Of the \$12.9M, \$3.9M was funded by the General fund, while \$9.0M was funded by the operations fund controlled by the Receiver.

Receiver Control

The Receiver, pursuant to orders of the District Court of Guam, has total operation control. The complete turnover of control and authority to GovGuam will occur at the date ordered by the District Court Judge. Presently, all expenditures of the funds are authorized and controlled by the Receiver and are processed and posted under the Department of Administration's accounting system.

Transition Plan

Public Law 31-20 authorized the creation of the Guam Solid Waste Authority (GSWA) to run and manage the solid waste operations. The new board members have been meeting on a regular basis since March 2013. With the Receiver now in its third year of operation at the Layon Landfill, the new GSWA board has not yet been given the opportunity to transition to run Layon and the various parties have not mutually agreed upon a transition plan that would allow for an earlier transition.

Compliance Report and Letter to those Charged with Governance (SAS 122)

Independent auditors Deloitte and Touché, LLP identified one repeat compliance finding related to procurement, in which there was incomplete documentation to demonstrate full compliance with applicable procurement requirements. Audit Finding No. 2011-1 and No. 2012-1 remain uncorrected as of September 30, 2013. The Receiver disagreed with Audit Finding No. 2012-1.

The auditors also identified two repeat findings in a separate letter relative to formal policy on Allowance for Doubtful Accounts and encumbrances. The auditors recommended that a formal policy relative to the recognition of allowance for doubtful accounts be established. With regards to encumbrances, the audit stated that encumbrances under two fund accounts were understated by a net of \$9.8M either due to expired or invalid items. The auditors recommended reclassifications to correct the reserve, encumbrances be approved and reviewed for ongoing pertinence and reserves be recorded based on the contract amounts.

The auditors proposed nine audit adjustments resulting in an increase in fund balance of \$761K of which \$722K pertained to increased revenues. Additionally, there were six uncorrected misstatements, which would have decreased fund balance by \$4K and decreased revenues by \$48K.

For a more detailed discussion on Government of Guam Solid Waste Funds (GGSWF)'s operations, refer to the Management's Discussion and Analysis or view the reports in their entirety at our website at www.guamopa.org.