



Guam Economic Development Authority FY 2016 Financial Highlights

April 27, 2017

The Guam Economic Development Authority's (GEDA) financial audit report includes two reports: 1) GEDA Operating Fund, the State Small Business Credit Initiative (SSBCI), and the Tobacco Settlement Authority (TSA); and 2) two trust funds, Guam Development Fund Act (GDFA) and Agricultural Development Fund (ADF), administered by GEDA. For fiscal year (FY) 2016, total combined funds closed with a net income (increase in net position) of \$268 thousand (K), a decrease of \$512K from FY 2015's net income of \$780K.

Independent auditors Deloitte & Touche, LLP issued an unmodified (clean) opinion on GEDA's FY 2016 financial statements. The independent auditors did not identify any material weaknesses or significant deficiencies in GEDA's Report on Internal Control over Financial Reporting. GEDA is to be commended for its 13th year of having no instances of noncompliance in their financial statements. However, a management letter cited two deficiencies related to investments and accounts payable.

Bond Issuance Outlook

Puerto Rico's financial problems caused Fitch Ratings to downgrade the Government of Guam's (GovGuam) outstanding Business Privilege Tax (BPT) bonds from A- to BB. According to GEDA, the rating had nothing to do with a change in Guam's credit strength or any factor within Guam's control. It was prompted by the federal Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which President Obama signed into law on June 30, 2016. Fitch stated that despite Guam's strong economy and growing revenues, they are concerned with the Government's inability to sustain a structural balance and high liability burden. Based on Fitch's unchanging position, GovGuam requested the ratings be withdrawn. Meanwhile, Standard & Poors Global, the other rating agency to rate the BPT credit, affirmed its A rating on the BPT bonds on July 11, 2016.

In 2016, GEDA and the GovGuam Fiscal Team assisted in the following:

- Sale of the \$236.6 million (M) Limited Obligation (Section 30) Bonds at a record low All-in True Interest Cost of 3.32%. Proceeds from the issuance went to the refunding of the 2009 Section 30 Bonds, taking out the Bank of Guam loan to the Guam Memorial Hospital Authority (GMHA), refunding of the Okkodo High School Certificates of Participation (COPs) Series 2013B, and \$45M for GMHA's Vendor Payables.
- Guam Waterworks Authority's (GWA) sale of Series 2016 GWA Water and Wastewater System Revenue Bonds valued at \$143.3M. The bond was sold at a low interest rate of 4.26% with demand exceeding available bonds 10 times over.
- Guam Education Financing Foundation's refunding \$38.6M COPs Series 2016 A & B Bonds with an All-In True Interest Cost of 3.49%. The Series 2016 COPs refunded the 2006 and 2008 COPs with a total savings of \$3.8M or a 5.7% lease payment savings.

Operating Revenues Increased

GEDA Operating Fund's revenues increased by \$800K or 35%, from \$2.3M in the prior year to \$3.1M, due mainly to the increase in Qualifying Certificate (QC) revenue and bond fees. Revenues were derived mainly from three sources comprised of 39% in rental income (\$1.2M), 30% in bond fees earned (\$928K), and 29% in QC fees (\$874K). Rental income increased by \$76K due to rent escalation and participation rent

received in FY 2016. Bonds fees earned increased by \$205K due to the timing of a bond issuance, as well as the total par amount of the bond. QC application and other fees increased by \$532K due to additional QCs for Public Investment contribution.

SSBCI Fund revenues for FY 2016 amounted to \$118K. With \$13.2M in funding, the SSBCI program provides additional sources of credit to support and help small businesses located in under-served communities, provide credit opportunities to women-owned and minority-owned businesses, and add new jobs to Guam's economy. As of FY 2016, two Lenders enrolled 52 loans in the program totaling \$11.9M, which is an increase from the 48 loans in FY 2015 that amounted to \$10.5M. As the guarantor for these loans, GEDA paid \$26K and \$41K on two defaulted loans in FY 2016 and FY 2015, respectively.

TSA Fund revenues for FY 2016 amounted to \$2.4M. The TSA fund is a separate fund that records the annual tobacco settlement revenues allocated to Guam. In turn, these revenues are used to pay annual debt service on the outstanding balance of TSA bonds, which was \$30.6M as of September 30, 2016. The original principal amount of the TSA bonds issued was at \$37M and will be paid off in 2034.

GEDA's two trust funds, GDFA and ADF, had investments of \$10.9M. Investment income, GDFA and ADF's main revenue source, was \$676K in FY 2016, compared to the prior year's investment loss of \$323K. Meanwhile, interest income on the remaining loans amounted to just \$23K in FY 2016, compared to \$63K in the prior year. No new loans were made during the year.

Other Functions to Transfer to GEDA

In February 2017, the Governor signed Executive Order 2017-02. This effectively transferred the function of the Chamorro Village to GEDA. Transition plans are underway, with an anticipated transfer date of late May 2017. In addition, GEDA has been communicating with the DPW Permit Center regarding the transfer of its functions to GEDA. Bill 31-34 (COR) was introduced with plans to establish a permanent One Stop Business License and Permitting Center to be operated by GEDA. This intends to absorb the functions of the DPW Permit Center, as well as other regulatory agencies.

Government Accounting Statement – Pension Liability

Implementation of the Governmental Accounting Standards Board Statement Nos. 68 and 71 related to accounting and financial reporting for pensions in FY 2016 recognized GEDA's pro rata share of the GovGuam's net pension liability. In FY 2016, GEDA's pro rata share was \$4.7M, which is a \$419K increase from \$4.2M in FY 2015.

Management Letter

A separate management letter cited two deficiencies related to the following:

- Certain investment accounts are shared by GEDA, GDFA and ADF. As such, the recording of allocated investment transactions, including gains/losses, dividend income and fees, were cumbersome and prone to error. Also, separate general ledger accounts were not utilized to record different investment accounts.
- Accounts Payable includes long outstanding obligations of \$82K for excess reimbursements related to 2011 and 2014 bonds. It also includes items from 1993 to 1997, which appear to be non-existent and invalid as of FY 2016.

As matter of disclosure, the Public Auditor's stepson is one of GEDA's two legal counsels.

For more detailed commentary, refer to the Management's Discussion and Analysis in the audit report at www.opaguam.org and www.investguam.com.