



Government of Guam Solid Waste Funds FY 2014 Financial Highlights

June 24, 2015

The Guam Solid Waste Authority (GSWA) ended its third full year of Layon Landfill operations. The Government of Guam Solid Waste Operating Fund (GGSWOF) ended in Fiscal Year (FY) 2014 with a modest increase in fund balance (surplus) of \$1 million (M) and cumulative fund balance (retained earnings) of \$14.9M. Collectively, Fund Balance of \$62.4M decreased by \$26.9M (30%) from \$89.3M in FY 2013, due primarily to capital projects expenditures.

Independent auditors, Deloitte & Touche, LLP, expressed an unmodified (clean) opinion for the GGSWF FY 2014 financial statements. There were two findings on internal control over financial reporting and compliance pertaining to sole source procurement and past due encumbrances. A Management Letter identified five deficiencies.

Current Tipping Fees Insufficient for Debt Service and Future Costs

The current monthly tipping fee rates of \$172 (commercial), \$30 (residential) and \$7.50/\$15 (residential transfer stations) are insufficient to pay for the annual debt service of \$15.7M. If the current tipping fees are not raised, debt service and other future costs will continue to be borne by the General Fund. Of the \$15.7M debt service, only \$2.2M came from the Receiver. In May 2014, the Receiver suspended its monthly reimbursements in order to fund additional capital projects.

Layon Landfill and Land Condemnation

The Layon Landfill which opened in September 2011, is included as a capital asset in the Government of Guam (GovGuam)'s government-wide financial statements at a total cost of \$106M. The Layon Landfill consists of 11 cells with a capacity in excess of 15.8M cubic yards and an estimated life span of 50 years. Currently, GovGuam is utilizing two cells that have a projected life of ten years.

Total cost of the condemned land for the Layon Landfill amounted to \$33.7M, composed of \$25.1M in principal and \$8.6M in interest (computed at 6% per annum from January 2008). GovGuam negotiated tax credits with the landowners and redeemed \$11M as of FY 2014. The estimated unpaid balance of \$19.3M will continue to accrue interest of 6% per annum or \$1.2M per year.

Ordot Dump Land Acquisition

In the March 2015 Receiver report, all or portions of five separate parcels of land are needed for the closure of Ordot Dump. For two parcels, the Superior Court ordered the full release of funds totaling \$172K and the third parcel, a partial release of \$78K. The fourth parcel (134K square meters) for \$870K is still pending due to potential discrepancy of lot size, while the fifth parcel, the purchase price is still being negotiated.

Layon Landfill and Ordot Dump Estimated Future Liabilities

Estimated future costs for the Layon Landfill closure is \$109.3M. As of September 30, 2014, post closure care liability of \$3M has been recorded at the government-wide level based on 2.75% estimated landfill usage. GovGuam will recognize the remaining estimated cost of \$106.3M based on its landfill usage until the remaining estimated capacity is filled.

An estimated post closure care liability of \$22.6M for Ordot Dump was recorded at the government-wide level. Actual costs for the Layon Landfill and Ordot Dump may be higher due to inflation, changes in technology, and regulations.

Solid Waste Revenues Decreased While Expenses Increased

The combined fund revenues of \$17.7M decreased by \$1.1M (6%) from \$18.8M in FY 2013. Tipping fees of \$17.3M, decreased by \$1.7M from prior year of \$19M due to a \$643K increase in the allowance for uncollectible accounts and recognition of delinquent tipping fees collected in 2013. Two commercial haulers accounted for 37% of the total tipping fees revenues. Of the \$17.6M in total billings, commercial haulers accounted for \$9.9M (56%), residential customers for \$6.2M (35%), and government customers for \$1.6M (9%).

During FY 2014, the Layon Landfill collected 95K tons of waste, a growth of 1K from FY 2013 of 94K. Residential, military, mayors and transfer stations' waste disposals declined, while that of the government increased by 44%. As of December 2014, GSWA's residential customer base was 17K.

The combined fund expenditures of \$58M, increased by \$20.7M (56%) from \$37.3M in FY 2013. The largest expenditure was \$27.4M for capital projects which increased by 211% due to capital-related expenditures associated with consent decree projects. This was followed by \$15.7M for debt service, \$14.6M for operations and \$322K for the Host Community Premium Surcharge fees for the villages of Inarajan and Ordot. Capital outlays increased by \$1M, from \$227K in FY 2013 to \$1.3M due to trash cart purchases. Contractual services increased by \$990K, from \$9.2M to \$10.2M due to increases in repair, hauling and environmental monitoring services. Supplies increased by \$126K, from \$389K to \$514K due primarily to increase in fuel costs. The Receiver expenditures amounted to \$1.5M bringing a total of \$14.4M as of September 2014. Of this amount, \$3.8M was funded by the General fund, while \$10.6M was funded by the operations fund.

The Department of Administration (DOA) increased the Allowance for Uncollectible Accounts by \$643K, from \$221K in FY 2013 to \$854K in FY 2014. The increase was based on DOA's review of Accounts Receivable (AR) sub ledgers and AR aging schedules maintained by the Receiver including factors on collectability and payment history of the accounts.

Compliance Report and Management Letter

In the compliance report, there were two findings pertaining to sole source procurement and past due encumbrances. The Receiver procured temporary staffing services of \$1.1M and independent contractor services of \$152K for the Solid Waste Management Division via sole source. Sole source procurement has been a finding since 2011. The Receiver disagreed with this finding.

In a separate letter, the auditors also identified five deficiencies for unrecorded bank account, unreconciled and unrecorded accrued expenditures, unrecorded revenues, and incorrect recording of tipping fee discounts.

Audit Adjustments and Uncorrected Misstatements

The auditors proposed nine adjustments which increased the fund balance by \$144K. There were three passed adjustments which could have decreased the fund balance by \$68K.

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