



Guam Waterworks Authority FY 2016 Financial Highlights

January 17, 2017

Guam Waterworks Authority Achieves Low-Risk Auditee Status

The Guam Waterworks Authority (GWA) is to be commended for achieving low-risk auditee status. No findings pertaining to federal funds were identified in fiscal year (FY) 2016. Independent auditors Deloitte and Touche, LLP rendered an unmodified “clean” opinion on GWA’s financial statements and compliance over major federal programs. In addition, GWA is the first agency to issue its FY 2016 financial audit and the earliest any Government of Guam (GovGuam) agency has issued. This will be GWA’s second consecutive year being the first agency to issue its financial audit.

GWA closed FY 2016 with a significant increase in net income (net position) of \$28.5 million (M), primarily due to a 16.5% rate increase in non-lifeline water and wastewater rates in FY 2016.

Debt Service and Future Borrowings

In February 2016, GWA issued \$143.3M Water and Wastewater System Revenue Bonds to fund capital improvement projects as part of its five-year Capital Improvement Plan (CIP) in compliance with the 2011 Court Order. CIP project costs have been estimated at \$450M for projects related to: 1) water production, treatment, distribution and storage; 2) wastewater collection and treatment; 3) electrical; and 4) general plant and miscellaneous. Major water production, treatment and distribution projects in the CIP include construction of additional reservoirs to increase water storage capacity, completion of the meter replacement program, replacement of failing, leaking and aging pipelines, possible adjustment of pressure zones, and development of new water production wells. Future debt service payments starting at \$31.7M are expected to begin in FY 2017.

Military Build-Up Funding

The U.S. Department of Defense (DoD) and GWA entered into a Memorandum of Understanding wherein DoD will be responsible for all direct and indirect impacts resulting from the build-up. The build-up is seen as directly impacting the Northern District Wastewater Treatment Plant, which requires an upgrade to secondary treatment by U.S. Environmental Protection Agency. DoD will provide up to \$170M to assist with the upgrade. Of the \$170M, \$105M has been appropriated and authorized to DoD in August 2016. GWA was awarded three construction award grants totaling \$55.3M for: 1) the GWA Interceptor Sewer Refurbishment; 2) the Northern District Wastewater Treatment Plant Upgrade; and 3) the Northern Guam Lens Aquifer Monitoring System Expansion and Rehabilitation.

Increase in Operating Revenues, Operating Expenses, Non-Operating Expenses

GWA’s total net position (net income) increased by \$28.5M. Operating revenues totaled \$105.4M or a 13% increase compared to \$93.1M in the prior year. The increase was largely due to a 16.5% rate increase in non-lifeline water and wastewater rates in FY 2016. Of GWA’s \$105.4M operating revenues, water revenues (\$66.9M) accounted for 64% and wastewater revenues (\$39.0M) accounted for 37%. The residential, commercial, and hotel sectors account for 89% of water revenues.

Operating and maintenance expenses increased by \$3.5M from \$64.0M in FY 2015 to \$67.5M in FY 2016. The top three contributing factors were increases in contractual expenses, water purchases, and salaries. Contractual expenses increases were related to IT maintenance costs, generator repair and maintenance charges, and equipment and FY 2016 building rental increases. Navy water purchases increased due to a combination of 58.7K additional kgals of water purchases and a 14% increase in the tariff. Salaries, wages, and benefits increased \$2.3M or 14% from \$16.2M in FY 2015 to \$18.5M in FY 2016 due to the pension liability.

Unaccounted Water

Historically, one of GWA's most challenging problems has been the amount of water that is unaccounted for by GWA and for which GWA is not compensated. In FY 2016, the water available for distribution in GWA's System was approximately 14,375 million gallons (MG). However, actual water sold in the System during the same period was approximately 6,034 MG. This means unaccounted for (or non-revenue) water in the System during this time period was approximately 58% of the water supplied to the System. This unaccounted water or leakage has occurred for some time. The difference between supply and sales is due to leakage, malfunctioning meters, and water used for line flushing, fighting fires, and similar activities. Since 2012, GWA implemented an initiative to reduce its response time to identified leaks in the water supply system and a program to replace defective meters.

Water Rate History

Since 2004, GWA has adjusted its basic and non-lifeline water and wastewater rates 13 times. FY 2014 through FY 2016 effected double digit increases with the 16.5% being the largest rate adjustment effective October 2015. A 3.5% increase was effected October 2016 for all customer classes, except agriculture. There will be another 4% increase in FY 2018. Future rate increases are likely to fund an estimated \$450M in CIP projects.

Governmental Accounting Statement – Pension Liability

The implementation of GASB 68 related to *Accounting and Financial Reporting for Pensions* in FY 2016 recognizes GWA's pro rata share of GovGuam's net pension liability. Per the Government of Guam Retirement Fund, GovGuam's pension liability of \$1.2 billion (B) in FY 2015 increased to \$1.4B in FY 2016. GWA's pro rata share increased, going from \$34.0M in FY 2015 to \$38.2M in FY 2016.

Reports on Compliance and on Internal Control and Major Federal Programs

GWA received an unmodified "clean" opinion on the Report on Compliance and Internal Controls and on major federal programs. The auditors did not identify any findings in FY 2016.

The Management Letter identified six deficiencies pertaining to internal control over information technology environment.

The Letter to Those Charged with Governance identified three deficiencies pertaining to fixed asset inventory, monitoring of Construction in Progress projects, and inactive accounts receivable.

Disclosure: The Public Auditor's step son is one of the three legal counsels for GWA.

For more details, refer to the Management Discussion and Analysis in the audit report at www.opaguam.org and at www.guamwaterworks.org.