



Findings and Recommendations Relative to Docket GWA 14-01

Petition of the Guam Waterworks Authority to Approve the Issuance of

\$195M in Water and Wastewater Revenue Bonds and to Approve

The Associated Documents

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Prepared for:

Guam Public Utilities Commission

Prepared by:

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# 1 Executive Summary

## 1.1 Introduction

Lummus Consultants International Inc. was commissioned by the Guam Public Utilities Commission to review and report on the benefits and risks to customers associated with the proposed FY 2013 petition of the Guam Waterworks Authority (GWA) to approve the issuance of \$195m in water and wastewater revenue bonds and to approve the associated documents.

The purpose of the report is to document the investigation by Lummus Consultants of the petition by GWA and to present the findings and recommendations made to the Guam PUC. The report is organized as follows:

Executive Summary

Overview of GWA Proposal

Ratepayer Impacts

Other Considerations

Findings and Recommendations

## 1.2 Documents Reviewed

As part of our review and assessment Lummus consultants reviewed each of the following documents that are pertinent to the FY2013 Bonds:

- GWA's petition to the GPUC (Docket No. 14-01) seeking approval to issue a maximum of \$195,000,000 in Revenue Bonds (first in a series of 3 bond issues included in its 5 year Financial Plan).
- Consolidated Commission on Utilities (CCU) Resolution No. 14-01 approving GWA's issuance of the FY2013 Bonds.
- Guam Public Utility Commission's approval of GWA's 5 year Financial and Rate Plan (Rate Decision in GWA Docket 13-0, dated October 29, 2013) and all related documents that were part of that case.
- The Preliminary Official Statement dated November 6, 2013.
- The Consulting Engineer's Report dated November 6, 2013.
- The Bond Purchase Agreement dated October 15, 2013.
- The Supplemental Indenture dated September 19, 2013.
- Consolidated Commission on Utilities (CCU) Resolution No. 17-FY2013 approving GWA's
- Updated Capital Improvement Plan for the Purposes of Planning and Executing Projects in the near term.
- Independent Auditors Report - Audited Financial Statements of GWA FY2011 and FY2012 by Deloitte, dated May 30, 2013.
- Certain Demographic and Economic Information Regarding Territory of Guam.

- Proposed Form of Opinion of Bond Counsel.
- Guam Legislature's Bill No. 181-32 (COR) - An Act to Amend Section 2 of Public Law 30-145, which amended Section 4 of Public Law 28-71, Relative to approving the Terms and Conditions of the Issuance of GWA Revenue Bonds, to Increase the Amount of Bonds the GWA is Authorized to Issue, and to Approve the Terms and Conditions of GWA Revenue Bonds to Refinance Certain GWA Revenue Bonds.
- Guam Economic Development Authority Resolution No. 13-057 - Resolution Approving the Issuance and Sale of GWA Revenue Bonds and approving and Authorizing the Execution of Related Documents, Agreements and Actions.

### 1.3 Key Findings

The Commission should require GWA to provide updates on all significant factors that could materially impact their decision to approve or not approve the issuance of the FY 2013 Bonds (this includes such factors as the ratings assigned to the FY 2013 Bonds, financial market conditions and specifically the expected interest rate on the Bonds (not to exceed 7.5%), significant changes to the OS from the POS, any significant changes in GWA's financial condition or the condition/operability of its facilities, etc.).

- Table 2 Debt Service Schedule - The POS only lists the principal payments associated with FY2013 Bonds. The POS should show both interest and principal payments annually. The Commission should have GWA's best estimate of the complete DS schedule and how it affects the finances of the 5 year plan before it rules on GWA's petition for approval.
- Additionally, the principal payments now on this table indicate that a large percentage of these payments occur late in the 30 year amortization period, which would indicate relatively high interest payments over the life of the bonds. The rationale behind this and why alternative payback schedules with significantly lower total interest payments were not selected.

Unless there is updated information provided just prior to the Commission's decision in this matter that would have a significant negative impact on GWA or its customers that was not known to us as of the date of this report, we recommend that the Commission approve issuance of these Bonds.

If the Commission approves these Bonds, it should require verification from GWA that the proceeds of the bonds are used for the specific improvements for which they are needed and for which they were designated to be applied to.

## 2 Overview of GWA's Proposal

### 2.1 General Description of Bonds

The 2013 Bonds will be dated their date of delivery and will bear interest at the rates per annum and mature, subject to prior redemption, on the dates and in the principal amounts set forth on the inside cover page of the Official Statement. Interest on the 2013 Bonds will be payable on January 1 and July 1 of each year, commencing July 1, 2014. Interest will accrue on the 2013 Bonds on the basis of a 360-day year of twelve 30-day months. The 2013 Bonds will be issued in denominations of \$5,000 and integral multiples thereof. The 2013 Bonds will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2013 Bonds. Individual purchases may be made only in book-entry form, and purchasers will not receive certificates representing their interest in the 2013 Bonds purchased.

### 2.2 Purposes of the 2013 Bonds

The Authority is issuing the 2013 Bonds (1) to fund capital improvements to the System; (2) to provide for capitalized interest on the 2013 Bonds through September 30, 2015; (3) to fund a deposit to the Bond Reserve Fund; and (4) to pay costs of issuing the 2013 Bonds.

The Authority has developed its six-year Capital Improvement Program to assist the Authority in meeting its goals of providing more efficient and reliable service to its customers and operating as a self-supporting utility while meeting regulatory requirements, including those specified in the 2011 Court Order and in the Findings of Significant Deficiencies and the Request for Information.

The capital cost of implementing the entire CIP for Fiscal Years 2013-2018 has been estimated at approximately \$457.5 million. The Authority expects to finance the CIP from, among other sources, proceeds of the 2013 Bonds. The Authority expects to fund the rest of the Capital Improvement Program with two series of Additional Bonds to be issued in 2015 and 2017 and expected to provide CIP funding in the amounts of approximately \$128 million and \$72 million, respectively, and from the Authority's operating revenues, USEPA State Revolving Fund grants, System Development Charge revenues and other grants.

The portion of the Capital Improvement Program to be funded with proceeds of the 2013 Bonds is set forth below:

Water Production, Treatment, Distribution and Storage	\$95,130
Wastewater Collection and Treatment	33,300
Electrical, Including Monitoring and Control	5,395
General Plant and Miscellaneous	<u>5,500</u>
Total	<u>\$139,325</u>

### 2.3 Financial Projections

An integral part of GWA's 5 year Financial Plan was the development of a financial and rate model that would aid in making projections of all system costs and revenues along with cash flow analysis including debt service payments, debt service coverage ratios and needed rate increases to maintain self-

sufficiency. The main output of that model is a summary table on a spread sheet labeled "Schedule A." This Schedule summarizes all of the financial factors listed above along with many others that together give a detailed picture of the system's financial condition over the next 5 years. The latest version of that schedule which was used as the basis for GWA's approved 5 year plan. This Schedule is repeated here on the next page for ease of reference and to show how the FY2013 Bonds are factored into those projections.

#### Schedule A GWA Stipulation

	FY2014	FY2015	FY2016	FY2017	FY2018
	Stipulation	Stipulation	Stipulation	Stipulation	Stipulation
Basic & Non-Lifetime Increase	15.00%	14.50%	16.50%	7.00%	4.00%
Lifetime Increase	0.00%	0.00%	0.00%	7.00%	0.00%
Basic & Non-Lifetime Additional Increase	0.00%	0.00%	0.00%	0.00%	0.00%
Legislative Surcharge	3.90%	3.41%	3.00%	2.79%	2.66%
PUC/GPA/Navy Surcharge	0.00%	0.00%	0.00%	0.00%	0.00%
Customer Growth	2.00%	2.00%	2.00%	2.00%	2.00%
Demand Growth	3.00%	1.50%	0.00%	0.00%	0.00%
1. OPERATING REVENUES					
2. Water Revenues	\$ 50,604,403	\$ 58,313,740	\$ 67,548,407	\$ 73,080,457	\$ 76,557,649
3. Wastewater Revenues	29,961,650	33,811,446	38,088,154	43,523,256	49,090,369
4. PUC/GPA/Navy Surcharge	-	-	-	-	-
5. Legislative Surcharge	2,557,095	2,622,460	2,702,732	2,782,304	2,886,569
6. Other Revenues	674,159	842,698	1,073,373	1,361,716	1,722,145
7. System Development Charge	1,104,046	1,159,248	1,217,210	1,278,071	1,341,974
8.					
9. Total Operating Revenues	84,901,353	96,849,593	110,629,676	122,025,804	131,598,707
10.					
11.					
12. O & M EXPENSES					
13. Power Purchases	17,276,135	17,445,441	17,614,609	17,891,887	17,765,232
14. Water Purchases	5,905,237	6,141,585	6,387,352	6,642,974	6,908,827
15.	23,181,372	23,587,006	24,001,960	24,334,872	24,674,059
16.					
17. Salaries and Benefits	21,112,947	21,537,994	22,221,283	23,606,331	24,819,066
18. Intentionally Left Blank					
19. Administrative and General Expenses	10,305,055	10,493,086	10,684,545	10,889,702	11,057,898
20. Intentionally Left Blank					
21. Regulatory Expense	306,000	312,120	318,362	324,730	331,224
22. Intentionally Left Blank					
23. Bad Debt Expense	19,511	21,983	25,297	20,713	17,154
24. Intentionally Left Blank					
25. Depreciation Expense	14,885,080	18,029,040	21,331,565	24,680,021	28,031,949
26. Intentionally Left Blank					
27. Contractual Expense	3,638,187	4,274,487	4,382,383	4,452,109	4,543,704
28. Intentionally Left Blank					
29. Retiree Supplemental Annuities/Health care costs	2,539,318	2,616,180	2,696,017	2,778,946	2,865,089
30. Total Operating Expenses	75,985,471	80,871,908	85,641,412	91,067,422	96,140,243
31.					
32. Earnings (Loss) from Operations	8,915,882	15,977,685	24,988,464	30,958,382	35,458,464
33.					
34. Interest Income-Bond Funds	12,344	12,344	12,344	12,344	12,344
35. Interest Income-Other Funds	7,702	7,702	7,702	7,702	7,702
36. Interest Expense-Bonds 2005,2010,2013,2015	(24,391,693)	(24,254,193)	(32,889,832)	(32,538,441)	(37,100,800)
37. Interest Expense-BOG,GPA, NAVY	(1,498,395)	(1,141,305)	(1,112,889)	(1,028,777)	(937,910)
38. AFUDC	862,257	862,257	862,257	862,257	862,257
39. Amortization of Discount, Premium and Issuance Costs	(159,755)	(159,755)	(159,755)	(159,755)	(159,755)
40. Grants & other contributions	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
41. Other Expenses/Income/ Prior Year PFP & Merit Bonuses	-	-	-	-	-
42. Recoveries of bad debts/ Miscellaneous Revenue	-	-	-	-	-
43. Net Income (Loss)	(13,251,659)	(5,895,266)	(5,291,711)	1,113,711	1,142,300
44.					
45. INCREASE (DECREASE) in Capital	(13,251,659)	(5,895,266)	(5,291,711)	1,113,711	1,142,300

# Schedule A GWA Stipulation (continued)

	FY2014	FY2015	FY2016	FY2017	FY2018
	Stipulation	Stipulation	Stipulation	Stipulation	Stipulation
<b>BOND DEBT SERVICE</b>					
Interest	10,092,593	11,584,193	24,034,832	23,683,441	32,126,050
Principal	2,500,000	3,690,000	6,117,939	6,464,945	9,394,059
	12,592,593	15,274,193	30,152,771	30,148,386	41,520,109
<b>DEBT SERVICE COVERAGE CALCULATION - Section 6.12</b>					
1. Earnings (Loss) from Operations	8,915,882	15,977,685	24,988,464	30,958,382	35,458,464
2. Investment Income-Other Funds & Recoveries	7,702	7,702	7,702	7,702	7,702
3. PUC,GPA,Navy Surcharge	-	-	-	-	-
4. Legislative Surcharge	(2,557,095)	(2,622,460)	(2,702,732)	(2,782,304)	(2,886,569)
5. Supplemental Annuities/COLA	2,539,318	2,616,180	2,696,017	2,778,946	2,865,089
6. System Development Charge	(1,104,046)	(1,159,248)	(1,217,210)	(1,278,071)	(1,341,974)
7. Depreciation & Amortization	14,885,080	18,029,040	21,331,565	24,680,021	28,031,949
8. Balance Available for Debt Service - Section 6.12	22,686,842	32,848,900	45,103,806	54,364,676	62,134,660
Debt Service Coverage (1.25X) - Section 6.12	1.80	2.15	1.50	1.80	1.50
<b>DEBT SERVICE COVERAGE CALCULATION - PUC Debt Ratio</b>					
1. Balance Available for Debt Service	22,686,842	32,848,900	45,103,806	54,364,676	62,134,660
2. Transfer to Capital Improvement Fund - Working Capital Reserve	(710,000)	(6,825,000)	-	(3,650,000)	-
3. Available for Debt Service -Capital Improvement Fund - Working Capital Reserves	-	710,000	7,535,000	7,535,000	11,185,000
4. Balance Available for Debt Service - PUC	21,976,842	26,733,900	52,638,806	58,249,676	73,319,660
5. Debt Service Coverage (1.25X) - PUC	1.75	1.75	1.75	1.93	1.77
<b>1. CASH FLOW STATEMENT</b>					
2. Net Income (Loss)	(13,251,659)	(5,695,266)	(5,291,711)	1,113,711	1,142,300
3. Depreciation & Amortization	15,044,836	18,188,796	21,491,320	24,839,776	28,191,704
4. AFUDC	(862,257)	(862,257)	(862,257)	(862,257)	(862,257)
5. Principal Payments - Bonds	(5,811,341)	(6,516,030)	(7,165,241)	(7,596,359)	(10,615,340)
6. Working Capital Change (Increase)/Decrease	(2,207,777)	(755,280)	(898,623)	(751,102)	1,881,036
7. Grants and Contributions	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)
8. Principal Payments-GPA/Navy(PUC Surchg)& BOGS30M	-	-	-	-	-
9. CAP )	14,299,100	12,670,000	8,855,000	8,855,000	4,974,750
10. Gross Bond Proceeds	\$ 181,000,000	-	\$ 161,000,000	-	90,450,000
11. Cost of Issuance, Discount, CAP ), Debt Service Reserve, OID	(41,719,039)	-	(32,331,118)	-	(16,163,662)
12. Deposit to Bond Construction Fund	\$ (139,280,961)	-	\$ (128,868,882)	-	(72,286,338)
13. Revenue Funded CAPEX	(2,000,000)	(6,000,000)	(11,000,000)	(13,000,000)	(16,000,000)
14. Bond Reserve Requirement	(146,830)	304,751	565,457	125,893	117,972
15. Transfer (to) from Restricted Fund	-	-	-	-	-
16. System Development Charge	(1,104,046)	(1,159,248)	(1,217,210)	(1,278,071)	(1,341,974)
35. Working Capital Reserve Fund	(1,000,000)	(1,000,000)	(2,950,000)	(4,450,000)	(5,000,000)
Transfer to Capital Improvement Fund - Working Capital Reserve	(710,000)	(6,825,000)	-	(3,650,000)	-
36. Backbilling	-	-	-	-	-
37. Cash Surplus (Deficit)	(750,080)	(648,534)	(573,285)	346,582	(532,809)
38. Beginning Balance	4,651,279	3,901,200	3,251,666	2,678,401	2,024,993
39. Ending Balance	\$ 3,901,200	\$ 3,251,666	\$ 2,678,401	\$ 2,024,993	\$ 1,492,184

The Approved Stipulation in GWA's Five Year Rate Plan recognized the need to issue additional revenue bonds and considered the potential impact on revenue requirements, debt service coverage ratio, and coverage of debt service.

## 2.4 GWA's 5 Year Financial Plan

In its petition to the GPUC GWA submitted a five year plan that addressed significant improvements in infrastructure and water quality. The primary reason for the rate increases presented by GWA is that they are necessary to pay debt service on the issuance of approximately \$450M in bonds required to enable GWA to comply with the November 2010 Order of the United States District Court in Civil Case No. 02-00035 ("Order") by upgrading and refurbishing GWA's existing water and wastewater infrastructure as required under the Clean Water Act and the Safe Drinking Water Act. The FY2013 Bonds are the first in a series of three bond issues included in GWA's 5 year financial plan.



The GWA requested an overall increase of 57% over the period from 2014 to 2018, which on a compounded basis equates to a total increase of 71%. The annual increases are summarized below:

FY 2014	15.0%
FY 2015	14.5%
FY 2016	16.5%
FY 2017	7.0%
FY 2018	4.0%

Although the Stipulation Agreement provides for these recommended increases in each of the next five years, GWA and Lummus Consultants explicitly recognize that true-ups will occur in each subsequent year and adjustments will be made as needed and appropriate.

Lummus Consultants team addressed its review of the GWA rate increase as supporting approaches that would reduce losses, increase revenues through alignment with costs for unbundled services, and improve operating efficiency. The five year rate plan is intended to improve the financial position of GWA and the plan recognizes that this improvement will result in lower interest costs. Improved financial position is anticipated to result in the need for a lower reserve in the working capital and cash reserve funds – reducing needed rate increases.

## 2.5 Compliance with Legislative, GPUC, and GEDA Requirements

### 2.5.1 Guam Legislature

The Guam legislature approved the issuance of the FY2014 Bonds in Bill Number 181-32 (COR), subject to the following conditions:

#### Section 4. Approval of Guam Waterworks Authority Revenue Bonds.

(a) The Guam Legislature, *I Liheslaturan Guåhan*, pursuant to §50103 of Title 12 of the Guam Code Annotated, hereby approves the issuance and sale by the Authority of revenue bonds pursuant to Article 2, Chapter 14, Title 12, Guam Code Annotated (the "Act") in one or more series or issues; provided that the issuance, terms and conditions of the bonds *shall* have been approved by the Guam Public Utilities Commission, and further provided that such bonds shall have a principal amount *not to exceed* Six Hundred Seventy Million Dollars (\$670,000,000), *shall* have a final maturity not later than 2055, *shall* bear interest at such rate or rates and *shall* be sold for such price or prices as *shall* result in a net yield to the bondholders *not exceeding* seven and one-half percent (7.5%) per annum, *shall* be issued and sold in the manner, for the purposes and subject to the requirements and limitations provided in Article 2, Chapter 14, Title 12, Guam Code Annotated, and shall be issued pursuant to an Indenture in substantially the form as attached to this Act as Exhibit A. In order to be able to take advantage of a federally subsidized bond program, net yield to the bondholders shall be calculated by subtracting any interest subsidy amounts to be received from the United States in connection with such bonds from the amount of interest to be paid to bondholders."

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Additionally, as part of the same Bill the Legislature finally finds that a 2010 rider, inserted during legislative session, required GWA ratepayers to pay back 20 Million Dollars to the General Fund for a loan that was fully paid off in December 2010, causing an unnecessary burden on ratepayers. Notwithstanding, the provision still remains in Guam law and needs to be repealed to make it clear that

this is no longer a requirement to be placed upon GWA's ratepayers. Thus, the Legislature finds that adding another 20 Million Dollars rate increase onto GWA ratepayers is not in the public interest.

## 2.5.2 Guam Economic Development Authority

The Guam Economic Development Authority (GEDA) approved the issuance of the FY2014 Bonds in Resolution Number 13-057. The controlling paragraph of that resolution reads as follows:

Section 1. The issuance and sale of the 2013 Bonds in an aggregate amount not to exceed (a) \$195,000,000 for the purpose of financing the Projects, plus (b) with respect to any redemption or retirement of Prior Bonds, an aggregate principal amount sufficient to provide funds for such redemption or retirement of all or a portion of such Prior Bonds, plus related costs of issuance and of such redemption or retirement, are hereby approved in accordance with Section 50103(k), subject to the approval by the Legislature of the terms and conditions of the 2013 Bonds as described above, and subject to the approval by the Guam Public Utilities Commission pursuant to Title 12 of the Guam Code Annotated of the issuance of the 2013 Bonds."

This resolution was signed and dated October 24, 2013.

## 2.5.3 Guam Public Utilities Commission

The Guam Public Utilities Commission (GPUC) has general oversight and regulatory control over most actions of GWA including rate setting authority and final approval authority of GWA's Bond issues. Before it will consider approval of a proposed bond issue, GWA must seek and obtain approval of the Guam Legislature and the GEDA. Additionally, GWA must demonstrate that the bonds are needed to continue providing safe and reliable service to its customers and that the certain financial criteria are satisfied. As indicated above the other required approvals have been obtained by GWA. Additionally, because the Commission has approved GWA's five year financial and rate plan, they have in general accepted the need for this bond issue and financial implications associated with the FY2013 Bonds. However, specific details of this bond issue and updated information must be considered just before the closing date to insure that conditions have not changed significantly, and to add any conditions or limitations that the GPUC decides are necessary. One financial requirement that the Commission has placed on all bonds issued by the GWA relates to this utility's ability to make debt service payments. This condition requires GWA to maintain a 1.75 Debt Service Coverage Ratio of at least 1.75 times. This is a fairly high ratio given that the Bond Indenture requirement is significantly lower at 1.25 times debt service. As part of its 5 year plan GWA estimates what its DSCR will be in each of the 5 years of the plan. These projections are summarized below.

FY 2014	1.75
FY 2015	1.75
FY 2016	1.75
FY 2017	1.93
FY 2018	1.77

## 3 Ratepayer Impacts

### 3.1 Rate Revenue Requirements

In order to produce total revenues to pay for all costs that the Authority is expected to incur in FY 2014 including debt service associated with the FY2013 Bonds, total rate revenues (from water and wastewater charges) will need to be increased to \$80.6 million from about \$70.1 million in FY2013. Assuming all expense and revenue estimates contained in GWA's approved Financial Plan are realized, total rate revenues in the four succeeding years will need to increase to the following levels:

- FY 2015     \$92.2 million
- FY 2016     \$105.6 million
- FY 2017     \$116.6 million
- FY 2018     \$125.6 million

### 3.2 Rate Increases

In order to produce total rate revenues (\$80.6 million) to pay for all costs that the Authority is expected to incur in FY2014 including any debt service associated with the FY2013 Bonds, the Authority will increase rates and charges for both water and wastewater services on an Across-The-Board (A-T-B) basis by 15% (except for lifeline service levels to residential customers). This specific level of increase for FY2014 has been approved by the Guam Public Utilities Commission (GPUC) in Docket 13-01-(dated October 29, 2013) effective with all bills beginning on November 1, 2013. Assuming all expense and revenue estimates contained in GWA's approved Financial Plan are realized, A-T-B rate increases to all ratepayers in the succeeding 4 years will be as follows:

- FY 2015     14.5%
- FY 2016     16.5%
- FY 2017     7.0%
- FY 2018     4.0%

On a compound basis this represents a 71% increase over the 5 year period. In other words, all else being equal, the rates charged by GWA will, during FY2018, be 71% higher than they were in FY2013. This rate path has been tentatively approved by the GPUC. However, rate increases in each of the four successive years of the 5 year plan are subject to annual true-ups. Thus, if there are significant variances in revenue and/or expense projections, the rates that are approved by the GPUC prior to each successive year would be adjusted accordingly to compensate (either an increase or decrease) for the then expected annual surplus or deficit for the next fiscal year.

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### 3.3 Customer Typical Bill Impacts

The following figure provides the approved stipulation rates to a residential customer that has 7,500 gallons consumption per month. The anticipated impact is a 6.3% increase in 2014 when compared to the rate for this level of consumption in 2012. The monthly bill would increase by \$4.69, and the annual increase assuming consistent consumption patterns across the year would be \$56.28.

**ASSUMPTIONS:**

1. Customer: Residential
2. Consumption per month: 7,500 gals.

	FY2012	CURRENT RATE (per kgal)		PROPOSED
	Rate	Compressed	Uncompressed	FY2014 Rate
<b>Water</b>				
Basic Charge	12.40%	9.15%	6.10%	15.00%
Lifeline ≤ 5k gal	12.40%	9.15%	6.10%	0.00%
Non-Lifeline > 5k gal	12.40%	9.15%	6.10%	15.00%
Legislative Surcharge	5.60%	2.63%	4.50%	3.90%
<b>Wastewater Charge</b>	12.40%	9.15%	6.10%	0.00%
Legislative Surcharge				
	FY2012	CURRENT BILL		PROPOSED
	Thru 9/30/12	Thru 9/30/13	Eff 10/1/13	FY2014 Bill
<b>Water</b>				
Basic Charge	\$ 12.87	\$ 14.05	\$ 13.66	\$ 15.70
Lifeline	13.70	14.95	14.54	14.54
Non-Lifeline > 5kgal	16.73	18.26	17.75	20.41
Legislative Surcharge	1.66	0.85	1.41	1.39
<b>Wastewater Charge</b>				
Basic	25.08	27.37	26.61	26.61
Legislative Surcharge				
<b>Total Bill</b>	<b>\$ 70.03</b>	<b>\$ 75.48</b>	<b>\$ 73.96</b>	<b>\$ 78.65</b>
<b>\$\$ Change</b>		<b>\$ 5.45</b>	<b>\$ (1.52)</b>	<b>\$ 4.69</b>
<b>% Change</b>		<b>7.78%</b>	<b>-2.02%</b>	<b>6.34%</b>

## 4 Other Considerations

This section presents areas of potential concern that should be addressed by GWA as they move forward with the process.

### 4.1 Key Issues relative to the Preliminary Official Statement (POS)

This section summarizes areas of difference and concern identified in the Lummus Consultants review.

- Table 2 Debt Service Schedule - The POS only lists the principal payments associated with FY2013 Bonds. The POS should show both interest and principal payments annually. The Commission should have GWA's best estimate of the complete DS schedule and how it affects the finances of the 5 year plan before it rules on GWA's petition for approval. Additionally, the principal payments now on this table indicate that a large percentage of these payments occur late in the 30 year amortization period, which would indicate relatively high interest payments over the life of the bonds. The rationale behind this and why alternative payback schedules with significantly lower total interest payments were not selected.
- Table 12-1 is a critical summary table which includes the Overall CIP and the sources and uses of Funds. This table accurately summarizes these key construction and funding levels contained in GWA's 5 year Financial Plan.
- Table 15, which contains summarized key financial projections, does not match the amounts specified on Schedule A. This Table should match the amounts specified on Schedule A when the POS is updated to the final Official Statement.

### 4.2 Key Issues relative to the Consulting Engineer's (CE) Reports

- Table 1-1 The value shown for the Gross Bond Proceeds does not match the amount listed in Schedule A that summarizes the key financial projections specified in the approved 5 year financial Plan. This Table should match the amounts specified on Schedule A when the report is updated with the final Official Statement.
- Table 6-2 This Table does match the amounts specified on Schedule A from the approved 5 year plan.
- Tables 6-3 and 6-4 do not match the amounts specified on Schedule A. These Tables should match the amounts specified on Schedule A when the report is updated with the final Official Statement.
- Table 7-1 is a critical summary table which includes the Overall CIP and the sources and uses of Funds through FY2010. This table accurately summarizes these key construction and funding levels contained in GWA's 5 year Financial Plan.
- Table 8-3 does not match the amounts specified on Schedule A. This Table should match the amounts specified on Schedule A when the report is updated with the final Official Statement.
- Section 9 Findings and Conclusions - Particularly, for the next 2 or 3 years, we generally agree with the CE's Findings and Conclusions. However, with respect to some of their Findings and conclusions, particularly with respect to the long run, we make the following comments/suggestions:

- Number 2 - Because of the investment in Staff training (both prior and future) and to reduce costs, both the PMC and the PMO should be phased out over time. A reasonable timeframe for accomplishing this would be 3 to 5 years for the PMO and 5 to 10 years for the PMC.
- Number 4 - GWA has committed to reducing system losses to less than 40% by the end of the 5 year period. If the current plan does not include sufficient funds to accomplish this, additional funds should be obtained to insure that this goal is met.
- Number 7 - There is considerable uncertainty associated the possible buildup of the Military presence in Guam. The key point here is if it is accelerated for some reason it is likely that the Federal government will support any additional infrastructure requirements associated with a buildup.
- This is a key finding which supports the need for and the importance of the FY2013 Bond issue.

While we have no reason to suspect that the use of the PMO company to provide the CER could be a conflict of interest, we do recommend that for all future Bond Issues that a qualified Consulting Engineer be selected that has absolutely no conflict of interest with GWA or even the appearance of a potential conflict of interest. Use of a completely independent Engineering firm also has the advantage of adding another set of experts to evaluate the system and provide their professional opinion as to quality and performance of its facilities and operations.

## 5 Findings and Recommendations

### 5.1 Benefits of Restructuring - Analysis and Restructuring

The petition by GWA for approval of the Revenue Bonds has benefits for the customers in that it will allow GWA to fund the Court Ordered and USEPA improvements in the system and to fund additional capital projects in GWA's plan to improve service to customers.

### 5.2 Findings

- The Proposed FY2013 Bond Issue by GWA was approved by the CCU.
- The Guam Legislature has approved The Proposed FY2013 Bond Issue by GWA.
- The Guam Economic Development Authority has approved The Proposed FY2013 Bond Issue by GWA.
- The Financial Projections contained in the 5 year Financial Plan, (and both the POS and the CE Report) are reasonable and have been accepted as such by the Guam Legislature, the GEDA, the CCU, and the GPUC.
- Some of the data in the CE Report does not match corresponding amounts in the 5 year plan. These amounts should match the amounts specified on Schedule A when the report is updated with the final Official Statement.
- Some of the data in the POS does not match corresponding amounts in the 5 year plan. These amounts should match the amounts specified on Schedule A when the report is updated with the final Official Statement.

- The level of Debt requested for the FY2013 Bonds is needed for system improvements. Moreover, almost all of the FY 2013 total is required to fund the Court Mandates and to satisfy USEPA specified capital Improvements.
- The customer impacts of the 5 year plan are high, but not unreasonably so given the magnitude of the required improvements, and they should lessen after the first three years of the plan. The Authority has taken extensive measures to reduce those impacts. The GPUC has agreed that the increases are necessary to upgrade the facilities and over time improve the level and quality of service provided by this utility. The customer impacts resulting solely from the FY2013 Bond issue represent about half of the causes leading to the total rate increases projected in the 5 year plan.
- As of the date of this Report we are not aware of any changed conditions since the 5 year plan was approved that would significantly impact GWA's financial condition or its ability to satisfy all the requirements of the FY 2013 Bond issue.

### 5.3 Recommendations

The Commission should require GWA to provide updates on all significant factors that could materially impact their decision to approve or not approve the issuance of the FY 2013 Bonds (this includes such factors as the ratings assigned to the FY 2013 Bonds, financial market conditions and specifically the expected interest rate on the Bonds (not to exceed 7.5%), significant changes to the OS from the POS, any significant changes in GWA's financial condition or the condition/operability of its facilities, etc.).

- Table 2 Debt Service Schedule - The POS only lists the principal payments associated with FY2013 Bonds. The POS should show both interest and principal payments annually. The Commission should have GWA's best estimate of the complete DS schedule and how it affects the finances of the 5 year plan before it rules on GWA's petition for approval.
- Additionally, the principal payments now on this table indicate that a large percentage of these payments occur late in the 30 year amortization period, which would indicate relatively high interest payments over the life of the bonds. The rationale behind this and why alternative payback schedules with significantly lower total interest payments were not selected.

Unless there is updated information provided just prior to the Commission's decision in this matter that would have a significant negative impact on GWA or its customers that was not known to us as of the date of this report, we recommend that the Commission approve issuance of these Bonds.

If the Commission approves these Bonds, it should require verification from GWA that the proceeds of the bonds are used for the specific improvements for which they are needed and for which they were designated to be applied to.