



**ANNUAL TRUE-UP SUBMISSION,
PROJECTION, AND REQUEST
FOR FISCAL YEAR 2026 RATES**

GWA Docket 24-05
Annual True-Up Submission, Projection, and Request for FY 2026 Rates
Page 1 of 1

ATTACHMENT A

GWA General Manager Transmittal Letter



GUAM WATERWORKS AUTHORITY

Gloria B. Nelson Public Service Building | 688 Route 15, Mangilao, Guam 96913

P.O. Box 3010, Hagåtña, Guam 96932

Tel. No. (671) 300-6848 Fax No. (671) 648-3290

April 24, 2025

Jeffrey C. Johnson, Chairman
Frederick J. Horecky, Chief Administrative Law Judge
Guam Public Utilities Commission
Suite 207, GCIC Building
Post Office Box 862
Hagåtña, Guam 96932

Hafa Adai,

The Guam Waterworks Authority (GWA) is pleased to submit its FY 2026 True-Up package that presents projected FY 2025 financial performance information and proposed FY 2026 revenue requirements.

Attached is Consolidated Commission on Utilities Resolution 28-FY2025 Relative to Approving the Guam Waterworks Authority Annual Fiscal Year 2025 True-Up and Fiscal Year 2026 Budget approved on April 22, 2025. Provided with the resolution are Schedules K and L that present water and wastewater rates and charges, and related bill impacts, under the rate design structure approved in the PUC's Order in Docket 19-08 dated March 28, 2024 (Rate Design decision). As we stated during your deliberation on the Rate Design in that docket, base charges and volumetric rates were scaled to recover the proposed FY 2026 revenue requirements. As shown in these schedules, rather than uniform percentage increases across all tariffs, specific rate adjustments and bill impacts vary across meter sizes and water usage levels by customer class.

This submittal includes a narrative discussion and supporting schedules that document the factors that have precipitated the proposed FY 2026 revenue requirements. It includes supporting schedules required under the PUC administrative order prescribing rules for practice and procedure (Docket No. 00-04: Rule 20. Standard Filing Requirements) as well as an additional Schedule L providing bill impact information. Accordingly, this submittal meets all requirements for the PUC's consideration of GWA's annual true-up filing.

We are prepared to address any questions or concerns regarding this filing and look forward to the GPUC's timely review and decision on this matter.

Sincerely,

Miguel C. Bordallo, P.E.
General Manager

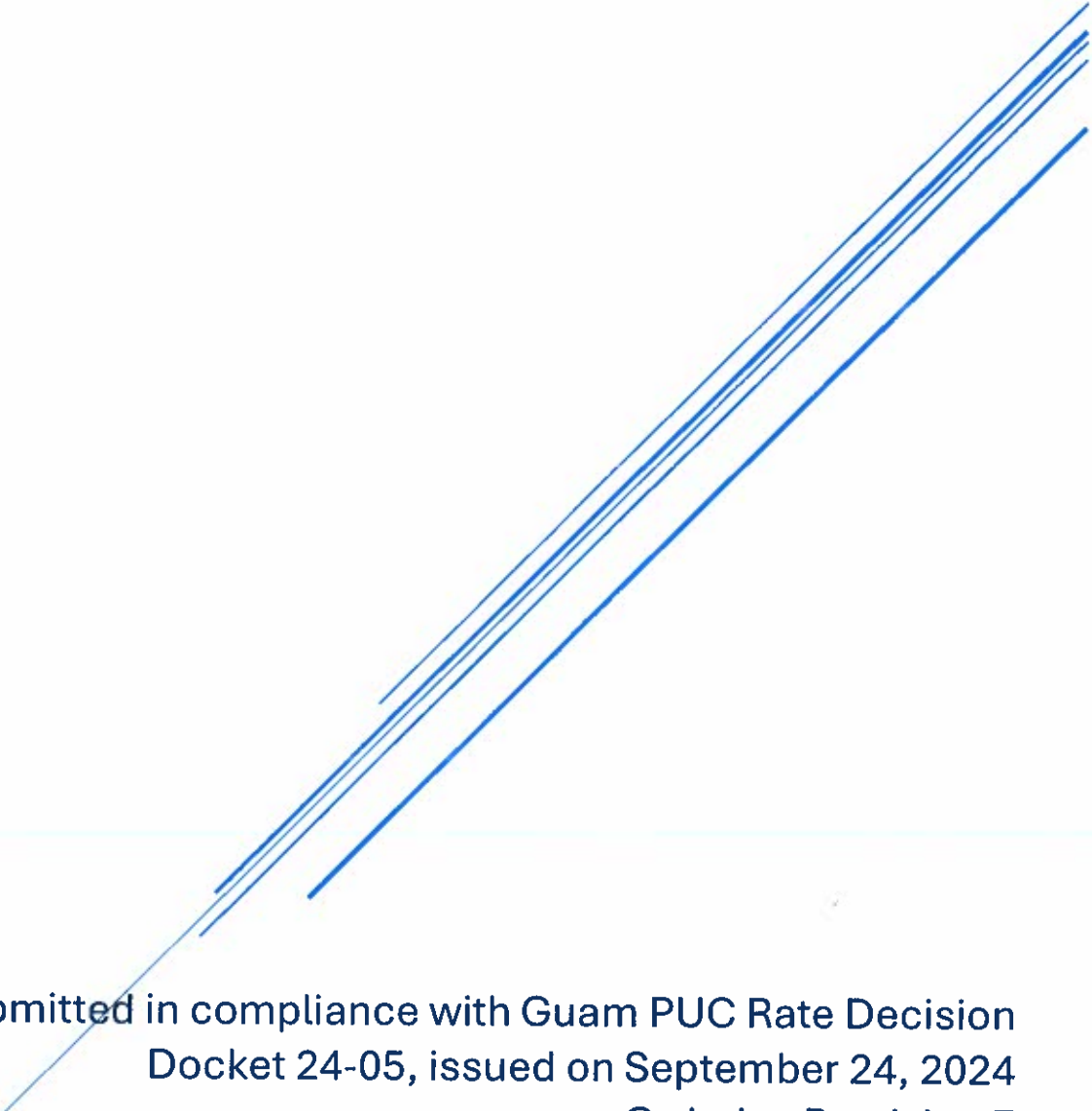
xc: Therese G. Rojas, General Counsel, Guam Waterworks Authority
Taling Taitano, Chief Financial Officer, Guam Waterworks Authority
Gilda Mafnas, Deputy Chief Financial Officer, Guam Waterworks Authority
Chris Budasi, Assistant General Manager of Administration and Support
Eric Rothstein, Galardi Rothstein Group
Cody Stanger, Galardi Rothstein Group

ATTACHMENT B

True-Up Projection for FY2026 Report

GUAM WATERWORKS AUTHORITY FY 2025 TRUE-UP AND FY 2026 BUDGET

GWA Docket 24-05



Submitted in compliance with Guam PUC Rate Decision
Docket 24-05, issued on September 24, 2024
Ordering Provision 7
May 1, 2025

Attachment B-001

Table of Contents

Executive Summary.....	2
Introduction.....	2
FY 2025 Financial Performance.....	3
Projected FY 2026 Financial Performance	4
Revenues.....	5
Rate Design.....	5
Revenue Projections.....	6
Operations and Maintenance Expenses	7
Utilities.....	7
Salaries and Benefits	7
Administrative and General	8
Contractual	8
Retiree Benefits	9
Capital Financing.....	9
Capital Financing Needs	9
Capital Financing Strategy Evolution	9
Short-Term Construction Financing.....	10
Series 2025 Revenue Bonds / Guaranteed Investment Contract	10
Internally Financed Capital / System Development Charges	10
Conclusions.....	10

Executive Summary

This submission presents the Guam Waterworks Authority's (GWA) FY 2025 true-up and FY 2026 budget proposed rate increases in accordance with the Public Utilities Commission (PUC) Rate Decision in Docket 24-05. Now in the second year of its approved five-year financial plan, GWA seeks to implement the modified rate design previously authorized by the PUC and related rate adjustments, tailored to meet forecasted operational and capital financing needs.

This true-up confirms that GWA's FY 2025 financial performance closely aligned with the projections approved in Docket 24-05, while achieving cost savings in the following key areas— Navy water purchases, salaries, administrative and general expenses, and contractual services. These favorable variances contributed to a projected \$9.5 million transfer to the Rate Stabilization Fund (RSF) and a debt service coverage ratio of 1.32x, exceeding the temporary target of 1.30x.

For FY 2026, GWA projects operating revenues of \$152.2 million, sufficient to support a projected \$89.8 million in operations and maintenance expenses and \$52.3 million in debt service, which includes new debt from a planned \$250 million bond issuance. The budget also supports internally financed capital improvements of \$15 million. Proposed rate increases are designed to align with the approved FY 2026 revenue requirements and rate design, ensuring equitable cost allocation across customer classes and compliance with financial performance policies.

GWA's financing strategy involves a combination of long-term revenue bonds, a Guaranteed Investment Contract (GIC) to reduce the cost of carry, and a \$75 million revolving loan facility to support short-term capital needs. This comprehensive financial plan is necessary to fund extensive infrastructure improvements, meet regulatory mandates, and restore financial resilience through enhanced liquidity and debt service coverage ratios.

Introduction

GWA is completing the first year of its fourth five-year financial plan (FY 2025 through FY 2029) and rate relief application with the Public Utilities Commission of Guam (PUC). GWA was allowed across-the-board water and wastewater basic, lifeline and non-lifeline rate increases of 11.5 percent for FY 2025.

While pro forma system wide rate increases of 10.75 percent in FY 2026 were approved in the Decision Order for Docket 24-05, the PUC also approved implementation of a modified rate design. Accordingly, rate and charge increases and associated bill impacts vary by customer meter size and billable volumes (as shown in Schedules K and L).

The FY 2026 annual true-up rates presented herein provide for an increase in Operating Revenues relative to projected FY 2025 of \$14.4 million (inclusive of bad debt and other rate revenue adjustments) to cover projected FY 2026 operations and maintenance (O&M) expenses, debt service, and internally financed capital expenditures.

For the true-up to determine proposed FY 2026 rates, GWA management has thoroughly reviewed its revenue requirements and other requisites such as rate covenants and financial policies and considered known and measurable changes in costs and conditions. Based on these analyses, GWA has determined and recommends the rates by customer class presented in Schedule K. These recommended rates implement the PUC-approved rate design and are needed to meet increased operating costs and capital financing expenses and achieve debt service coverage levels as anticipated in the Rate Decision for Docket 24-05. The proposed rates generate FY 2026 rate revenue levels that are consistent with those approved by the PUC as part of the five-year rate plan.

FY 2026 operating costs are earmarked at \$37.4 million in salaries and benefits (exclusive of \$4.9 million in capitalized labor adjustments); \$17.6 million in power costs; \$7.0 million in water purchases; \$13.3 million in administrative and general expenses (exclusive of bad debt); \$10.0 million in contractual expenses; and \$4.6 million in retiree supplemental annuities and health care for a combined total of \$89.8 million (exclusive of \$30.0 million in depreciation). The proposed FY 2026 budget, as recommended, excluding interns and federally funded positions, allows GWA a staff level of 374 full time equivalents (FTE) to meet operations and maintenance and customer service mandates.

FY 2026 revenue bond debt service expenses are projected to be \$52.3 million. This total includes \$13.2 million of new debt service associated with GWA's planned new money bond issue (\$250 million in proceeds) and \$1.3 million for interest on GWA's short-term construction financing program. Internally financed capital improvements are forecast to be \$15 million. Debt service coverage is targeted at 1.38x to achieve an incremental step toward compliance with the PUC's established policy of a 1.50x coverage level. The proposed FY 2026 financial plan anticipates an incremental Rate Stabilization Fund (RSF) transfer out of reserves of \$2.2 million.

FY 2025 Financial Performance

GWA's projected FY 2025 financial performance is similar to that projected for the Rate Decision in Docket 24-05 in many respects, with several notable differences that are anticipated to enable a \$9.5 million transfer to the Rate Stabilization Fund while still achieving debt service coverage of 1.32x prescribed in the approved five-year rate plan.

- Projected Operating Revenues of \$137.8 million in FY 2025 compared to the Rate Decision cash-flow forecast value of \$138.4 million reflecting notable accuracy of GWA's forecasts of customer accounts, customer growth, and water usage trends by customer class.
- Projected power expenses are also similar to projected FY 2025 expenses at \$22.0 million as compared to \$21.3 million in the Rate Decision forecast.
- FY 2025 Water Purchase expenses are forecast to be \$9.1 million as compared to \$13.6 million in the Rate Decision forecast.
- FY 2025 Salaries and Benefits are forecast to be \$33.4 million as compared to \$35.2 million in the Rate Decision forecast.

- FY 2025 Administrative and General expenses are forecast to be \$10.4 million as compared to \$13.7 million in the Rate Decision forecast.
- FY 2025 Contractual expenses are forecast to be \$6.9 million as compared to \$9.3 million in the Rate Decision forecast.
- FY 2025 Retiree expenses are forecast to be \$4.5 million like the Rate Decision forecast.

In aggregate, FY 2025 (cash) O&M expenses are forecast to be \$86.2 million as compared to \$97.7 million in the Rate Decision forecast.

These variances largely reflect successful engagement with the U.S. Navy to lower Navy water purchase expenses, increased administrative burden in procurements over \$500k, an increase in procurement protests, and unanticipated delays in certain purchases. Lower costs are anticipated to enable a \$9.5 million transfer to the Rate Stabilization Fund in FY 2025, which will help offset anticipated increases in capital financing expenses needed to support GWA's capital program. Forecasted FY 2025 coverage levels also eliminate the need for the amortization of an additional \$3 million regulatory asset called for in the Rate Decision. Amortization of the FY 2025 CoreTech-related legal expense (estimated at \$1.5 million) will proceed as planned.

Other notable similarities between projected FY 2025 financial performance and the Rate Decision forecast include \$0.5 million and \$0.8 million variances in interest/investment income and debt service expense respectively; and less than a \$ 0.25 million variance in Capitalized Labor.

Internally funded capital expense for FY 2025 is anticipated to be \$4.5 million higher than that anticipated in the Rate Decision forecast.

Projected FY 2026 Financial Performance

GWA's projected FY 2026 financial performance is also similar to that projected for the Rate Decision in Docket 24-05 in many respects, again with several notable differences. Projected FY 2026 financial performance reflects implementation of the rate design structure (approved by the PUC in its Rate Decision in Docket 19-08 dated March 28, 2024), use of a combination of long-term and short-term debt instruments based on credit market conditions, and use of \$2.2 million Rate Stabilization Fund reserves to enable incremental improvement of projected debt service coverage to 1.38x, consistent with the Rate Decision forecast. Specific similarities and differences include:

- Projected Operating Revenues of \$152.2 million in FY 2026 compared to the Rate Decision cash-flow forecast value of \$151.8 million and is based on scaling of the PUC-approved rate design to recover approved FY 2026 revenue requirements.
- Projected power expenses in FY 2026 are \$17.6 million as compared to \$19.5 million in the Rate Decision forecast.
- FY 2026 Water Purchase expenses are forecast to be \$7.0 million as compared to \$13.0 million in the Rate Decision forecast.
- FY 2026 Salaries and benefits are forecast to be \$37.4 million just above the \$37.0 million in the Rate Decision forecast.

- FY 2026 Admin and General expenses are forecast to be \$13.3 million as compared to \$14.8 million in the Rate Decision forecast.
- FY 2026 Contractual expenses are forecast to be \$10.0 million as compared to \$9.9 million in the Rate Decision forecast.
- FY 2026 Retiree expenses are forecast to be \$4.6 million like the Rate Decision forecast.

In aggregate, FY 2026 (cash) O&M expenses are forecast to be \$89.8 million as compared to \$98.7 million in the Rate Decision forecast.

These variances largely reflect continuing lower Navy water purchase expenses, reductions in the Guam Power Authority's LEAC (levelized energy adjustment clause), as well as paced increases in staffing levels and compensation. Lower costs are anticipated to help absorb anticipated increases in capital financing expenses required to fund GWA's capital program.

Other notable similarities between projected FY 2026 financial performance and the Rate Decision forecast include a \$0.1 million variance in interest/investment income and an approximate \$50,000 variance in Capitalized Labor.

FY 2026 debt service expense (inclusive of short-term financing program interest expense) is anticipated to be \$11.6 million higher than in the Rate Decision forecast largely due to the anticipated Series 2025 bond issue that will yield proceeds of \$250 million (\$270 million par value). Internally funded capital expense for FY 2026 is anticipated to be \$7.0 million higher than that anticipated in the Rate Decision forecast. The Regulatory Asset adjustment is anticipated to be \$840,800, which includes the FY 2026 CoreTech litigation expenses (+\$1.5 million) and the amortization of the prior five-year rate case (-\$659,200).

Revenues

As noted, GWA's proposed rates under the PUC-approved rate design were scaled to yield approved FY 2026 rate revenue levels. Operating Revenues are projected to be \$152.2 million, consistent with the revenue projections for FY 2026 included in the Rate Decision forecast. In other words, notwithstanding varying increases in individual base charges and volumetric rates across customer classes, GWA has determined revenue requirements and rate adjustments to yield similar revenue performance to that approved in the Rate Decision forecast.

Rate Design

The PUC-approved rate decision features several notable changes including:

- adding an additional tier to residential water volumetric rates,
- reducing the lifeline rate volume threshold from 5 to 3 kgals,
- adding meter-size scaled sewer base charges for residential and non-residential customers,
- eliminating the flat monthly sewer rate for residential customers,
- establishing volumetric sewer rates for residential customers, and
- applying the legislative surcharge to all rate components.

These rate design changes are intended to provide more consistent pricing of services and facilitate future movement to cost-of-service pricing as discussed further in the Administrative Law Judge's Report and PUC Order Re: Amended Petition to Approve a New Rate Design Structure, GWA Docket 19-08 dated March 28, 2024.

Revenue Projections

GWA continues to employ a revenue forecasting infrastructure that considers key trends (such as customer growth and usage patterns) and price elasticity responses to rate adjustments. GWA's FY 2026 revenue forecasts employ the methodology introduced in conjunction with the Comprehensive Review and Update process and used to determine the FY 2025 through FY 2029 rate plan. Assumptions include:

- Residential account growth varies by meter size but is assumed to be 0.25% per year for water accounts and 0.40% for wastewater accounts for the most common meter size (3/4 inch) to reflect historical trends.
- Smaller meter (3/4 inch) water accounts are expected to grow 0.34% for Commercial-1 customers, decrease -0.50% for Commercial-3 customers, and decrease -1.0% for Agriculture customers. Larger meter size accounts for these customers are expected to remain flat or decrease slightly. These assumptions are consistent with historical trends.
- Consistent with historical trends, smaller meter (3/4 inch) sewer accounts are expected to grow 0.75% for Commercial-1 customers and decrease -1.0% for Commercial-3 customers. Larger meter size accounts for these customers are expected to remain flat or decrease slightly.
- Irrigation accounts, as well as water and sewer accounts for the Commercial-2, Hotel, and Government customer classes, are projected to remain constant.
- Water demand per account for residential customers has decreased 1.2 percent per year since FY 2019 on a compounded growth basis and is expected to continue to decline at 0.5% per year. Commercial-1 customers and Commercial-2 customers are expected to also decline at 0.3% and 3.0% per year, respectively. Hotels and the Government class are projected to continue a slow rebound from COVID levels, with water demand per account increasing 5.0% per year for Hotels and 1.5% for Government customers (the resulting FY 2026 statistics for these last two customer classes are still below pre-COVID levels despite the upward trend). Demand per account for Commercial-3, Agriculture, and Irrigation customers is expected to remain constant.
- Price elasticity factors of 1.0 for residential and 1.5 for non-residential are applied to demand per account forecasts. These factors reflect the expected percentage decrease in demand per account for every 10.0% increase in the real price of water (i.e., after accounting for inflation). Based on rate design implementation results in varied bill impacts at different levels of consumption, GWA's revenue forecast uses a rough average per customer class to calculate the FY 2026 price elasticity impacts and corresponding decrease in demand per account. For residential customers, the reduction in consumption is expected to be 0.75% and between 1.80% and 2.40% for non-residential customers.

- The combined impacts of the growth, price elasticity assumptions, and price-independent consumption adjustments result in a total water demand forecast of 5.019 million kgals, a 0.82% reduction from estimated FY 2025 water demand.
- Billable wastewater flows include the Navy (assumed to grow at 2% per year) and leachate customers (no growth). Billable wastewater flows are projected to be 3.401 million kgals in FY 2026, a more than 80% increase over estimated FY 2025 levels. The large increase is due to the implementation of the approved rate design, which is estimated to generate 1.519 million kgals of billable flows from the residential customer class.

Notably, the revenue forecast methodology was tested by comparing actual historical revenue results to forecasted performance using the same historical billing determinant data. Predicted revenue values were within 0.15% of actual revenue performance, which can be explained by pro-rated bills for customers that either begin or terminate service in the middle of the billing cycle. GWA's FY 2026 revenue forecasts are grounded by reference to historical customer trends, adjustments based on reconciliation with billed and audited totals, and established economic principles.

Operations and Maintenance Expenses

Utilities

Annual utility costs continue to remain transitional. In FY 2024 GWA received a notification of rate adjustment from the Department of Defense for water and wastewater rates, which increased the water cost per kilogallon (kgal) from \$10.36 to \$24.07. Then in FY 2025, the Department of Defense notified GWA of a reduction to the water cost per kgal from \$24.07 to \$10.89. For FY 2026, GWA is projecting a potential 5% increase to the cost of water and sewer per kgal, which represents a per kgal cost of \$11.43 and \$46.06, respectively. The projected water purchases budgeted for FY 2026 amount to \$6.9 million, which is based on 540,000 water kgals and 17,000 sewer kgals using the projected rate of \$11.43/kgal and \$46.06 per kgal, respectively.

GWA's FY 2026 projected power expense reflects a 20% decrease, or approximately \$4.4M, from \$22 million in FY 2025 to \$17.6 million in FY 2026 to cover rate decreases but maintain kilowatt-hour (kwh) consumption. Consumption of kwh over the past several years has generally remained consistent, averaging about 57.8 million kwh per year.

Salaries and Benefits

In FY 2026, salaries and benefits are projected at \$32.5 million (net of estimated capitalized labor) to fully fund 374 positions. This total includes:

- 1) pay for performance adjustments and the approved migration to the 40th market percentile based on the market review study of US Mainland water utility salaries in 2022;
- 2) overtime for eligible employees at 6% of their base pay; and
- 3) holiday work and night differential for eligible employees at approximately 2% and 1% of base pay,

Total benefits comprise 45% of base salaries, which include retirement, Medicare, life insurance, and medical/dental insurance contributions. Capitalized labor in FY 2026 is projected at \$4.9 million. Although the budgeted FTE level can accommodate 374 positions, the Guam Waterworks Authority (GWA) maintains its commitment to hire personnel at the salary and benefit expenditure level noted above.

Administrative and General

Administrative and general expenses include the following:

- Sludge Removal
- Chemicals; Materials & Supplies
- Transportation
- Communications
- Claims
- Insurance
- Travel & Training
- Advertising
- Miscellaneous
- Regulatory
- Bad Debt

The total approved budget for Administrative and General expenses for FY 2025 amounted to \$15.8 million. However, based on annualized expenditures, the revised true up for FY 2025 Administrative and General expenses has been reduced to \$10.4M. This is largely in part to procurement of chemicals, materials, and supplies having been previously purchased in bulk, resulting in sufficient inventory to operate for the remainder of FY 2025. The FY 2026 requested amount of \$13.3 million in these expenses indicates the need to replenish inventory for operations in the upcoming fiscal year. While the FY 2026 budget request represents a 28% increase from the revised true up for FY 2025, it is 6.4% lower than the FY 2026 projection included in the Five Year Financial Plan.

Contractual

Contractual expenses include the following:

- Audit & Computer Maintenance
- Building Rental
- Equipment Rental
- Legal
- Laboratory
- Others (e.g., Ground Maintenance, Leak Detection, Repair & Maintenance, etc.)

The total approved budget for Contractual expenses for FY 2025 amounted to \$9.9M. However, based on annualized expenditures, the revised true up for FY 2025 Contractual expenses has been reduced to \$6.9M. This is largely due to delayed procurements in the Audit & Computer Maintenance and Others expense categories. For instance, it is anticipated that the procurement of risk management services and new or upgrades to existing software or software related services will be completed in

the last half of the fiscal year. The FY 2026 requested amount of \$10M in Contractual expenses indicates the need to keep the funding level at, or around, status quo in order to effectively operate as originally planned. While the FY 2026 budget request represents a 45% increase over the revised FY 2025 true up, it reflects a 2.6% decrease from the originally approved FY 2026 budget in the Five Year Financial Plan.

Retiree Benefits

The FY 2026 estimated costs for retiree benefits are \$4.6 million and include supplemental annuities of \$250,215 for 62 retirees, health insurance premiums of \$3.7 million for 318 retirees, and Cost of Living Allowance (COLA) payments of \$696,900 for 303 retirees.

Capital Financing

GWA's capital improvement program is the principal driver of projected FY 2025 and FY 2026 revenue requirements. GWA's capital program is anticipated to require encumbrances of \$165.6 million in FY 2025 and \$222.6 million in FY 2026 in inflated dollars (with encumbrance requirements of the same order of magnitude forecast through FY 2029). The importance of capital financing on favorable terms has led GWA to both carefully evaluate capital improvement program needs and investigate both short-term and long-term debt instruments – the relative merits of which are a function of credit market conditions.

Capital Financing Needs

GWA's financing needs, encumbrance requirements, and available financing options have been the subject of extensive review and analysis. The capital program reflects an update of GWA's Integrated Water Resources Master Plan (that is pending publication), review of requirements of GWA's Partial Consent Decree with USEPA as well as other regulatory requirements (e.g., relating to PFAS and Deildrin), evolution of the Water Loss Control Program, and input from GWA field operations personnel.

Capital Financing Strategy Evolution

Given the magnitude of GWA's capital program, arrangement of capital financing on favorable terms is essential. This requires a portfolio management approach that strategically employs short-term and long-term debt instruments and investment vehicles based on market conditions. Notably, these conditions have changed materially since the issuance of the Rate Decision in Docket 24-05. Where Tax-Exempt Commercial Paper (TECP) was initially anticipated to provide relatively low-cost short-term construction financing and enable deferral of long-term "takeout" revenue bonds, recent market developments indicate that immediate issuance of long-term (new money) revenue bond indebtedness coupled with a Guaranteed Investment Contract (GIC) to limit or eliminate "negative carry" of bond proceeds is an option that should be strongly considered. In addition, a Revolving Loan credit facility offers several advantages relative to TECP and will enable GWA to move project encumbrances forward at relatively limited costs in terms of facility fees. Accordingly, GWA's capital financing plan – primarily for FY 2025 and FY 2026 encumbrances requirements, involves a \$75 million Revolving Loan credit facility in combination with a fixed rate, 3-year principal-deferred,

revenue bond issue to yield \$250 million in proceeds (\$270 million par). In addition, GWA continues to anticipate funding of capital projects with receipt of federal grants, SDC revenues, and internal (e.g., current revenue) funding.

Short-Term Construction Financing

GWA's Short-Term Construction Financing procurement process has enabled GWA to engage four (4) different investment banking firms to advise GWA on credit market conditions. The consensus opinion of these firms, and GEDA representatives and advisors, is that the costs of Letters of Credit required to support a TECP facility are not currently favorable – and would impose higher costs than a more traditional long-term revenue bond issue (as discussed below). Accordingly, GWA is working to establish a Revolving Loan facility with a capacity of \$75 million. This facility is projected to impose fees of approximately \$250,000 in FY 2025 and \$360,000 in FY 2026 and interest charges of \$76,000 in FY 2025 and \$1.3 million in FY 2026 based on GWA's projected capital project encumbrance and expenditure schedules.

Series 2025 Revenue Bonds / Guaranteed Investment Contract

Due to market conditions, GWA's financial advisors have recommended issuance of fixed-rate, long-term revenue bonds structured with a deferral of principal to mitigate debt service requirement increases. This issue may be coupled with a Guaranteed Investment Contract (GIC) to limit or eliminate negative carry on the bond issuance proceeds –thereby making it sensible to issue the Series 2025 bonds in an amount that will enable funding of all capital funding requirements not funded through other sources through FY 2026. Accordingly, GWA will issue its Series 2025 revenue bonds to yield \$250 million in proceeds (\$270 million par amount). This issue is anticipated to increase revenue bond debt service by \$13.2 million in FY 2026. GWA also anticipates entering into a GIC contract that is projected to yield a total of \$11.5 million until bond proceeds are fully spent. These additional revenues are accounted for in GWA's financial plan and help offset encumbrance requirements in FY 2025 and FY 2026.

Internally Financed Capital / System Development Charges

GWA further anticipates that it will continue to fund capital with current revenues (IFCIP) and SDC revenues. IFCIP funding is anticipated at \$17.0 million in FY 2025 and \$15.0 million in FY 2026 while SDC revenues are projected to fund \$750,000 in growth-related projects annually.

Conclusions

GWA's FY 2026 budget and financial plan demonstrates prudent financial management and effective execution of the five-year rate plan approved in Docket 24-05. The Authority's efforts to control costs, optimize its capital financing strategy, and implement PUC-approved rate design reforms have resulted in a financial position that supports necessary investment in system reliability and regulatory compliance.

Despite progress, GWA's financial condition remains fragile due to historically depleted reserves and ongoing capital demands. Approval of the proposed FY 2026 rate adjustments is essential to

meet debt service obligations, fund operations, and maintain creditworthiness. The Authority cautions that failure to adopt the proposed rates may jeopardize its ability to fund critical infrastructure improvements and comply with the Partial Consent Decree and other regulatory obligations.

Conversely, if the FY 2026 rate projections prove conservative, improved financial outcomes will help build reserves and may reduce the magnitude of future rate adjustments. In light of these factors, GWA respectfully requests that the PUC approve the proposed true-up and associated rates to support sound financial stewardship and continued progress toward long-term utility sustainability.

ATTACHMENT C

True-Up Schedules

True-Up Schedule A-1

Historical and Forecasted Operating Results with PUC-Ordered FY 2026 Rate Revenues

	Historical Year	Current Year	Forecast Year
	FY 2024	FY 2025	FY 2026
Non-Lifeline Rate Increase	16.70%	11.50%	varies ¹
Lifeline Rate Increase	16.70%	11.50%	varies ¹
Legislative Surcharge	3.80%	3.50%	3.10%
CASH SOURCES			
Water Rate Revenues	\$ 80,933,624	\$ 91,958,431	\$ 97,753,408
Wastewater Rate Revenues	45,314,878	48,209,243	57,121,153
Other Revenues	591,327	515,000	515,000
Rate Revenue Adjustment	1,547,307	(1,906,280)	(2,106,294)
Bad Debt Adjustment	(229,334)	(968,794)	(1,062,843)
Total Operating Revenues²	\$ 128,157,801	\$ 137,807,599	\$ 152,220,423
Interest / Investment Income	3,000,398	2,089,378	1,213,144
Rate Stabilization Transfers Out (In)	-	(9,500,000)	2,200,000
TOTAL SOURCES	\$ 131,158,199	\$ 130,396,977	\$ 155,633,568
CASH USES			
Power Purchases	21,892,448	21,994,230	17,601,227
Water Purchases	8,662,002	9,059,465	6,957,710
Salaries & Benefits ³	29,243,503	33,366,815	37,356,545
Admin & General ⁴	9,313,498	10,375,244	13,310,419
Contractual Expense	5,237,504	6,885,371	9,988,428
Retiree Expense	3,909,646	4,476,615	4,623,703
O&M Subtotal	\$ 78,258,600	\$ 86,157,740	\$ 89,838,032
Fees, Short-Term Financing Program	-	252,796	358,404
Interest, Short-Term Financing Program	-	75,940	1,303,735
Debt Service	38,709,701	37,930,282	52,337,390
Internally Funded Capital (IFCIP)	2,342,943	17,000,000	15,000,000
TOTAL USES	\$ 119,311,244	\$ 141,416,758	\$ 158,837,561
Net Annual Cash Flow	\$ 11,846,956	\$ (11,019,781)	\$ (3,203,993)
DEBT SERVICE COVERAGE			
Net Revenues	\$ 52,899,599	\$ 44,239,237	\$ 65,795,536
Adjustment, Regulatory Asset	-	840,800	840,800
Adjustment, Capitalized Labor	3,321,043	4,337,686	4,856,351
Adjustment, Other ⁵	1,840,822	701,500	708,515
Revenues Available for Debt Service	\$ 58,061,464	\$ 50,119,223	\$ 72,201,202
Total Debt Service	38,709,701	37,930,282	52,337,390
Debt Service Coverage	1.500	1.321	1.380
OTHER INFORMATION			
SDC Revenues	1,698,842	1,165,000	1,165,000
Depreciation	30,172,311	29,424,588	29,996,235
Net Operating Income	\$ 24,746,775	\$ 27,727,957	\$ 38,407,508
Non-Operating Revenues (Expenses)	9,965,399	13,267,170	13,553,831
Interest Expense	(26,805,659)	(27,485,282)	(41,372,390)
Capital Contributions	2,999,184	34,488,000	30,000,000
Change in Net Position	\$ 10,905,699	\$ 47,997,845	\$ 40,588,948

1 - Per a 2024 PUC Order, rate adjustment percentages will vary across components (see Order p. 2-4; Determinations 3-16, in re GWA's Amended Petition to Approve a new Rate Design Structure, GWA Docket 19-08, March 28, 2024).

2 - Includes leachate and Navy revenues; excludes system development charge revenues

3 - Capitalized labor, which does not represent a cash impact, is not included in this calculation of annual net cash flow

4 - Excludes bad debt expense since this line item is included as an offset to rate revenues (per audited financials)

5 - Includes retiree COLA and end-of-year pension and OPEB adjustments

True-Up Schedule A-2

Historical and Forecasted Operating Results without FY 2026 Rate Adjustments or RSF Transfers

	Historical Year	Current Year	Forecast Year
	FY 2024	FY 2025	FY 2026
Non-Lifeline Rate Increase	16.70%	11.50%	0.00%
Lifeline Rate Increase	16.70%	11.50%	0.00%
Legislative Surcharge	3.80%	3.50%	3.50%
CASH SOURCES			
Water Rate Revenues	\$ 80,933,624	\$ 91,958,431	\$ 88,563,404
Wastewater Rate Revenues	45,314,878	48,209,243	48,783,553
Other Revenues	591,327	515,000	515,000
Rate Revenue Adjustment	1,547,307	(1,906,280)	(1,867,919)
Bad Debt Adjustment	(229,334)	(968,794)	(944,855)
Total Operating Revenues²	\$ 128,157,801	\$ 137,807,599	\$ 135,049,184
Interest / Investment Income	3,000,398	2,089,378	1,160,569
Rate Stabilization Transfers Out (In)	-	(9,500,000)	-
TOTAL SOURCES	\$ 131,158,199	\$ 130,396,977	\$ 136,209,753
CASH USES			
Power Purchases	21,892,448	21,994,230	17,601,227
Water Purchases	8,662,002	9,059,465	6,957,710
Salaries & Benefits ³	29,243,503	33,366,815	37,356,545
Admin & General ⁴	9,313,498	10,375,244	13,310,419
Contractual Expense	5,237,504	6,885,371	9,988,428
Retiree Expense	3,909,646	4,476,615	4,623,703
O&M Subtotal	\$ 78,258,600	\$ 86,157,740	\$ 89,838,032
Fees, Short-Term Financing Program	-	252,796	358,404
Interest, Short-Term Financing Program	-	75,940	1,303,735
Debt Service	38,709,701	37,930,282	52,337,390
Internally Funded Capital (IFCIP)	2,342,943	17,000,000	-
TOTAL USES	\$ 119,311,244	\$ 141,416,758	\$ 143,837,561
Net Annual Cash Flow	\$ 11,846,956	\$ (11,019,781)	\$ (7,627,808)
DEBT SERVICE COVERAGE			
Net Revenues	\$ 52,899,599	\$ 44,239,237	\$ 46,371,721
Adjustment, Regulatory Asset	-	840,800	840,800
Adjustment, Capitalized Labor	3,321,043	4,337,686	4,856,351
Adjustment, Other ⁵	1,840,822	701,500	708,515
Revenues Available for Debt Service	\$ 58,061,464	\$ 50,119,223	\$ 52,777,387
Total Debt Service	38,709,701	37,930,282	52,337,390
Debt Service Coverage	1.500	1.321	1.008
OTHER INFORMATION			
SDC Revenues	1,698,842	1,165,000	1,165,000
Depreciation	30,172,311	29,424,588	29,996,235
Net Operating Income	\$ 24,746,775	\$ 27,727,957	\$ 21,236,268
Non-Operating Revenues (Expenses)	9,965,399	13,267,170	13,553,831
Interest Expense	(26,805,659)	(27,485,282)	(41,372,390)
Capital Contributions	2,999,184	34,488,000	30,000,000
Change in Net Position	\$ 10,905,699	\$ 47,997,845	\$ 23,417,709

1 - Per a 2024 PUC Order, rate adjustment percentages will vary across components (see Order p. 2-4: Determinations 3-16, in re GWA's Amended Petition to Approve a new Rate Design Structure, GWA Docket 19-08, March 28, 2024).

2 - Includes leachate and Navy revenues; excludes system development charge revenues

3 - Capitalized labor, which does not represent a cash impact, is not included in this calculation of annual net cash flow

4 - Excludes bad debt expense since this line item is included as an offset to rate revenues (per audited financials)

5 - Includes retiree COLA and end-of-year pension and OPEB adjustments

True-Up Schedule K

Rates and Proposed Rate Adjustments for the Forecast Year

	FY 2024	increase	FY 2025	change	FY 2026
Proposed Rate Increase		11.5%		varies ¹	
Water Rates					
Monthly Base Charge²					
3/4 inch	\$30.62	\$3.52	\$34.14	\$4.49	\$38.63
1 inch	\$35.73	\$4.11	\$39.84	\$5.24	\$45.08
1.5 inch	\$56.06	\$6.45	\$62.51	\$8.22	\$70.73
2 inch	\$71.41	\$8.21	\$79.62	\$10.48	\$90.10
3 inch	\$127.55	\$14.87	\$142.22	\$18.71	\$160.93
4 inch	\$178.55	\$20.83	\$199.08	\$26.20	\$225.28
6 inch	\$331.57	\$38.13	\$369.70	\$48.64	\$418.34
8 inch	\$484.59	\$55.73	\$540.32	\$71.09	\$611.41
10 inch	\$663.15	\$76.26	\$739.41	\$97.29	\$836.70
12 inch	\$790.63	\$90.92	\$881.55	\$115.88	\$997.54
Volumetric Rates					
Residential					
Tier 1 Threshold	5 kgals		5 kgals		3 kgals
Tier 2 Threshold	above		above		10 kgals
Tier 1 Rate	\$3.51	\$0.43	\$3.91	\$0.51	\$4.42
Tier 2 Rate	\$14.58	\$1.68	\$16.26	\$1.80	\$18.93
Tier 3 Rate					
Non-Residential³					
Commercial-1	\$18.12	\$2.08	\$20.20	\$3.13	\$23.33
Commercial-2	\$18.12	\$2.08	\$20.20	\$3.13	\$23.33
Commercial-3	\$18.12	\$2.08	\$20.20	\$3.13	\$23.33
Hotels	\$18.12	\$2.08	\$20.20	\$3.13	\$23.33
Government	\$18.12	\$2.08	\$20.20	\$3.13	\$23.33
GWA	\$18.12	\$2.08	\$20.20	\$3.13	\$23.33
Agriculture	\$5.82	\$0.67	\$6.49	\$1.00	\$7.49
Irrigation	\$6.02	\$0.69	\$6.71	\$1.05	\$7.76
Wastewater Rates					
Monthly Base Charge⁴					
Residential Flat Rate	\$32.14	\$3.70	\$35.84	\$5.64	\$0.00
3/4 inch	\$0.00	\$0.00	\$0.00	\$15.14	\$15.14
1 inch	\$0.00	\$0.00	\$0.00	\$17.66	\$17.66
1.5 inch	\$0.00	\$0.00	\$0.00	\$27.72	\$27.72
2 inch	\$0.00	\$0.00	\$0.00	\$35.31	\$35.31
3 inch	\$0.00	\$0.00	\$0.00	\$63.07	\$63.07
4 inch	\$0.00	\$0.00	\$0.00	\$88.28	\$88.28
6 inch	\$0.00	\$0.00	\$0.00	\$163.95	\$163.95
8 inch	\$0.00	\$0.00	\$0.00	\$239.61	\$239.61
10 inch	\$0.00	\$0.00	\$0.00	\$327.90	\$327.90
12 inch	\$0.00	\$0.00	\$0.00	\$390.94	\$390.94
Volumetric Rates					
Residential	\$0.00	\$0.00	\$0.00	\$5.99	\$5.99
Commercial-1	\$9.99	\$1.14	\$11.14	\$1.91	\$13.01
Commercial-2	\$24.34	\$2.83	\$27.14	\$4.57	\$31.71
Commercial-3	\$33.75	\$3.89	\$37.63	\$5.14	\$43.97
Hotels	\$24.34	\$2.83	\$27.14	\$4.57	\$31.71
Government	\$14.28	\$1.64	\$15.92	\$2.48	\$18.60
Leachate	\$14.72	\$1.71	\$16.41	\$2.79	\$19.18
Navy	\$14.28	\$1.64	\$15.92	\$2.48	\$18.60
Legislative Surcharge					
Surcharge ⁵	3.80%		3.50%		3.10%

1 - Per the PUC's Order (see Amended Petition to Approve a New Rate Design Structure, Docket 19-08, March 28, 2024) rate adjustment percentages will vary across components

2 - Monthly base charges for the Agriculture customer class are roughly 96.6% of stated base charge

3 - Non-residential volumetric water rates are applied to all levels of demand

4 - Currently, only residential customers - regardless of meter size - receive the same flat monthly wastewater charge: under the new rate structure, both residential and non-residential customers will receive a monthly base charge based on meter size

5 - Beginning in FY 2026, the surcharge will be applied to all rate components (including lifeline rates)

True-Up Schedule L

Bill Impacts by Customer Class based on Proposed Rate Adjustment ¹

			Forecast Year			
	Meter Size	Kgals	FY 2025	Increase	FY 2026	% Change
Customer Class						
Residential	3/4 inch	1	\$75.08	(\$10.15)	\$64.93	-13.5%
Residential	3/4 inch	2	\$78.99	(\$4.56)	\$74.43	-5.8%
Residential	3/4 inch	3	\$82.90	\$1.03	\$83.93	1.2%
Residential	3/4 inch	4	\$86.81	\$11.81	\$98.62	13.6%
Residential	3/4 inch	5	\$90.72	\$22.60	\$113.32	24.9%
Residential	3/4 inch	6	\$107.55	\$20.46	\$128.01	19.0%
Residential	3/4 inch	7	\$124.38	\$18.32	\$142.70	14.7%
Residential	3/4 inch	9	\$158.04	\$14.05	\$172.09	8.9%
Residential	3/4 inch	12	\$208.53	\$27.17	\$235.70	13.0%
Residential	3/4 inch	15	\$259.02	\$50.05	\$309.07	19.3%
Commercial-1	3/4 inch	23	\$728.35	\$127.12	\$855.47	17.5%
Commercial-1	1.5 inch	50	\$1,571.24	\$269.46	\$1,840.70	17.1%
Commercial-2	2 inch	270	\$11,794.72	\$1,890.64	\$13,685.36	16.0%
Commercial-3	3/4 inch	41	\$2,169.99	\$358.55	\$2,528.54	16.5%
Hotel	2 inch	400	\$17,433.97	\$2,778.38	\$20,212.35	15.9%
Hotel	4 inch	970	\$42,283.60	\$6,741.09	\$49,024.69	15.9%
Government	3/4 inch	50	\$1,739.77	\$285.39	\$2,025.16	16.4%
Government	1.5 inch	150	\$5,178.01	\$832.67	\$6,010.68	16.1%
Agriculture	3/4 inch	16	\$ 141.61	\$20.42	\$162.03	14.4%
Irrigation	3/4 inch	10	\$ 104.78	\$15.05	\$119.83	14.4%

¹ - With the exception of the Agriculture and Irrigation customer classes, bill impact calculations assume billable wastewater flows are 80% of water demand for both residential and non-residential customers

ATTACHMENT D

CCU GWA Resolution No. 28-FY2025



CONSOLIDATED COMMISSION ON UTILITIES
Guam Power Authority | Guam Waterworks Authority
P.O. Box 2977 Hagatna, Guam 96932 | (671)649-3002 | guamccu.org

GWA RESOLUTION NO. 28-FY2025

RELATIVE TO APPROVING THE GUAM WATERWORKS AUTHORITY ANNUAL FISCAL YEAR 2025 TRUE-UP AND FISCAL YEAR 2026 BUDGET

WHEREAS, under 12 G.C.A. § 14105, the Consolidated Commission on Utilities ("CCU") has plenary authority over financial, contractual, and policy matters relative to the Guam Waterworks Authority ("GWA"); and

WHEREAS, the Guam Waterworks Authority ("GWA") is a Guam Public Corporation established and existing under the laws of Guam; and

WHEREAS, Fiscal Year (FY) 2026 is the second (2nd) year of GWA's Five (5) Year FY 2025-FY 2029 Rate Plan approved by the CCU on March 4, 2024, in GWA Resolution 11-FY2024; and

WHEREAS, GWA petitioned the PUC for approval of the FY 2025-FY 2029 Rate Plan on June 4, 2024, and, in response, the Guam Public Utilities Commission (PUC) on September 24, 2024, issued the FY 2025-FY 2029 Rate Decision in GWA Docket 24-05 approving a rate increase of 11.5% for FY 2025 for lifeline and non-lifeline rates; and

WHEREAS, the PUC authorized rate adjustments and rate revenue increases for FY 2026, FY 2027, FY 2028, and FY 2029 are subject to change in the annual true-up proceedings and are not final until approved by the PUC in the annual true-up proceedings; and

WHEREAS, on April 3, 2023, as amended on April 4, 2023, GWA submitted a petition to the PUC to *Approve a New Rate Design Structure* as proposed in GWA PUC Docket 19-08 which adds an additional tier to residential water rates, reduces the lifeline rate volume threshold from 5 to 3 kgals, adds meter-size scaled base sewer charges to residential and non-residential customers and eliminates the residential monthly wastewater flat rate, establishes volumetric

1 sewer rates for residential customers, and applies the legislative surcharge to all rate components;
2 and
3

4 **WHEREAS**, the PUC approved the new rate design structure, in principle, as proposed
5 in Docket 19-08 in their March 28, 2024, Order; and
6

7 **WHEREAS**, the nominal rates of the approved rate design have been proportionally
8 scaled to generate PUC-approved FY 2026 rate revenue levels and, as such, GWA's FY 2026
9 proposed rates and charges are aligned to both the PUC's Order in Docket 19-08 dated March
10 28, 2024 (Rate Design decision) as well as the approved FY 2025-FY 2029 Rate Plan; and
11

12 **WHEREAS**, the PUC Rate Decision, Docket 24-05, ordered GWA to employ short-term
13 construction financing and long-term debt instruments as allowed by Public Law 37-103 to
14 support the approved CIP plan; and
15

16 **WHEREAS**, on October 31, 2024, the Guam Economic Development Authority
17 (GEDA) issued RFP 25-001 for the Guam Waterworks Authority's Short-Term Construction and
18 Infrastructure Financing Program which resulted in the selection of four firms approved by
19 GEDA on January 16, 2025; and
20

21 **WHEREAS**, CCU Resolution No. 23-FY2025 *Relative to Authorizing the Execution and*
22 *Delivery of One or More Credit Agreements, and Authorizing the Execution and Delivery*
23 *Thereof* authorized the issuance of short-term financing credit agreements not to exceed an
24 aggregate principal amount of \$360,000,000; and
25

26 **WHEREAS**, based on current market conditions, in combination with short-term
27 financing, GWA, subject to the necessary approvals, will return to the bond market in FY 2025
28 to raise \$250 million in revenue bond proceeds (\$270 million par) to pay for capital investments
29 to meet regulatory requirements and modernize and manage aging infrastructure assets, thus
30 requiring increases to existing debt service levels; and
31

1 **WHEREAS**, the projected debt service related to the financing of CIPs has been
2 incorporated in this true up, with GWA's short-term interest projected to be approximately
3 \$76,000 in FY 2025 and increase to \$1.3 million in FY 2026, and revenue bond debt service
4 projected to increase from \$37.9 million in FY 2025 to \$52.3 million in FY 2026; and
5

6 **WHEREAS**, GWA Management has formulated and thoroughly reviewed the FY 2025
7 projected year end results in conjunction with the development of Management's proposed FY
8 2026 budget and does hereby submit said FY 2026 budget to the CCU for their approval; and
9

10 **WHEREAS**, the proposed FY 2026 water and sewer rates, which are consistent with the
11 approved rate design structure and are projected to recover approved FY 2026 rate revenue levels
12 in the FY 2025-FY 2029 Rate Plan, and the legislative surcharge set at 3.10%, (charged on all
13 rate components), are necessary to maintain financial stability and meet GWA's obligatory
14 requirements such as bond debt covenants; and
15

16 **WHEREAS**, the proposed rates and charges are anticipated to generate an additional
17 \$14.4 million in rate revenues (inclusive of bad debt and other rate revenue adjustments) which
18 are necessary to meet increased O&M expenses and debt service on the proposed short-term
19 construction financing program and FY 2025 revenue bonds; and
20

21 **WHEREAS**, the impact of the proposed rates (including surcharge adjustments) on
22 residential and non-residential customers vary based on meter size and usage levels with
23 implementation of the PUC-approved rate design as reflected in True-Up Schedules K and L
24 attached herein; and
25

26 **WHEREAS**, Operating Revenues are projected to reach \$152.2 million in FY 2026
27 derived from approximately \$97.8 million in water sales and surcharges, \$57.1 million in
28 wastewater service charges and surcharges (inclusive of \$11.2 million in Navy wastewater
29 service charges and surcharges), \$515 thousand in Other Revenues, a \$2.1 million reduction
30 related to post billing rate revenue adjustments, and a \$1.1 million reduction to account for bad
31 debt as shown in Schedule A-1 and further described in the FY 2025 True-Up and FY 2026

1 Budget Narrative; and

2
3 **WHEREAS**, operating costs representing cash uses in FY 2026 are earmarked at \$37.4
4 million in salaries and benefits (exclusive of a \$4.9 million capitalized labor adjustment); \$17.6
5 million in power costs; \$7.0 million in water purchases; \$13.3 million in administrative and
6 general expenses (exclusive of bad debt expense); \$10.0 million in contractual expenses; and
7 \$4.6 million in retiree supplemental annuities and health care, as further described in the FY
8 2025 True-Up and FY 2026 Budget Narrative, for a combined Fiscal Year 2026 total of \$89.8
9 million; and

10
11 **WHEREAS**, FY 2026 non-cash adjustments to GWA's budget include depreciation
12 expense of \$30.0 million, capitalized labor of \$4.9 million, and bad debt expense of \$1.1 million
13 bringing the FY 2026 Operations and Maintenance Budget to \$116.0 million; and

14
15 **WHEREAS**, the foremost and principal cost driver for this year's true-up filing is
16 GWA's obligatory requirement for protecting public health and environment impacted by
17 inflationary pressures and capital financing requirements; and

18
19 **WHEREAS**, the FY 2026 Budget represents management's best estimates of resources
20 necessary to conduct its strategic objectives consistent with the Authority's mission; and

21
22 **WHEREAS**, the proposed FY 2026 rates, estimated revenues and costs will allow GWA
23 to transfer \$9.5 million into the Rate Stabilization Fund in FY 2025 and use \$2.2 million (RSF
24 transfer out) in FY 2026 to meet the debt service coverage targets established in GWA's FY
25 2025-FY 2029 Rate Plan of 1.32x and 1.38x in FY 2025 and FY 2026, respectively; and

26
27 **WHEREAS**, without the proposed FY 2026 rate adjustments or use of Rate Stabilization
28 reserves, GWA's debt service coverage will be reduced to 1.01x (as reflected in Schedule A-2),
29 or 24 basis points below the bond indenture requirement of 1.25x; and

1 **WHEREAS**, critical internally funded capital improvement projects (CIPs) are
2 forecasted to cost \$15.0 million in FY 2026; and
3

4 **WHEREAS**, the budget transfer authority will allow the General Manager to address any
5 unanticipated changes in future conditions;
6

7 **NOW BE IT THEREFORE RESOLVED**; the Consolidated Commission on Utilities
8 does hereby approve the following:

- 9 1. The recitals set forth above hereby constitute the findings of the CCU.
- 10 2. The CCU affirms management's recommended rates and charges are
11 consistent with the PUC-approved rate design and are projected to recover FY
12 2026 Operating Revenues of \$152.2 million inclusive of legislative surcharges
13 of 3.10% charged on all rate components. (Schedule A-1).
- 14 3. The CCU affirms management's proposed FY 2026 (cash uses) budget of
15 \$158.8 million, including \$89.8 million in Operations & Maintenance
16 expenses and other cash flow requirements such as debt service, short-term
17 construction financing program fees and interest charges, and internally
18 funded CIPs (Schedule A-1).
- 19 4. The CCU finds that the forecasted debt service coverage metrics for FY 2025
20 and FY 2026, along with the prescribed use of Rate Stabilization transfers, are
21 just and reasonable.
- 22 5. The CCU authorizes management to hire personnel at the salary and benefit
23 expenditure level specified in Schedule A-1 for Fiscal Year 2026.
- 24 6. The CCU hereby further authorizes the General Manager up to 10% transfer
25 authority between and among Operations & Maintenance budget expenses as
26 necessary to meet the mission of GWA; any transfers above 10% require CCU
27 approval.
- 28 7. The CCU authorizes management to submit the FY 2025 True-Up and FY
29 2026 Budget with the recommended rates and charges to the PUC.
30
31

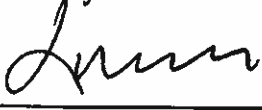
1 **RESOLVED**, that the Chairman certified, and the Board Secretary attests to the adoption
2 of this Resolution.

3
4 **DULY AND REGULARLY ADOPTED**, this 22nd day of April 2025.

5
6 Certified by:

Attested by:

7 
8
9 **FRANCE E. SANTOS**
10 Chairperson

11 
12 **MELVIN F. DUENAS**
13 Secretary

14 **SECRETARY'S CERTIFICATE**

15 **I, MELVIN F. DUENAS**, Board Secretary of the Consolidated Commission on
16 Utilities as evidenced by my signature above do hereby certify as follows:

17 The foregoing is a full, true, and accurate copy of the resolution duly adopted at a
18 regular meeting by the members of the Guam Consolidated Commission on Utilities,
19 duly and legally held at a place properly noticed and advertised at which meeting a
20 quorum was present and the members who were present voted as follows:

21 **AYES:**

5

22 **NAYS:**

0

23 **ABSENT:**

0

24 **ABSTAIN:**

0



True-Up Schedule A-1

Historical and Forecasted Operating Results with PUC-Ordered FY 2026 Rate Revenues

	Historical Year	Current Year	Forecast Year
	FY 2024	FY 2025	FY 2026
Non-Lifeline Rate Increase	16.70%	11.50%	varies ¹
Lifeline Rate Increase	16.70%	11.50%	varies ¹
Legislative Surcharge	3.80%	3.50%	3.10%
CASH SOURCES			
Water Rate Revenues	\$ 80,933,624	\$ 91,958,431	\$ 97,753,408
Wastewater Rate Revenues	45,314,878	48,209,243	57,121,153
Other Revenues	591,327	515,000	515,000
Rate Revenue Adjustment	1,547,307	(1,906,280)	(2,106,294)
Bad Debt Adjustment	(229,334)	(968,794)	(1,062,843)
Total Operating Revenues²	\$ 128,157,801	\$ 137,807,599	\$ 152,220,423
Interest / Investment Income	3,000,398	2,089,378	1,213,144
Rate Stabilization Transfers Out (In)	-	(9,500,000)	2,200,000
TOTAL SOURCES	\$ 131,158,199	\$ 130,396,977	\$ 155,633,568
CASH USES			
Power Purchases	21,892,448	21,994,230	17,601,227
Water Purchases	8,662,002	9,059,465	6,957,710
Salaries & Benefits ³	29,243,503	33,366,815	37,356,545
Admin & General ⁴	9,313,498	10,375,244	13,310,419
Contractual Expense	5,237,504	6,885,371	9,988,428
Retiree Expense	3,909,646	4,476,615	4,623,703
O&M Subtotal	\$ 78,258,600	\$ 86,157,740	\$ 89,838,032
Fees, Short-Term Financing Program	-	252,796	358,404
Interest, Short-Term Financing Program	-	75,940	1,303,735
Debt Service	38,709,701	37,930,282	52,337,390
Internally Funded Capital (IFCIP)	2,342,943	17,000,000	15,000,000
TOTAL USES	\$ 119,311,244	\$ 141,416,758	\$ 158,837,561
Net Annual Cash Flow	\$ 11,846,956	\$ (11,019,781)	\$ (3,203,993)
DEBT SERVICE COVERAGE			
Net Revenues	\$ 52,899,599	\$ 44,239,237	\$ 65,795,536
Adjustment, Regulatory Asset	-	840,800	840,800
Adjustment, Capitalized Labor	3,321,043	4,337,686	4,856,351
Adjustment, Other ⁵	1,840,822	701,500	708,515
Revenues Available for Debt Service	\$ 58,061,464	\$ 50,119,223	\$ 72,201,202
Total Debt Service	38,709,701	37,930,282	52,337,390
Debt Service Coverage	1.500	1.321	1.380
OTHER INFORMATION			
SDC Revenues	1,698,842	1,165,000	1,165,000
Depreciation	30,172,311	29,424,588	29,996,235
Net Operating Income	\$ 24,746,775	\$ 27,727,957	\$ 38,407,508
Non-Operating Revenues (Expenses)	9,965,399	13,267,170	13,553,831
Interest Expense	(26,805,659)	(27,485,282)	(41,372,390)
Capital Contributions	2,999,184	34,488,000	30,000,000
Change in Net Position	\$ 10,905,699	\$ 47,997,845	\$ 40,588,948

1 - Per a 2024 PUC Order, rate adjustment percentages will vary across components (see Order p. 2-4; Determinations 3-16, in re GWA's Amended Petition to Approve a new Rate Design Structure, GWA Docket 19-08, March 28, 2024).

2 - Includes leachate and Navy revenues; excludes system development charge revenues

3 - Capitalized labor, which does not represent a cash impact, is not included in this calculation of annual net cash flow

4 - Excludes bad debt expense since this line item is included as an offset to rate revenues (per audited financials)

5 - Includes retiree COLA and end-of-year pension and OPEB adjustments

True-Up Schedule A-2

Historical and Forecasted Operating Results without FY 2026 Rate Adjustments or RSF Transfers

	Historical Year	Current Year	Forecast Year
	FY 2024	FY 2025	FY 2026
Non-Lifeline Rate Increase	16.70%	11.50%	0.00%
Lifeline Rate Increase	16.70%	11.50%	0.00%
Legislative Surcharge	3.80%	3.50%	3.50%
CASH SOURCES			
Water Rate Revenues	\$ 80,933,624	\$ 91,958,431	\$ 88,563,404
Wastewater Rate Revenues	45,314,878	48,209,243	48,783,553
Other Revenues	591,327	515,000	515,000
Rate Revenue Adjustment	1,547,307	(1,906,280)	(1,867,919)
Bad Debt Adjustment	(229,334)	(968,794)	(944,855)
Total Operating Revenues¹	\$ 128,157,801	\$ 137,807,599	\$ 135,049,184
Interest / Investment Income	3,000,398	2,089,378	1,160,569
Rate Stabilization Transfers Out (In)	-	(9,500,000)	-
TOTAL SOURCES	\$ 131,158,199	\$ 130,396,977	\$ 136,209,753
CASH USES			
Power Purchases	21,892,448	21,994,230	17,601,227
Water Purchases	8,662,002	9,059,465	6,957,710
Salaries & Benefits ³	29,243,503	33,366,815	37,356,545
Admin & General ⁴	9,313,498	10,375,244	13,310,419
Contractual Expense	5,237,504	6,885,371	9,988,428
Retiree Expense	3,909,646	4,476,615	4,623,703
O&M Subtotal	\$ 78,258,600	\$ 86,157,740	\$ 89,838,032
Fees, Short-Term Financing Program	-	252,796	358,404
Interest, Short-Term Financing Program	-	75,940	1,303,735
Debt Service	38,709,701	37,930,282	52,337,390
Internally Funded Capital (IFCIP)	2,342,943	17,000,000	-
TOTAL USES	\$ 119,311,244	\$ 141,416,758	\$ 143,837,561
Net Annual Cash Flow	\$ 11,846,956	\$ (11,019,781)	\$ (7,627,808)
DEBT SERVICE COVERAGE			
Net Revenues	\$ 52,899,599	\$ 44,239,237	\$ 46,371,721
Adjustment, Regulatory Asset	-	840,800	840,800
Adjustment, Capitalized Labor	3,321,043	4,337,686	4,856,351
Adjustment, Other ⁵	1,840,822	701,500	708,515
Revenues Available for Debt Service	\$ 58,061,464	\$ 50,119,223	\$ 52,777,387
Total Debt Service	38,709,701	37,930,282	52,337,390
Debt Service Coverage	1.500	1.321	1.008
OTHER INFORMATION			
SDC Revenues	1,698,842	1,165,000	1,165,000
Depreciation	30,172,311	29,424,588	29,996,235
Net Operating Income	\$ 24,746,775	\$ 27,727,957	\$ 21,236,268
Non-Operating Revenues (Expenses)	9,965,399	13,267,170	13,553,831
Interest Expense	(26,805,659)	(27,485,282)	(41,372,390)
Capital Contributions	2,999,184	34,488,000	30,000,000
Change in Net Position	\$ 10,905,699	\$ 47,997,845	\$ 23,417,709

1 - Per a 2024 PUC Order, rate adjustment percentages will vary across components (see Order p. 2-4; Determinations 3-16, in re GWA's Amended Petition to Approve a new Rate Design Structure, GWA Docket 19-08, March 28, 2024).

2 - Includes leachate and Navy revenues; excludes system development charge revenues

3 - Capitalized labor, which does not represent a cash impact, is not included in this calculation of annual net cash flow

4 - Excludes bad debt expense since this line item is included as an offset to rate revenues (per audited financials)

5 - Includes retiree COLA and end-of-year pension and OPEB adjustments

True-Up Schedule K

Rates and Proposed Rate Adjustments for the Forecast Year

	FY 2024	Increase	FY 2025	change	FY 2026
Proposed Rate Increase		11.5%		varies¹	
Water Rates					
Monthly Base Charge²					
3/4 inch	\$30.62	\$3.52	\$34.14	\$4.49	\$38.63
1 inch	\$35.73	\$4.11	\$39.84	\$5.24	\$45.08
1.5 inch	\$56.06	\$6.43	\$62.51	\$8.22	\$70.73
2 inch	\$71.41	\$8.21	\$79.62	\$10.43	\$90.10
3 inch	\$127.55	\$14.67	\$142.22	\$18.71	\$160.93
4 inch	\$178.55	\$20.53	\$199.08	\$26.26	\$225.28
6 inch	\$331.57	\$38.13	\$369.70	\$48.64	\$418.34
8 inch	\$484.59	\$55.73	\$540.32	\$71.09	\$611.41
10 inch	\$663.15	\$76.26	\$739.41	\$97.29	\$836.70
12 inch	\$790.63	\$90.92	\$881.55	\$115.99	\$997.54
Volumetric Rates					
Residential					
Tier 1 Threshold	5 kgals		5 kgals		3 kgals
Tier 2 Threshold	above		above		10 kgals
Tier 1 Rate	\$3.51	\$0.43	\$3.91	\$0.51	\$4.42
Tier 2 Rate	\$14.58	\$1.64	\$16.26	\$1.90	\$18.93
Tier 3 Rate					\$18.93
Non-Residential³					
Commercial-1	\$18.12	\$2.00	\$20.20	\$3.13	\$23.33
Commercial-2	\$18.12	\$2.00	\$20.20	\$3.13	\$23.33
Commercial-3	\$18.12	\$2.00	\$20.20	\$3.13	\$23.33
Hotels	\$18.12	\$2.00	\$20.20	\$3.13	\$23.33
Government	\$18.12	\$2.00	\$20.20	\$3.13	\$23.33
GWA	\$18.12	\$2.00	\$20.20	\$3.13	\$23.33
Agriculture	\$5.82	\$0.64	\$6.49	\$1.00	\$7.49
Irrigation	\$6.02	\$0.67	\$6.71	\$1.00	\$7.76
Wastewater Rates					
Monthly Base Charge⁴					
Residential Flat Rate	\$32.14	\$3.70	\$35.84	\$3.54	\$0.00
3/4 inch	\$0.00	\$0.00	\$0.00	\$15.14	\$15.14
1 inch	\$0.00	\$0.00	\$0.00	\$17.66	\$17.66
1.5 inch	\$0.00	\$0.00	\$0.00	\$27.72	\$27.72
2 inch	\$0.00	\$0.00	\$0.00	\$35.31	\$35.31
3 inch	\$0.00	\$0.00	\$0.00	\$63.07	\$63.07
4 inch	\$0.00	\$0.00	\$0.00	\$88.28	\$88.28
6 inch	\$0.00	\$0.00	\$0.00	\$163.95	\$163.95
8 inch	\$0.00	\$0.00	\$0.00	\$239.61	\$239.61
10 inch	\$0.00	\$0.00	\$0.00	\$327.90	\$327.90
12 inch	\$0.00	\$0.00	\$0.00	\$390.94	\$390.94
Volumetric Rates					
Residential	\$0.00	\$0.00	\$0.00	\$5.99	\$5.99
Commercial-1	\$9.99	\$1.14	\$11.14	\$13.01	\$13.01
Commercial-2	\$24.34	\$2.71	\$27.14	\$31.71	\$31.71
Commercial-3	\$33.75	\$3.63	\$37.63	\$43.97	\$43.97
Hotels	\$24.34	\$2.71	\$27.14	\$31.71	\$31.71
Government	\$14.28	\$1.59	\$15.92	\$18.60	\$18.60
Leachate	\$14.72	\$1.61	\$16.41	\$19.18	\$19.18
Navy	\$14.28	\$1.59	\$15.92	\$18.60	\$18.60
Legislative Surcharge					
Surcharge ⁵	3.80%		3.50%		3.10%

1 - Per the PUC's Order (see Amended Petition to Approve a New Rate Design Structure, Docket 19-08, March 28, 2024) rate adjustment percentages will vary across components

2 - Monthly base charges for the Agriculture customer class are roughly 96.6% of stated base charge

3 - Non-residential volumetric water rates are applied to all levels of demand

4 - Currently, only residential customers - regardless of meter size - receive the same flat monthly wastewater charge; under the new rate structure, both residential and non-residential customers will receive a monthly base charge based on meter size

5 - Beginning in FY 2026, the surcharge will be applied to all rate components (including lifeline rates)

True-Up Schedule L

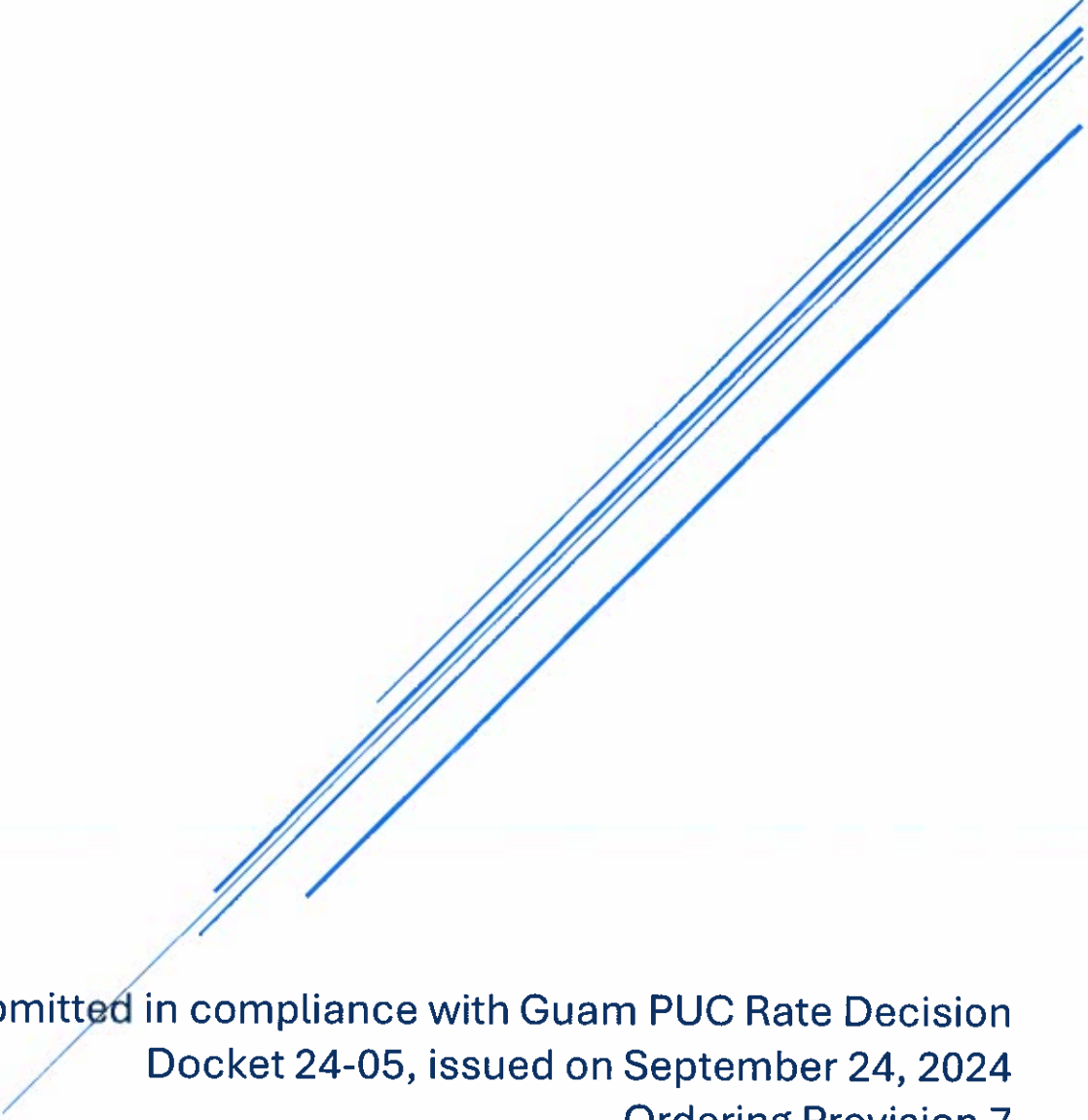
Bill Impacts by Customer Class based on Proposed Rate Adjustment¹

			Forecast Year			
	Meter Size	Kgals	FY 2025	Increase	FY 2026	% Change
Customer Class						
Residential	3/4 inch	1	\$75.08	(\$10.15)	\$64.93	-13.5%
Residential	3/4 inch	2	\$78.99	(\$4.56)	\$74.43	-5.8%
Residential	3/4 inch	3	\$82.90	\$1.03	\$83.93	1.2%
Residential	3/4 inch	4	\$86.81	\$11.81	\$98.62	13.6%
Residential	3/4 inch	5	\$90.72	\$22.60	\$113.32	24.9%
Residential	3/4 inch	6	\$107.55	\$20.46	\$128.01	19.0%
Residential	3/4 inch	7	\$124.38	\$18.32	\$142.70	14.7%
Residential	3/4 inch	9	\$158.04	\$14.05	\$172.09	8.9%
Residential	3/4 inch	12	\$208.53	\$27.17	\$235.70	13.0%
Residential	3/4 inch	15	\$259.02	\$50.05	\$309.07	19.3%
Commercial-1	3/4 inch	23	\$728.35	\$127.12	\$855.47	17.5%
Commercial-1	1.5 inch	50	\$1,571.24	\$269.46	\$1,840.70	17.1%
Commercial-2	2 inch	270	\$11,794.72	\$1,890.64	\$13,685.36	16.0%
Commercial-3	3/4 inch	41	\$2,169.99	\$358.55	\$2,528.54	16.5%
Hotel	2 inch	400	\$17,433.97	\$2,778.38	\$20,212.35	15.9%
Hotel	4 inch	970	\$42,283.60	\$6,741.09	\$49,024.69	15.9%
Government	3/4 inch	50	\$1,739.77	\$285.39	\$2,025.16	16.4%
Government	1.5 inch	150	\$5,178.01	\$832.67	\$6,010.68	16.1%
Agriculture	3/4 inch	16	\$ 141.61	\$20.42	\$162.03	14.4%
Irrigation	3/4 inch	10	\$ 104.78	\$15.05	\$119.83	14.4%

1 - With the exception of the Agriculture and Irrigation customer classes, bill impact calculations assume billable wastewater flows are 80% of water demand for both residential and non-residential customers

GUAM WATERWORKS AUTHORITY FY 2025 TRUE-UP AND FY 2026 BUDGET

GWA Docket 24-05



Submitted in compliance with Guam PUC Rate Decision
Docket 24-05, issued on September 24, 2024
Ordering Provision 7
May 1, 2025

Attachment D-011

Table of Contents

Executive Summary.....	2
Introduction.....	2
FY 2025 Financial Performance.....	3
Projected FY 2026 Financial Performance	4
Revenues.....	5
Rate Design.....	5
Revenue Projections	6
Operations and Maintenance Expenses	7
Utilities.....	7
Salaries and Benefits	7
Administrative and General	8
Contractual	8
Retiree Benefits	9
Capital Financing	9
Capital Financing Needs	9
Capital Financing Strategy Evolution	9
Short-Term Construction Financing.....	10
Series 2025 Revenue Bonds / Guaranteed Investment Contract	10
Internally Financed Capital / System Development Charges	10
Conclusions.....	10

Executive Summary

This submission presents the Guam Waterworks Authority's (GWA) FY 2025 true-up and FY 2026 budget proposed rate increases in accordance with the Public Utilities Commission (PUC) Rate Decision in Docket 24-05. Now in the second year of its approved five-year financial plan, GWA seeks to implement the modified rate design previously authorized by the PUC and related rate adjustments, tailored to meet forecasted operational and capital financing needs.

This true-up confirms that GWA's FY 2025 financial performance closely aligned with the projections approved in Docket 24-05, while achieving cost savings in the following key areas— Navy water purchases, salaries, administrative and general expenses, and contractual services. These favorable variances contributed to a projected \$9.5 million transfer to the Rate Stabilization Fund (RSF) and a debt service coverage ratio of 1.32x, exceeding the temporary target of 1.30x.

For FY 2026, GWA projects operating revenues of \$152.2 million, sufficient to support a projected \$89.8 million in operations and maintenance expenses and \$52.3 million in debt service, which includes new debt from a planned \$250 million bond issuance. The budget also supports internally financed capital improvements of \$15 million. Proposed rate increases are designed to align with the approved FY 2026 revenue requirements and rate design, ensuring equitable cost allocation across customer classes and compliance with financial performance policies.

GWA's financing strategy involves a combination of long-term revenue bonds, a Guaranteed Investment Contract (GIC) to reduce the cost of carry, and a \$75 million revolving loan facility to support short-term capital needs. This comprehensive financial plan is necessary to fund extensive infrastructure improvements, meet regulatory mandates, and restore financial resilience through enhanced liquidity and debt service coverage ratios.

Introduction

GWA is completing the first year of its fourth five-year financial plan (FY 2025 through FY 2029) and rate relief application with the Public Utilities Commission of Guam (PUC). GWA was allowed across-the-board water and wastewater basic, lifeline and non-lifeline rate increases of 11.5 percent for FY 2025.

While pro forma system wide rate increases of 10.75 percent in FY 2026 were approved in the Decision Order for Docket 24-05, the PUC also approved implementation of a modified rate design. Accordingly, rate and charge increases and associated bill impacts vary by customer meter size and billable volumes (as shown in Schedules K and L).

The FY 2026 annual true-up rates presented herein provide for an increase in Operating Revenues relative to projected FY 2025 of \$14.4 million (inclusive of bad debt and other rate revenue adjustments) to cover projected FY 2026 operations and maintenance (O&M) expenses, debt service, and internally financed capital expenditures.

For the true-up to determine proposed FY 2026 rates, GWA management has thoroughly reviewed its revenue requirements and other requisites such as rate covenants and financial policies and considered known and measurable changes in costs and conditions. Based on these analyses, GWA has determined and recommends the rates by customer class presented in Schedule K. These recommended rates implement the PUC-approved rate design and are needed to meet increased operating costs and capital financing expenses and achieve debt service coverage levels as anticipated in the Rate Decision for Docket 24-05. The proposed rates generate FY 2026 rate revenue levels that are consistent with those approved by the PUC as part of the five-year rate plan.

FY 2026 operating costs are earmarked at \$37.4 million in salaries and benefits (exclusive of \$4.9 million in capitalized labor adjustments); \$17.6 million in power costs; \$7.0 million in water purchases; \$13.3 million in administrative and general expenses (exclusive of bad debt); \$10.0 million in contractual expenses; and \$4.6 million in retiree supplemental annuities and health care for a combined total of \$89.8 million (exclusive of \$30.0 million in depreciation). The proposed FY 2026 budget, as recommended, excluding interns and federally funded positions, allows GWA a staff level of 374 full time equivalents (FTE) to meet operations and maintenance and customer service mandates.

FY 2026 revenue bond debt service expenses are projected to be \$52.3 million. This total includes \$13.2 million of new debt service associated with GWA's planned new money bond issue (\$250 million in proceeds) and \$1.3 million for interest on GWA's short-term construction financing program. Internally financed capital improvements are forecast to be \$15 million. Debt service coverage is targeted at 1.38x to achieve an incremental step toward compliance with the PUC's established policy of a 1.50x coverage level. The proposed FY 2026 financial plan anticipates an incremental Rate Stabilization Fund (RSF) transfer out of reserves of \$2.2 million.

FY 2025 Financial Performance

GWA's projected FY 2025 financial performance is similar to that projected for the Rate Decision in Docket 24-05 in many respects, with several notable differences that are anticipated to enable a \$9.5 million transfer to the Rate Stabilization Fund while still achieving debt service coverage of 1.32x prescribed in the approved five-year rate plan.

- Projected Operating Revenues of \$137.8 million in FY 2025 compared to the Rate Decision cash-flow forecast value of \$138.4 million reflecting notable accuracy of GWA's forecasts of customer accounts, customer growth, and water usage trends by customer class.
- Projected power expenses are also similar to projected FY 2025 expenses at \$22.0 million as compared to \$21.3 million in the Rate Decision forecast.
- FY 2025 Water Purchase expenses are forecast to be \$9.1 million as compared to \$13.6 million in the Rate Decision forecast.
- FY 2025 Salaries and Benefits are forecast to be \$33.4 million as compared to \$35.2 million in the Rate Decision forecast.

- FY 2025 Administrative and General expenses are forecast to be \$10.4 million as compared to \$13.7 million in the Rate Decision forecast.
- FY 2025 Contractual expenses are forecast to be \$6.9 million as compared to \$9.3 million in the Rate Decision forecast.
- FY 2025 Retiree expenses are forecast to be \$4.5 million like the Rate Decision forecast.

In aggregate, FY 2025 (cash) O&M expenses are forecast to be \$86.2 million as compared to \$97.7 million in the Rate Decision forecast.

These variances largely reflect successful engagement with the U.S. Navy to lower Navy water purchase expenses, increased administrative burden in procurements over \$500k, an increase in procurement protests, and unanticipated delays in certain purchases. Lower costs are anticipated to enable a \$9.5 million transfer to the Rate Stabilization Fund in FY 2025, which will help offset anticipated increases in capital financing expenses needed to support GWA's capital program. Forecasted FY 2025 coverage levels also eliminate the need for the amortization of an additional \$3 million regulatory asset called for in the Rate Decision. Amortization of the FY 2025 CoreTech-related legal expense (estimated at \$1.5 million) will proceed as planned.

Other notable similarities between projected FY 2025 financial performance and the Rate Decision forecast include \$0.5 million and \$0.8 million variances in interest/investment income and debt service expense respectively; and less than a \$ 0.25 million variance in Capitalized Labor.

Internally funded capital expense for FY 2025 is anticipated to be \$4.5 million higher than that anticipated in the Rate Decision forecast.

Projected FY 2026 Financial Performance

GWA's projected FY 2026 financial performance is also similar to that projected for the Rate Decision in Docket 24-05 in many respects, again with several notable differences. Projected FY 2026 financial performance reflects implementation of the rate design structure (approved by the PUC in its Rate Decision in Docket 19-08 dated March 28, 2024), use of a combination of long-term and short-term debt instruments based on credit market conditions, and use of \$2.2 million Rate Stabilization Fund reserves to enable incremental improvement of projected debt service coverage to 1.38x, consistent with the Rate Decision forecast. Specific similarities and differences include:

- Projected Operating Revenues of \$152.2 million in FY 2026 compared to the Rate Decision cash-flow forecast value of \$151.8 million and is based on scaling of the PUC-approved rate design to recover approved FY 2026 revenue requirements.
- Projected power expenses in FY 2026 are \$17.6 million as compared to \$19.5 million in the Rate Decision forecast.
- FY 2026 Water Purchase expenses are forecast to be \$7.0 million as compared to \$13.0 million in the Rate Decision forecast.
- FY 2026 Salaries and benefits are forecast to be \$37.4 million just above the \$37.0 million in the Rate Decision forecast.

- FY 2026 Admin and General expenses are forecast to be \$13.3 million as compared to \$14.8 million in the Rate Decision forecast.
- FY 2026 Contractual expenses are forecast to be \$10.0 million as compared to \$9.9 million in the Rate Decision forecast.
- FY 2026 Retiree expenses are forecast to be \$4.6 million like the Rate Decision forecast.

In aggregate, FY 2026 (cash) O&M expenses are forecast to be \$89.8 million as compared to \$98.7 million in the Rate Decision forecast.

These variances largely reflect continuing lower Navy water purchase expenses, reductions in the Guam Power Authority's LEAC (levelized energy adjustment clause), as well as paced increases in staffing levels and compensation. Lower costs are anticipated to help absorb anticipated increases in capital financing expenses required to fund GWA's capital program.

Other notable similarities between projected FY 2026 financial performance and the Rate Decision forecast include a \$0.1 million variance in interest/investment income and an approximate \$50,000 variance in Capitalized Labor.

FY 2026 debt service expense (inclusive of short-term financing program interest expense) is anticipated to be \$11.6 million higher than in the Rate Decision forecast largely due to the anticipated Series 2025 bond issue that will yield proceeds of \$250 million (\$270 million par value). Internally funded capital expense for FY 2026 is anticipated to be \$7.0 million higher than that anticipated in the Rate Decision forecast. The Regulatory Asset adjustment is anticipated to be \$840,800, which includes the FY 2026 CoreTech litigation expenses (+\$1.5 million) and the amortization of the prior five-year rate case (-\$659,200).

Revenues

As noted, GWA's proposed rates under the PUC-approved rate design were scaled to yield approved FY 2026 rate revenue levels. Operating Revenues are projected to be \$152.2 million, consistent with the revenue projections for FY 2026 included in the Rate Decision forecast. In other words, notwithstanding varying increases in individual base charges and volumetric rates across customer classes, GWA has determined revenue requirements and rate adjustments to yield similar revenue performance to that approved in the Rate Decision forecast.

Rate Design

The PUC-approved rate decision features several notable changes including:

- adding an additional tier to residential water volumetric rates,
- reducing the lifeline rate volume threshold from 5 to 3 kgals,
- adding meter-size scaled sewer base charges for residential and non-residential customers,
- eliminating the flat monthly sewer rate for residential customers,
- establishing volumetric sewer rates for residential customers, and
- applying the legislative surcharge to all rate components.

These rate design changes are intended to provide more consistent pricing of services and facilitate future movement to cost-of-service pricing as discussed further in the Administrative Law Judge's Report and PUC Order Re: Amended Petition to Approve a New Rate Design Structure, GWA Docket 19-08 dated March 28, 2024.

Revenue Projections

GWA continues to employ a revenue forecasting infrastructure that considers key trends (such as customer growth and usage patterns) and price elasticity responses to rate adjustments. GWA's FY 2026 revenue forecasts employ the methodology introduced in conjunction with the Comprehensive Review and Update process and used to determine the FY 2025 through FY 2029 rate plan. Assumptions include:

- Residential account growth varies by meter size but is assumed to be 0.25% per year for water accounts and 0.40% for wastewater accounts for the most common meter size (3/4 inch) to reflect historical trends.
- Smaller meter (3/4 inch) water accounts are expected to grow 0.34% for Commercial-1 customers, decrease -0.50% for Commercial-3 customers, and decrease -1.0% for Agriculture customers. Larger meter size accounts for these customers are expected to remain flat or decrease slightly. These assumptions are consistent with historical trends.
- Consistent with historical trends, smaller meter (3/4 inch) sewer accounts are expected to grow 0.75% for Commercial-1 customers and decrease -1.0% for Commercial-3 customers. Larger meter size accounts for these customers are expected to remain flat or decrease slightly.
- Irrigation accounts, as well as water and sewer accounts for the Commercial-2, Hotel, and Government customer classes, are projected to remain constant.
- Water demand per account for residential customers has decreased 1.2 percent per year since FY 2019 on a compounded growth basis and is expected to continue to decline at 0.5% per year. Commercial-1 customers and Commercial-2 customers are expected to also decline at 0.3% and 3.0% per year, respectively. Hotels and the Government class are projected to continue a slow rebound from COVID levels, with water demand per account increasing 5.0% per year for Hotels and 1.5% for Government customers (the resulting FY 2026 statistics for these last two customer classes are still below pre-COVID levels despite the upward trend). Demand per account for Commercial-3, Agriculture, and Irrigation customers is expected to remain constant.
- Price elasticity factors of 1.0 for residential and 1.5 for non-residential are applied to demand per account forecasts. These factors reflect the expected percentage decrease in demand per account for every 10.0% increase in the real price of water (i.e., after accounting for inflation). Based on rate design implementation results in varied bill impacts at different levels of consumption, GWA's revenue forecast uses a rough average per customer class to calculate the FY 2026 price elasticity impacts and corresponding decrease in demand per account. For residential customers, the reduction in consumption is expected to be 0.75% and between 1.80% and 2.40% for non-residential customers.

- The combined impacts of the growth, price elasticity assumptions, and price-independent consumption adjustments result in a total water demand forecast of 5.019 million kgals, a 0.82% reduction from estimated FY 2025 water demand.
- Billable wastewater flows include the Navy (assumed to grow at 2% per year) and leachate customers (no growth). Billable wastewater flows are projected to be 3.401 million kgals in FY 2026, a more than 80% increase over estimated FY 2025 levels. The large increase is due to the implementation of the approved rate design, which is estimated to generate 1.519 million kgals of billable flows from the residential customer class.

Notably, the revenue forecast methodology was tested by comparing actual historical revenue results to forecasted performance using the same historical billing determinant data. Predicted revenue values were within 0.15% of actual revenue performance, which can be explained by pro-rated bills for customers that either begin or terminate service in the middle of the billing cycle. GWA's FY 2026 revenue forecasts are grounded by reference to historical customer trends, adjustments based on reconciliation with billed and audited totals, and established economic principles.

Operations and Maintenance Expenses

Utilities

Annual utility costs continue to remain transitional. In FY 2024 GWA received a notification of rate adjustment from the Department of Defense for water and wastewater rates, which increased the water cost per kilogallon (kgal) from \$10.36 to \$24.07. Then in FY 2025, the Department of Defense notified GWA of a reduction to the water cost per kgal from \$24.07 to \$10.89. For FY 2026, GWA is projecting a potential 5% increase to the cost of water and sewer per kgal, which represents a per kgal cost of \$11.43 and \$46.06, respectively. The projected water purchases budgeted for FY 2026 amount to \$6.9 million, which is based on 540,000 water kgals and 17,000 sewer kgals using the projected rate of \$11.43/kgal and \$46.06 per kgal, respectively.

GWA's FY 2026 projected power expense reflects a 20% decrease, or approximately \$4.4M, from \$22 million in FY 2025 to \$17.6 million in FY 2026 to cover rate decreases but maintain kilowatt-hour (kwh) consumption. Consumption of kwh over the past several years has generally remained consistent, averaging about 57.8 million kwh per year.

Salaries and Benefits

In FY 2026, salaries and benefits are projected at \$32.5 million (net of estimated capitalized labor) to fully fund 374 positions. This total includes:

- 1) pay for performance adjustments and the approved migration to the 40th market percentile based on the market review study of US Mainland water utility salaries in 2022;
- 2) overtime for eligible employees at 6% of their base pay; and
- 3) holiday work and night differential for eligible employees at approximately 2% and 1% of base pay,

Total benefits comprise 45% of base salaries, which include retirement, Medicare, life insurance, and medical/dental insurance contributions. Capitalized labor in FY 2026 is projected at \$4.9 million. Although the budgeted FTE level can accommodate 374 positions, the Guam Waterworks Authority (GWA) maintains its commitment to hire personnel at the salary and benefit expenditure level noted above.

Administrative and General

Administrative and general expenses include the following:

- Sludge Removal
- Chemicals; Materials & Supplies
- Transportation
- Communications
- Claims
- Insurance
- Travel & Training
- Advertising
- Miscellaneous
- Regulatory
- Bad Debt

The total approved budget for Administrative and General expenses for FY 2025 amounted to \$15.8 million. However, based on annualized expenditures, the revised true up for FY 2025 Administrative and General expenses has been reduced to \$10.4M. This is largely in part to procurement of chemicals, materials, and supplies having been previously purchased in bulk, resulting in sufficient inventory to operate for the remainder of FY 2025. The FY 2026 requested amount of \$13.3 million in these expenses indicates the need to replenish inventory for operations in the upcoming fiscal year. While the FY 2026 budget request represents a 28% increase from the revised true up for FY 2025, it is 6.4% lower than the FY 2026 projection included in the Five Year Financial Plan.

Contractual

Contractual expenses include the following:

- Audit & Computer Maintenance
- Building Rental
- Equipment Rental
- Legal
- Laboratory
- Others (e.g., Ground Maintenance, Leak Detection, Repair & Maintenance, etc.)

The total approved budget for Contractual expenses for FY 2025 amounted to \$9.9M. However, based on annualized expenditures, the revised true up for FY 2025 Contractual expenses has been reduced to \$6.9M. This is largely due to delayed procurements in the Audit & Computer Maintenance and Others expense categories. For instance, it is anticipated that the procurement of risk management services and new or upgrades to existing software or software related services will be completed in

the last half of the fiscal year. The FY 2026 requested amount of \$10M in Contractual expenses indicates the need to keep the funding level at, or around, status quo in order to effectively operate as originally planned. While the FY 2026 budget request represents a 45% increase over the revised FY 2025 true up, it reflects a 2.6% decrease from the originally approved FY 2026 budget in the Five Year Financial Plan.

Retiree Benefits

The FY 2026 estimated costs for retiree benefits are \$4.6 million and include supplemental annuities of \$250,215 for 62 retirees, health insurance premiums of \$3.7 million for 318 retirees, and Cost of Living Allowance (COLA) payments of \$696,900 for 303 retirees.

Capital Financing

GWA's capital improvement program is the principal driver of projected FY 2025 and FY 2026 revenue requirements. GWA's capital program is anticipated to require encumbrances of \$165.6 million in FY 2025 and \$222.6 million in FY 2026 in inflated dollars (with encumbrance requirements of the same order of magnitude forecast through FY 2029). The importance of capital financing on favorable terms has led GWA to both carefully evaluate capital improvement program needs and investigate both short-term and long-term debt instruments – the relative merits of which are a function of credit market conditions.

Capital Financing Needs

GWA's financing needs, encumbrance requirements, and available financing options have been the subject of extensive review and analysis. The capital program reflects an update of GWA's Integrated Water Resources Master Plan (that is pending publication), review of requirements of GWA's Partial Consent Decree with USEPA as well as other regulatory requirements (e.g., relating to PFAS and Deildrin), evolution of the Water Loss Control Program, and input from GWA field operations personnel.

Capital Financing Strategy Evolution

Given the magnitude of GWA's capital program, arrangement of capital financing on favorable terms is essential. This requires a portfolio management approach that strategically employs short-term and long-term debt instruments and investment vehicles based on market conditions. Notably, these conditions have changed materially since the issuance of the Rate Decision in Docket 24-05. Where Tax-Exempt Commercial Paper (TECP) was initially anticipated to provide relatively low-cost short-term construction financing and enable deferral of long-term "takeout" revenue bonds, recent market developments indicate that immediate issuance of long-term (new money) revenue bond indebtedness coupled with a Guaranteed Investment Contract (GIC) to limit or eliminate "negative carry" of bond proceeds is an option that should be strongly considered. In addition, a Revolving Loan credit facility offers several advantages relative to TECP and will enable GWA to move project encumbrances forward at relatively limited costs in terms of facility fees. Accordingly, GWA's capital financing plan – primarily for FY 2025 and FY 2026 encumbrances requirements, involves a \$75 million Revolving Loan credit facility in combination with a fixed rate, 3-year principal-deferred,

revenue bond issue to yield \$250 million in proceeds (\$270 million par). In addition, GWA continues to anticipate funding of capital projects with receipt of federal grants, SDC revenues, and internal (e.g., current revenue) funding.

Short-Term Construction Financing

GWA's Short-Term Construction Financing procurement process has enabled GWA to engage four (4) different investment banking firms to advise GWA on credit market conditions. The consensus opinion of these firms, and GEDA representatives and advisors, is that the costs of Letters of Credit required to support a TECP facility are not currently favorable – and would impose higher costs than a more traditional long-term revenue bond issue (as discussed below). Accordingly, GWA is working to establish a Revolving Loan facility with a capacity of \$75 million. This facility is projected to impose fees of approximately \$250,000 in FY 2025 and \$360,000 in FY 2026 and interest charges of \$76,000 in FY 2025 and \$1.3 million in FY 2026 based on GWA's projected capital project encumbrance and expenditure schedules.

Series 2025 Revenue Bonds / Guaranteed Investment Contract

Due to market conditions, GWA's financial advisors have recommended issuance of fixed-rate, long-term revenue bonds structured with a deferral of principal to mitigate debt service requirement increases. This issue may be coupled with a Guaranteed Investment Contract (GIC) to limit or eliminate negative carry on the bond issuance proceeds –thereby making it sensible to issue the Series 2025 bonds in an amount that will enable funding of all capital funding requirements not funded through other sources through FY 2026. Accordingly, GWA will issue its Series 2025 revenue bonds to yield \$250 million in proceeds (\$270 million par amount). This issue is anticipated to increase revenue bond debt service by \$13.2 million in FY 2026. GWA also anticipates entering into a GIC contract that is projected to yield a total of \$11.5 million until bond proceeds are fully spent. These additional revenues are accounted for in GWA's financial plan and help offset encumbrance requirements in FY 2025 and FY 2026.

Internally Financed Capital / System Development Charges

GWA further anticipates that it will continue to fund capital with current revenues (IFCIP) and SDC revenues. IFCIP funding is anticipated at \$17.0 million in FY 2025 and \$15.0 million in FY 2026 while SDC revenues are projected to fund \$750,000 in growth-related projects annually.

Conclusions

GWA's FY 2026 budget and financial plan demonstrates prudent financial management and effective execution of the five-year rate plan approved in Docket 24-05. The Authority's efforts to control costs, optimize its capital financing strategy, and implement PUC-approved rate design reforms have resulted in a financial position that supports necessary investment in system reliability and regulatory compliance.

Despite progress, GWA's financial condition remains fragile due to historically depleted reserves and ongoing capital demands. Approval of the proposed FY 2026 rate adjustments is essential to

meet debt service obligations, fund operations, and maintain creditworthiness. The Authority cautions that failure to adopt the proposed rates may jeopardize its ability to fund critical infrastructure improvements and comply with the Partial Consent Decree and other regulatory obligations.

Conversely, if the FY 2026 rate projections prove conservative, improved financial outcomes will help build reserves and may reduce the magnitude of future rate adjustments. In light of these factors, GWA respectfully requests that the PUC approve the proposed true-up and associated rates to support sound financial stewardship and continued progress toward long-term utility sustainability.