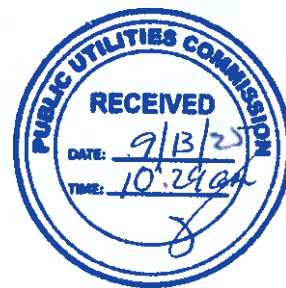


## BEFORE THE GUAM PUBLIC UTILITIES COMMISSION



IN THE MATTER OF: ) GWA Docket 24-05  
)  
GWA PETITION FOR APPROVAL OF )  
GWA'S SECOND FIVE-YEAR ) ALJ REPORT  
FINANCIAL PLAN (BASE RATE )  
INCREASES); ANNUAL TRUE-UP )  
SUBMISSION, PROJECTION, AND )  
REQUEST FOR FISCAL YEAR 2026 )  
RATES )

### INTRODUCTION

This matter is a True-Up proceeding for the establishment of GWA's FY2026 rates. The matter comes before the Guam Public Utilities Commission ["PUC"] upon GWA's filing of an FY2026 True-Up Petition on April 25, 2025, and the JOINT STIPULATION between GWA and PUC Consultant Georgetown Consulting Group, Inc. ["GCG"], dated August 30th, 2025.<sup>1</sup> The Joint Stipulation outlines a proposed settlement concerning the True-Up of FY2026 rate revenue recovery approved by the PUC in its Rate Decision Order dated September 24, 2024. Effective October 1, 2025, for FY2026, PUC had authorized GWA "to implement an Across-the-board 10.75% increase in water and wastewater rates."<sup>2</sup> However, the PUC indicated that the authorized rate increase for FY2026 was "subject to change in the annual true-up proceedings" and was not "final" until approved by the PUC in a true-up proceeding. The PUC ordered that a true-up proceeding would be conducted for the projected FY2026 rate increase.<sup>3</sup>

### BACKGROUND

On September 24, 2024, the PUC approved its "RATE DECISION" in the matter of GWA's

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<sup>1</sup> GWA FY2026 Advance True-Up Petition, GWA Docket 24-05, filed April 25, 2025; JOINT STIPULATION RE: FY2026 ANNUAL TRUE-UP OF GWA'S FIVE-YEAR FINANCIAL PLAN & FY2025-2029 RATE INCREASES, GWA Docket 24-05, A copy of the JOINT STIPULATION is attached hereto as Exhibit "1" and incorporated herein by reference.

<sup>2</sup> PUC Order, GWA Docket 24-05, Rate Decision, dated September 24, 2024, at p. 23; The GWA increase in the Rate Application Model was 10.75% on the non-lifeline rates.

<sup>3</sup> Id.

FY2025-2029 Rate Application and Request for Rate Increases.<sup>4</sup> Effective October 1, 2024, for FY2025, the PUC authorized GWA to implement an Across-the-board 11.5% increase in water and wastewater rates, including an increase in lifeline rates of 11.5%.<sup>5</sup>

On May 29, 2025, GWA confirmed its advance FY2026 True-Up Petition filing dated April 25, 2025, supported by a Rate Application Model (RAM) and providing all the minimum filing requirements in 12 GCA Chapter 12 and data required by the PUC rules.<sup>6</sup>

Initially the Parties met virtually with the Administrative Law Judge and agreed to an Amended Scheduling Order providing for discovery/requests for information, conferences between GWA and PUC staff, and the development of a Final Stipulation.<sup>7</sup> GCG propounded two sets of Request for Information, and GWA responded thereto.

There was a “Discovery Dispute” between GWA and GCG. GCG contended that the PUC authorization for a rate increase of 10.75% for FY2026 was only a “Place Holder”. The ALJ held:

The Order itself stated: “effective October 1, 2025, for FY2026, GWA is authorized to implement an across-the-board 10.75% in water and wastewater rates.” (Ordering Provisions, par. 6). A main reason stated in the Rate Order for the increases in the 5-year rates was that “GWA has proposed a 5-year Improvement program at a cost of \$899M.” Some of these projects were mandated by the 2024 Partial Consent Decree.

The elements of the CIP program were specified in detail; the PUC found: “The need for the CIP projects has not been contested and constitutes a large part of the funds that GWA must spend over the next 5-year period.”<sup>8</sup>

The ALJ did authorize GCG to fully explore the impact of all the items which it raised concerning the FY2026 rates, such as differences in revenue figures, lower power and water purchase expenses than previously anticipated, lowered administrative and general

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<sup>4</sup> PUC Order, GWA Docket 24-05, Rate Decision, dated September 24, 2024.

<sup>5</sup> Id. at p.23.

<sup>6</sup> JOINT STIPULATION at p. 1.

<sup>7</sup> Administrative Law Judge, Amended Scheduling Order, GWA Docket 24-05, dated May 28, 2025.

<sup>8</sup> Administrative Law Judge, Order Regarding Discovery Dispute, GWA Docket 25-05, dated June 4, 2025, at pgs. 2-3.

expenses and others.<sup>9</sup> GCG was fully authorized to question all revenues and expenses claimed by GWA.

GWA provided RAM (Rate Application Model) updates during this proceeding to reflect new developments to enable consideration of the recent data available to facilitate determination of necessary rate relief for FY2026.<sup>10</sup> GCG submitted documents supporting its positions in stipulation discussions with GWA on July 31, 2025 and GWA and GCG conducted in-person stipulation negotiations in good faith from August 4 to August 7, 2025, continuing through August 29, 2025.<sup>11</sup>

### **STIPULATIONS OF GWA AND GCG**

#### **A. Rate Design Issues**

In GWA Docket 19-08, the PUC approved certain “rate design” proposals of GWA “in principle.”<sup>12</sup> Early in this true-up proceeding, GWA had requested that the rate design principles be implemented for FY2026 rates. However, the Stipulation indicates that “rate design issues are not addressed in this true-up proceeding.”<sup>13</sup>

#### **B. Projected Revenues and Projected Operating Expense**

The Parties have agreed to increases in projected revenues for FY2026 in certain categories: Interest Income-Operating Fund, Bad Debt Adjustment, and Billed to Audited Revenue Requirement.<sup>14</sup> The Parties have also stipulated to reductions in projected operating expenses in certain categories: Advertising Expense, Audit and Computer Maintenance Expense, and Contractual-Other Expense.<sup>15</sup>

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<sup>9</sup> Id. at p. 3.

<sup>10</sup> JOINT STIPULATION at p. 2.

<sup>11</sup> Id.

<sup>12</sup> PUC Order, GWA Docket 19-08, Amended Petition to Approve a New Rate Design Structure, March 28, 2024.

<sup>13</sup> JOINT STIPULATION at p. 2.

<sup>14</sup> Id. at p. 3.

<sup>15</sup> Id. at pgs. 3-4.

### **C. Adjustment to Targeted Rate Revenue Recovery for FY2026**

The Parties have stipulated to a table for Adjustments to Targeted Rate Revenue Recovery for FY2026:

<b>Stipulated Adjustments</b>	<b>FY 2026 As Filed</b>	<b>FY 2026 As Stipulated</b>	<b>Difference</b>
Interest Income	\$1,213,144	\$1,879,457	\$666,313
Bad Debt Adjustment	(\$1,062,843)	(\$1,013,704)	\$49,140
Billed Revenue Adjustment	(\$2,106,294)	(\$750,000)	\$1,356,294
<b>Revenue Increase</b>			<b>\$2,071,747</b>
Advertising Expense	(\$298,617)	(\$198,617)	\$100,000
Audit & Computer Maint. Exp.	(\$3,240,318)	(\$2,990,318)	\$250,000
Contractual-Other Expense	(\$3,061,776)	(\$2,811,776)	\$250,000
<b>Expense Decrease</b>			<b>\$600,000</b>
<b>Total</b>			<b>\$2,671,747<sup>16</sup></b>

As a result of the stipulated adjustments to revenues and expenses, the Parties have reduced the targeted FY2026 revenue recovery level by \$4.40 million, from \$154.88 million to \$150.48 million for the FY2026 Rate Decision.<sup>17</sup> The Parties have also agreed that the stated revenue recovery level for FY2026 will be achieved by an 8.2% rate adjustment to all non-lifeline rate components and a legislative surcharge of 3.55%, effective October 1, 2025.<sup>18</sup> Thus, the negotiations of the Parties have resulted in a reduction of the rate increase from 10.75% on non-lifeline rates to 8.2% for the FY2026 rates.

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<sup>16</sup> JOINT STIPULATION at p.4.

<sup>17</sup> Id.

<sup>18</sup> Id.

**D. Proposed Rate Adjustments and Bill Impacts**

Attached to the JOINT STIPULATION are the **Historical and Forecasted Operating Results under the Stipulated Changes to the Rate Filing**. These are incorporated herein by reference and should be adopted in the PUC Order.

Attached hereto as Exhibits “2” and “3” respectively are the True-Up Schedule K (Rates and Proposed Rate Adjustments for the Forecast Year) True-Up Schedule L (Bill Impacts by Customer Class based on the Proposed Rate Adjustment). Monthly base rates, volumetric rates, and wastewater rates for residential ratepayers will all increase. Volumetric and wastewater rates will increase for commercial, government, hotel, agricultural, and irrigation ratepayers. According to Schedule L, the rates for all residential ratepayers using a ¾ inch meter size will increase between 3.2% and 6.5%, depending upon meter size. All classes of commercial, government, hotel, agricultural, and irrigation rates will increase by approximately 8.3%.

**E. Requirement for future True-Up Petitions**

All future True-Up Petitions will provide a table laying out all the values in the Commission’s prior order for the fiscal year being true-up compared with the values used in the petition and providing narrative for the adjustments.<sup>19</sup>

A True-Up Schedule S has been provided by GWA for this True-Up proceeding and is attached to the JOINT STIPULATION. Schedule S compares the increases sought in GWA’s True-Up Petition to the stipulated adjustments.

**F. Subsequent Proceeding**

The Parties have agreed that the Administrative Law Judge should conduct a proceeding after the Commission Order in this proceeding to get input from all Parties as to the

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<sup>19</sup> Id.

process and boundaries of what is permissible as adjustments in a true-up proceeding. The ALJ's recommendations, as accepted or modified by the Commission, will be made in a timely fashion to guide GWA's filing in the subsequent true-up proceeding for FY2027 rates.<sup>20</sup>

### **G. GWA Accounting Order**

A copy of the proposed Accounting Order which both Parties have accepted is attached to the JOINT STIPULATION. Based upon the JOINT STIPULATION and agreement of the Parties, the ALJ recommends that the PUC approve the proposed Accounting Order.

The Accounting Order approved by the PUC in GWA Docket 24-05 dated September 24, 2024, the letter of Bond Counsel John Wang dated June 25, 2025, and GWA's "Bond Counsel's Key Interpretations", are attached hereto collectively as Exhibit "4". On July 3, 2025, GWA Legal Counsel advised the ALJ that GWA had received a letter from its Bond Counsel, the Orrick firm, requesting changes to the prior PUC Accounting Order.<sup>21</sup> Bond Counsel stated that the Bond Indenture legal expenses were not "reasonable and necessary current expenses" but "extraordinary expenses" which did not constitute Operation and Maintenance expenses.

According to Bond Counsel, litigation costs related to the Core Tech litigation were extraordinary costs and should be excluded when calculating the rate covenant (debt service coverage ratio). GWA Legal Counsel has provided an explanation of Bond Counsel's "Key Interpretations", which is included in Exhibit "4".

## **RECOMMENDATION**

### **A. Joint Stipulation**

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<sup>20</sup> JOINT STIPULATION at p. 5.

<sup>21</sup> Email dated July 3, 2025 from GWA Legal Counsel Theresa Rojas to PUC ALJ Fred Horecky.

Based upon a review of the record, the ALJ finds that the proposed stipulations in the JOINT STIPULATION are just and reasonable and should be approved by the Commission. The JOINT STIPULATION was bargained for at arm's-length by the Parties and represents a full and final resolution of presently pending issues in the True-Up proceeding. The stipulations entered by the Parties all appear to have a reasonable basis and plausible justification. The agreements reached by the Parties are appropriate and supportable.

The ALJ recommends that the PUC support and approve the JOINT STIPULATION in accordance with its provisions.

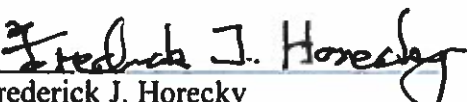
#### **B. Rates**

The ALJ recommends that the PUC adopt the Final RAM FY2026 and the adjustments in schedules set forth therein. Based upon the administrative record established in this docket, the ALJ finds that the proposed rates contained in the Final RAM and the JOINT STIPULATION are just and reasonable. In its September 24, 2024 Rate Decision, the PUC had previously approved an across-the-board 10.75% increase on non-lifeline rates in water and wastewater rates effective October 1, 2025, for FY2026. As a result of the negotiations between the Parties, the increase has been reduced to 8.2%. Given the \$900M that the PUC has approved for GWA expenditures for capital improvement and other projects over the five-year period, the Parties have done their best to minimize the rate increase to the extent possible.

#### **C. PUC Accounting Order**

The ALJ recommends that the PUC approve the Accounting Order stipulated to by the Parties.

Respectfully submitted this 9th day of September, 2025.

  
Frederick J. Horecky  
Chief Administrative Law Judge  
Guam Public Utilities Commission



1  
2 **BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

3  
4 IN THE MATTER OF:

GWA DOCKET NO. 24-05

5  
6 **GUAM WATERWORKS AUTHORITY'S**  
7 **FY2025 -2029 RATE APPLICATION**  
8 **AND REQUEST FOR RATE**  
9 **INCREASES**

**JOINT STIPULATION RE:**

**FY 2026 ANNUAL TRUE\_UP OF GWA'S**  
**FIVE-YEAR FINANCIAL PLAN &**  
**FY2025 - FY2029 RATE INCREASES**

10  
11  
12  
13 This **JOINT STIPULATION** is between GUAM WATERWORKS AUTHORITY  
14 ("GWA") and the GUAM PUBLIC UTILITY COMMISSION'S ("PUC") consultants,  
15 GEORGETOWN CONSULTING GROUP, Inc. ("GCG") hereinafter referred to as the Parties.  
16 The stipulation outlines a proposed settlement concerning the true-up of FY 2026 rate revenue  
17 recovery approved by the PUC in its Rate Decision Order dated September 24, 2024.

18  
19 **I. BACKGROUND**

20  
21 **WHEREAS**, the PUC previously approved GWA's Five-Year Financial Plan on  
22 September 24, 2024 in Docket 24-05, which forecasted a 9.68% increase in rate revenues from  
23 FY 2025 to FY 2026 as a result of a proposed 10.75% increase to non-lifeline components in FY  
24 2026, and

25 **WHEREAS**, GWA filed an advanced FY 2026 True-Up Petition on April 25, 2025 for  
26 the PUC's review and confirmed the filing on May 29, 2025, supported by a Rate Application  
27 Model (RAM) providing all the minimum filing requirements in 12 GCA Chapter 12 and data  
28 required by the PUC rules, and

1       **WHEREAS**, GWA provided RAM updates during this proceeding to reflect new  
2 developments to enable consideration of the most recent data available to facilitate determination  
3 of necessary rate relief for FY 2026 including updated terms of the short-term financing  
4 instrument, revenue bond debt service schedules based on the selection of a five-year interest-  
5 only debt structure by GWA's debt financing team (including GEDA, Financial Advisors, and  
6 Bond Counsel) and the final pricing of GWA's Series 2025A bond issue that closed on August  
7 6, 2025; and

8       **WHEREAS**, GCG submitted documents supporting positions in stipulation discussions  
9 with GWA on July 31, 2025<sup>1</sup> and GWA and GCG conducted in person stipulation negotiations  
10 in good faith from August 4 to August 7, 2025 continuing through August 29, 2025; and

11       **WHEREAS**, rate design issues are not addressed in this true-up proceeding, and

12  
13       **WHEREAS**, the Parties have agreed to the following stipulation for purposes of  
14 determining the amount jointly to be recommended to the GPUC for adoption as the FY 2026  
15 revenue requirements that replaces and supersedes the amounts in the prior stipulation entered  
16 in Docket 24-05 dated August 28, 2024.

17  
18 **NOW THEREFORE**, the Parties Agree to the following Stipulated Provisions which it  
19 recommends for approval by the PUC:

20  
21                   **I.       PROPOSED STIPULATIONS**

22       In support of GWA's FY 2026 rate revenue recovery level, GWA and GCG now stipulate  
23 the following adjustments (and affirmations of) GWA's FY 2026 Annual True-Up filing which  
24 are summarized in the attached *Schedule A-3: Historical and Forecasted Operating Results with*  
25 *Stipulated Adjustments* and recommended to be reflected in the PUC's FY2026 Rate Decision  
26 and Order.  
27  
28

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<sup>1</sup> These documents are confidential and to be used for stipulation purposes only.

The specific stipulated adjustments agreed to are enumerated below:

**1) Projected Revenues**

- a) **Interest Income – Operating Fund.** The Parties stipulate to adjust GWA's filed FY 2026 Annual True-Up projection by increasing the assumed interest earnings rate on Operating Fund balances from 3.15 percent to 5.0 percent resulting in an increase in projected FY 2026 revenues of \$666,000.
- b) **Bad Debt Adjustment -** The Parties stipulate to adjust GWA's filed FY 2026 Annual True-Up projection by decreasing the assumed bad debt expense rate from 0.74 percent to 0.724 percent resulting in an increase in projected FY 2026 revenues of \$50,000.
- c) **Billed to Audited Revenue Adjustment -** The Parties stipulate to adjust GWA's filed FY 2026 Annual True-Up projection of this adjustment from a negative \$2.11 million to a negative \$0.75 million, resulting in an increase in projected FY 2026 revenues of \$1.36 million.

**2) Projected Operating Expenses:**

- a) **Advertising Expense.** The Parties stipulate to adjust GWA's filed FY 2026 Annual True-Up projection by decreasing the projected Advertising expense from roughly \$300,000 to \$200,000 resulting in a decrease in projected FY 2026 expenses of \$100,000.
- b) **Audit and Computer Maintenance Expense.** The Parties stipulate to adjust GWA's filed FY 2026 Annual True-Up projection by decreasing the projected Audit and Computer Maintenance Expense from \$3.24 million to \$2.99 million resulting in a decrease in projected FY 2026 expenses of \$250,000.
- c) **Contractual - Other Expense.** The Parties stipulate to adjust GWA's filed FY 2026 Annual True-Up projection by decreasing the projected Contractual – Other expense

from \$3.06 million to \$2.81 million resulting in a decrease in projected FY 2026 expenses of \$250,000.

**3) Adjustment to Targeted Rate Revenue Recovery for FY 2026.**

The stipulated adjustments are summarized in the table below:

<b>Stipulated Adjustments</b>	<b>FY 2026 As Filed</b>	<b>FY 2026 As Stipulated</b>	<b>Difference</b>
Interest Income	\$1,213,144	\$1,879,457	\$666,313
Bad Debt Adjustment	(\$1,062,843)	(\$1,013,704)	\$49,140
Billed Revenue Adjustment	(\$2,106,294)	(\$750,000)	\$1,356,294
<b>Revenue Increase</b>			<b>\$2,071,747</b>
Advertising Expense	(\$298,617)	(\$198,617)	\$100,000
Audit & Computer Maint. Exp.	(\$3,240,318)	(\$2,990,318)	\$250,000
Contractual-Other Expense	(\$3,061,776)	(\$2,811,776)	\$250,000
<b>Expense Decrease</b>			<b>\$600,000</b>
<b>Total</b>			<b>\$2,671,747</b>

As a result of the stipulated adjustments to revenues and expenses, the Parties agree to reduce the targeted FY 2026 revenue recovery level by \$4.40 million), from \$154.88 million to \$150.48 million for the FY 2026 Rate Decision.<sup>2</sup> The Parties further agree that the stated revenue recovery level will be achieved by an 8.2% rate adjustment to all non-lifeline rate components and a legislative surcharge of 3.55%, effective October 1, 2025.

**4)** The Parties-agree that all future True Up petitions will provide a table laying out all the values in the Commission's prior order for the fiscal year being trued up compared with the values used in the petition and provide a narrative for the adjustments.

<sup>2</sup> No work effort was undertaken in this proceeding to adjust values for FY 2027/FY 2028/FY 2029.

1 5) The Parties agree that the ALJ shall conduct a proceeding after the Commission order in  
2 this proceeding to get input from all Parties as to the process and boundaries of what is  
3 permissible as adjustments in a true up proceeding. The ALJ's recommendations, as  
4 accepted or modified by the Commission, shall be made in a timely fashion to guide  
5 GWA's filing in the subsequent true up proceeding for FY 2027 rates.  
6

7  
8 **CONCLUSION**

9  
10 The Parties hereby agree and stipulate the above stated revenue recovery level of \$150.48  
11 million for FY 2026 and the corresponding 8.2% rate adjustment for all non-lifeline rate  
12 components, effective October 1, 2025, for recommendation to the GUAM PUBLIC UTILITIES  
13 COMMISSION for consideration and approval in GWA Docket 24-05.  
14

15  
16 **SO STIPULATED** this 30th day of August 2025.

17 **GUAM WATERWORKS AUTHORITY**

18  
19   
20 THERESA G. ROJAS, ESQ.  
21 Legal Counsel  
22

**GEORGETOWN CONSULTING  
GROUP, INC (GCG)**

23   
24 JAMSHED MADAN  
25 Chief Officer  
26

27 **Attachments**

28 **Schedule S: Comparison of Filing to Stipulated Adjustments**

**Schedule A-3: Historical and Forecasted Operating Results with Stipulated Adjustments**

**Proposed Modified Accounting Order**

## True-Up Schedule S

Comparison of Filing to Stipulated Adjustments

	GWA FY 2026 True-Up Filing	Filing w/ Stipulated Adjustments	Difference
	FY 2026	FY 2026	FY 2026
<b>Non-Lifeline Rate Increase</b>	varies <sup>1</sup>	8.20%	
<b>Lifeline Rate Increase</b>	varies <sup>1</sup>	0.00%	
<b>Legislative Surcharge</b>	3.10%	3.55%	
<b>CASH SOURCES</b>			
Water Rate Revenues	\$ 97,753,408	\$ 97,864,411	\$ 111,003
Wastewater Rate Revenues	57,121,153	52,614,063	(4,507,090)
Rate Revenue Subtotal	\$ 154,874,561	\$ 150,478,475	\$ (4,396,086)
Other Revenues	515,000	515,000	-
Rate Revenue Adjustment	(2,106,294)	(750,000)	1,356,294
Bad Debt Adjustment	(1,062,843)	(1,013,704)	49,140
Total Operating Revenues <sup>2</sup>	\$ 152,220,423	\$ 149,229,771	\$ (2,990,653)
Interest / Investment Income	1,213,144	1,879,457	666,313
Rate Stabilization Transfers Out (In)	2,200,000	2,200,000	-
<b>TOTAL SOURCES</b>	<b>\$ 155,833,568</b>	<b>\$ 153,309,228</b>	<b>\$ (2,324,340)</b>
<b>CASH USES</b>			
Power Purchases	17,601,227	17,601,227	-
Water Purchases	6,957,710	6,957,710	-
Salaries & Benefits <sup>3</sup>	37,356,545	37,356,545	-
Admin & General <sup>4</sup>	13,310,419	13,210,419	(100,000)
Contractual Expense	9,988,428	9,488,428	(500,000)
Retiree Expense	4,623,703	4,623,703	-
O&M Subtotal	\$ 89,838,032	\$ 89,238,032	\$ (600,000)
Fees, Short-Term Financing Program	358,404	384,004	25,600
Interest, Short-Term Financing Program	1,303,735	1,156,654	(147,081)
Debt Service	52,337,390	51,791,279	(546,111)
Internally Funded Capital (IFCIP)	15,000,000	15,000,000	-
<b>TOTAL USES</b>	<b>\$ 168,837,561</b>	<b>\$ 167,869,969</b>	<b>\$ (1,267,592)</b>
<b>Net Annual Cash Flow</b>	<b>\$ (3,203,993)</b>	<b>\$ (4,260,741)</b>	<b>\$ (1,056,748)</b>
<b>DEBT SERVICE COVERAGE</b>			
Net Revenues	\$ 65,795,536	\$ 64,071,196	\$ (1,724,340)
Adjustment, Regulatory Asset	840,800	1,500,000	659,200
Adjustment, Capitalized Labor	4,856,351	4,856,351	-
Adjustment, Other <sup>5</sup>	708,515	708,515	-
Revenues Available for Debt Service	\$ 72,201,202	\$ 71,136,062	\$ (1,065,140)
Total Debt Service	52,337,390	51,791,279	(546,111)
<b>Debt Service Coverage</b>	<b>1.380</b>	<b>1.374</b>	<b>(0.006)</b>
<b>OTHER INFORMATION</b>			
SDC Revenues	1,165,000	1,165,000	-
Depreciation	29,996,235	29,996,235	-
<b>Net Operating Income</b>	<b>\$ 38,407,508</b>	<b>\$ 38,016,855</b>	<b>\$ (2,390,653)</b>
Non-Operating Revenues (Expenses)	13,553,831	13,553,831	-
Interest Expense	(41,372,390)	(40,826,279)	546,111
Capital Contributions	30,000,000	30,000,000	-
<b>Change in Net Position</b>	<b>\$ 40,588,948</b>	<b>\$ 38,744,407</b>	<b>\$ (1,844,541)</b>

1 - GWA's filing previously anticipated implementation of a new Rate Design Structure (see March 28, 2024 Order p. 2-4 in re GWA's Amended Petition to Approve a new Rate Design Structure, GWA Docket 19-08)

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-3

Historical and Forecasted Operating Results under Stipulated Changes to Rate Filing

	Historical Year	Current Year	Forecast Year
	FY 2024	FY 2025	FY 2026
<b>Non-Lifeline Rate Increase</b>	16.70%	11.50%	8.20%
<b>Lifeline Rate Increase</b>	16.70%	11.50%	0.00%
<b>Legislative Surcharge</b>	3.80%	3.50%	3.55%
<b>CASH SOURCES</b>			
Water Rate Revenues	\$ 80,933,624	\$ 91,958,431	\$ 97,864,411
Wastewater Rate Revenues	45,314,878	48,209,243	52,614,063
Other Revenues	591,327	515,000	515,000
Rate Revenue Adjustment	1,547,307	(1,906,280)	(750,000)
Bad Debt Adjustment	(229,334)	(947,847)	(1,013,704)
<b>Total Operating Revenues<sup>1</sup></b>	<b>\$ 128,157,801</b>	<b>\$ 137,828,546</b>	<b>\$ 149,229,771</b>
Interest / Investment Income	3,000,398	2,089,615	1,879,457
Rate Stabilization Transfers Out (In)	-	(9,500,000)	2,200,000
<b>TOTAL SOURCES</b>	<b>\$ 131,158,199</b>	<b>\$ 130,418,162</b>	<b>\$ 153,309,228</b>
<b>CASH USES</b>			
Power Purchases	21,892,448	21,994,230	17,601,227
Water Purchases	8,662,002	9,059,465	6,957,710
Salaries & Benefits <sup>2</sup>	29,243,503	33,366,815	37,356,545
Admin & General <sup>3</sup>	9,313,498	10,375,244	13,210,419
Contractual Expense	5,237,504	6,885,371	9,488,428
Retiree Expense	8,661,999	4,476,615	4,623,703
<b>O&amp;M Subtotal</b>	<b>\$ 83,010,953</b>	<b>\$ 86,157,740</b>	<b>\$ 89,238,032</b>
Fees, Short-Term Financing Program	-	270,853	384,004
Interest, Short-Term Financing Program	-	67,373	1,156,654
Debt Service	38,515,885	37,921,715	51,791,279
Internally Funded Capital (IFCIP)	2,342,943	17,000,000	15,000,000
<b>TOTAL USES</b>	<b>\$ 123,869,781</b>	<b>\$ 141,417,680</b>	<b>\$ 157,669,969</b>
<b>Net Annual Cash Flow</b>	<b>\$ 7,288,419</b>	<b>\$ (10,999,519)</b>	<b>\$ (4,260,741)</b>
<b>DEBT SERVICE COVERAGE</b>			
Net Revenues	\$ 48,147,246	\$ 44,260,422	\$ 64,071,196
Adjustment Regulatory Asset	-	1,500,000	1,500,000
Adjustment Capitalized Labor	3,321,043	4,337,686	4,856,351
Adjustment Other <sup>4</sup>	6,593,175	701,500	708,515
<b>Revenues Available for Debt Service</b>	<b>\$ 58,061,464</b>	<b>\$ 50,799,608</b>	<b>\$ 71,136,062</b>
<b>Total Debt Service</b>	<b>38,515,885</b>	<b>37,921,715</b>	<b>51,791,279</b>
<b>Debt Service Coverage</b>	<b>1.507</b>	<b>1.340</b>	<b>1.374</b>
<b>OTHER INFORMATION</b>			
SDC Revenues	1,698,842	1,165,000	1,165,000
Depreciation	30,172,311	29,424,588	29,996,235
<b>Net Operating Income</b>	<b>\$ 19,994,422</b>	<b>\$ 27,748,904</b>	<b>\$ 36,016,855</b>
Non-Operating Revenues (Expenses)	9,965,399	13,267,170	13,553,831
Interest Expense	(26,805,659)	(27,476,715)	(40,826,279)
Capital Contributions	2,999,184	34,488,000	30,000,000
<b>Change in Net Position</b>	<b>\$ 6,153,346</b>	<b>\$ 48,027,359</b>	<b>\$ 38,744,407</b>

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

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

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

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

1 **BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

2  
3 IN THE MATTER OF:

) **GWA DOCKET NO. 24-05**  
)  
)

4  
5 **GUAM WATERWORKS AUTHORITY'S**  
6 **FY2025 -2029 RATE APPLICATION**  
7 **AND REQUEST FOR RATE**  
8 **INCREASES**

) **ACCOUNTING ORDER TO PERMIT**  
) **GWA TO RECORD SELECTED**  
) **LEGAL EXPENSES AS REGULATORY**  
) **ASSETS FOR RECOVERY IN FY 2027-**  
) **FY2029**

9  
10 **GWA ACCOUNTING ORDER**

11 **BACKGROUND**

12 On September 24, 2024 the GPUC issued an Accounting Order in conjunction with its Rate  
13 Decision and Order in Docket No. 24-05: *Accounting Order to Permit GWA to Record Selected*  
14 *Expenses as Regulatory Assets for Recovery in FY2026-2029 to Stabilize Rate Increases for*  
*GWA Customers.*

15 Following a GWA review<sup>1</sup> of applicable bond indenture requirements, accounting standards, and  
16 a June 2025 interpretation from bond counsel, in August 2025, Guam Waterworks Authority  
17 (GWA) and Georgetown Consulting Group (GCG) stipulated that this Accounting Order should  
18 be clarified. Accordingly, the PUC issues this revised Accounting Order to clarify the PUC's  
September 24, 2024, Accounting Order for Docket No. 24-05.

19 **ORDER**

20 The Guam Public Utilities Commission **HEREBY ORDERS:**

- 21
- 22 i. Expenses related to the adjudication of the FY 2020 - FY 2024 rate case (Docket
- 23 19-08) have now been recognized in debt service coverage for prior periods,
- 24 notification of which has been posted to the Municipal Securities Rulemaking
- 25 Board's Electronic Municipal Market Access (EMMA) website. GWA will
- 26 therefore write off for financial statement purposes any such expenses.
- 27
- 28 ii. GWA will create a Regulatory Asset for regulatory accounting purposes for
- uncertain and extraordinary legal expenses that may occur in FY 2026 and beyond
- related to litigation regarding the ownership of land at the site of the Northern
- District Wastewater Treatment Plant. The Parties agree that a Regulatory Asset
- may be created for the actual amount expended for this purpose in FY 2026<sup>2</sup> and
- beyond and be amortized over five years beginning in the first year subsequent to

<sup>1</sup> Involving consultation with GWA's Auditors and Bond Counsel.

<sup>2</sup> These extraordinary expenses are excluded from calculation of Debt Service Coverage per GWA's Bond Indenture.



1 the termination of the litigation. Any such litigation expenses incurred prior to FY  
2 2026 will not be included in the regulatory asset.

- 3  
4  
5  
6 iii. GWA shall provide an annual report on the amortization of the legal expense  
7 regulatory asset consistent with this clarified order.  
8

9 **SO ORDERED** by the Guam Public Utilities Commission.

10 Dated this \_\_\_\_th day of September, 2025.  
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Jeffrey Johnson

Chairman

Rowena E Perez-Camacho

Commissioner

Joseph M. McDonald

Commissioner

Michael A. Pangelinan Commissioner

Commissioner

Peter Montinola

Commissioner

Doris Flores Brooks

Commissioner

## True-Up Schedule K

Rates and Proposed Rate Adjustments for the Forecast Year

	FY 2024	increase	FY 2025	change	FY 2026
<b>Proposed Rate Increase<sup>1</sup></b>		<b>11.5%</b>		<b>8.2%</b>	
<b>Water Rates</b>					
<b>Monthly Base Charge<sup>2</sup></b>					
3/4 inch	\$30.62		\$34.14		\$36.94
1 inch	\$35.73		\$39.84		\$43.11
1.5 inch	\$56.06		\$62.51		\$67.64
2 inch	\$71.41		\$79.62		\$86.15
3 inch	\$127.55		\$142.22		\$153.89
4 inch	\$178.55		\$199.08		\$215.41
6 inch	\$331.57		\$369.70		\$400.02
8 inch	\$484.59		\$540.32		\$584.63
10 inch	\$663.15		\$739.41		\$800.05
12 inch	\$790.63		\$881.55		\$953.84
<b>Volumetric Rates</b>					
<i>Residential</i>					
Tier 1 Threshold	5 kgals		5 kgals		5 kgals
Tier 2 Threshold	above		above		above
Tier 1 Rate	\$3.51		\$3.91		\$3.91
Tier 2 Rate	\$14.58		\$16.26		\$17.60
<i>Non-Residential<sup>3</sup></i>					
Commercial-1	\$18.12		\$20.20		\$21.86
Commercial-2	\$18.12		\$20.20		\$21.86
Commercial-3	\$18.12		\$20.20		\$21.86
Hotels	\$18.12		\$20.20		\$21.86
Government	\$18.12		\$20.20		\$21.86
GWA	\$18.12		\$20.20		\$21.86
Agriculture	\$5.82		\$6.49		\$7.03
Irrigation	\$6.02		\$6.71		\$7.27
<b>Wastewater Rates</b>					
Residential Flat Rate	\$32.14		\$35.84		\$35.84
<b>Volumetric Rates</b>					
Commercial-1	\$9.99		\$11.14		\$12.06
Commercial-2	\$24.34		\$27.14		\$29.37
Commercial-3	\$33.75		\$37.63		\$40.72
Hotels	\$24.34		\$27.14		\$29.37
Government	\$14.28		\$15.92		\$17.23
Leachate	\$14.72		\$16.41		\$17.76
Navy	\$14.28		\$15.92		\$17.23
<b>Legislative Surcharge</b>					
Surcharge	3.80%		3.50%		3.55%

1 - The proposed FY 2026 rate adjustment of 8.2% is applied to non-lifeline rate components only

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

## True-Up Schedule L

Bill Impacts by Customer Class based on Proposed Rate Adjustment<sup>1</sup>

			Forecast Year			
	Meter Size	Kgals	FY 2025	Increase	FY 2026	% Change
<b>Customer Class</b>						
Residential	3/4 inch	1	\$75.08	\$2.92	\$78.00	3.9%
Residential	3/4 inch	2	\$78.99	\$2.92	\$81.91	3.7%
Residential	3/4 inch	3	\$82.90	\$2.92	\$85.82	3.5%
Residential	3/4 inch	4	\$86.81	\$2.92	\$89.73	3.4%
Residential	3/4 inch	5	\$90.72	\$2.92	\$93.64	3.2%
Residential	3/4 inch	6	\$107.55	\$4.32	\$111.87	4.0%
Residential	3/4 inch	7	\$124.38	\$5.71	\$130.09	4.6%
Residential	3/4 inch	9	\$158.04	\$8.50	\$166.54	5.4%
Residential	3/4 inch	12	\$208.53	\$12.68	\$221.21	6.1%
Residential	3/4 inch	15	\$259.02	\$16.87	\$275.89	6.5%
Commercial-1	3/4 inch	23	\$728.35	\$60.31	\$788.66	8.3%
Commercial-1	1.5 inch	50	\$1,571.24	\$130.13	\$1,701.37	8.3%
Commercial-2	2 inch	270	\$11,794.72	\$975.35	\$12,770.07	8.3%
Commercial-3	3/4 inch	41	\$2,169.99	\$179.37	\$2,349.36	8.3%
Hotel	2 inch	400	\$17,433.97	\$1,441.69	\$18,875.66	8.3%
Hotel	4 inch	970	\$42,283.60	\$3,496.61	\$45,780.21	8.3%
Government	3/4 inch	50	\$1,739.77	\$143.95	\$1,883.72	8.3%
Government	1.5 inch	150	\$5,178.01	\$428.44	\$5,606.45	8.3%
Agriculture	3/4 inch	16	\$141.61	\$11.82	\$153.43	8.3%
Irrigation	3/4 inch	10	\$104.78	\$8.75	\$113.53	8.4%

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



**BEFORE THE GUAM PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF:**

**GUAM WATERWORKS  
AUTHORITY'S FY2025-FY2029  
RATE APPLICATION AND  
REQUEST FOR RATE  
INCREASES**

) **DOCKET NUMBER NO. 24-05**  
)  
) **ACCOUNTING ORDER TO PERMIT**  
) **GWA TO RECORD SELECTED**  
) **EXPENSES AS REGULATORY ASSETS**  
) **FOR RECOVERY IN FY 2026-FY2029 TO**  
) **STABLIZE RATE INCREASES FOR**  
) **GWA CUSTOMERS**

**GWA ACCOUNTING ORDER**

**I. BACKGROUND**

On August 28, 2024, Guam Waterworks Authority (GWA) and Georgetown Consulting Group (GCG) stipulated that the amortization of the Regulatory Asset set up as part of the FY2020 – FY2024 financial plan be evenly amortized over FY2025 – FY2029.

Additionally, in order to smooth out prospective rate increases, a new Regulatory Asset related to certain FY2025 and FY2026 expenses is to be created and amortized as discussed below.

The GPUC takes notice that the creation of Regulatory Assets in circumstances involving extraordinary expenses is a well-established regulatory practice both within this jurisdiction and in other regulatory environments. This practice is a recognized tool for balancing the utility's need for cost recovery with the customers' need for rate stability. By deferring the recognition of extraordinary expenses in FY 2025 and amortizing the amount in FY 2026 – FY 2029, GWA will be able to smooth necessary rate adjustments.

**II. DISCUSSION**

GWA, as ordered by the PUC on February 27, 2020, created a Regulatory Asset containing Docket 19-08 adjudication expenses including the cost of PUC mandated analytical studies, development of the Rate Adjudication Model (RAM), and associated regulatory expenses totaling approximately \$3.2 million. GWA auditors have indicated these expenses must be amortized as a Regulatory Asset or be written off. Write-off of the Regulatory Asset in one year would have a significant impact on GWA's debt service coverage calculation. As part of the August 28, 2024, stipulation, the parties agreed to request that this Regulatory Asset be amortized over the five year rate plan period, FY2025 – FY2029.

**Additionally, the Parties have stipulated to the creation of a new Regulatory Asset for the FY2025 – FY2029 rate application. The creation of this asset will allow rate increases to be spread out over the five-year period of the financial plan and prevent spikes in any given year.**

**GWA projected \$1.5 million in legal expenses in FY2025 and FY2026 for litigation over the ownership of the land on which the Northern District Wastewater Treatment Plant is located. GWA and GCG agree that the actual legal costs related to this litigation incurred in FY2025 and FY2026 should be classified as a new Regulatory Asset. These expenses will be amortized over the remainder of the five-year financial plan, i.e., FY2027 – FY2029.**

In order that rate increases for FY2025 and FY2026 be smoothed, the Parties also agree, subject to compliance with Government Accounting Standard Board (GASB) standards, regulations, and guidelines, that up to \$4 million in power expenses may be placed into a new Regulatory Asset in FY2025 and amortized in FY2026.<sup>1</sup>

### III. ORDER

After careful review and consideration of the record on this matter, and the recommendation of the ALJ, for good cause shown, on motion duly made, seconded, and carried by the undersigned Commissioners, the Guam Public Utilities Commission **HEREBY ORDERS THAT:**

1. GWA amortize the cost of the existing Regulatory Asset<sup>2</sup> totaling \$3.2 million over FY2025- FY2029 on a straight-line basis.
2. GWA establish in Account 186.3, a Regulatory Asset related to the following expenses to be paid out of the Working Capital Fund:
  - a. legal fees incurred in FY2025 and FY2026 related to the land ownership litigation.
  - b. FY2025 power expenses in an amount up to \$4 million.
3. A CPA firm be consulted to provide documentation that the Regulatory Assets and related amortization schedules comply with existing GASB standards, regulations and guidelines.

<sup>1</sup> The amount Depends on decisions by the GPUC for two outstanding issues on which the Parties could not reach agreement, whether GWA should charge a convenience fee to recover the fees charged by credit card companies for customers who use credit cards to pay their bills, and whether GWA should begin charging customers to replenish the Rate Stabilization Fund in FY 2026.

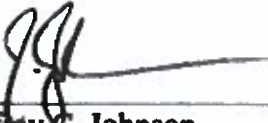
<sup>2</sup> Related to Docket 19-08 adjudication expenses.

4. GWA amortize actual legal expenses related to the land ownership litigation evenly in FY2027, FY2028, and FY2029 and amortize FY2025 power expenses in FY2026 subject to the CPA firm GASB review.
5. GWA provide the PUC with an annual report on balances of the Regulatory Assets and provide the PUC with accounting journal entries for this Regulatory Asset in its filing for the FY 2026 annual true-up of its FY2025–FY2029 Financial Plan.

**SIGNATURES TO FOLLOW ON NEXT PAGE**



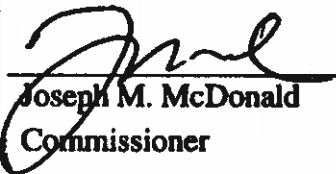
1  
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3 Dated this 24th day of September, 2024.  
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7 Jeffrey C. Johnson  
8 Chairman

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11 Rowena E. Perez-Camacho  
12 Commissioner

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15 Joseph M. McDonald  
16 Commissioner

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19 Peter Montinola  
20 Commissioner

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23 Doris Flores Brooks  
24 Commissioner



June 25, 2025

Taling M Taitano, CPA, CGFM, CGMA  
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Re: Interpretation of Operation and Maintenance Expenses under the GWA Indenture

Dear Taling:

You have requested that we deliver a letter to you regarding our interpretation of certain provisions of the GWA Indenture (as defined below), as such provisions may relate to GWA Accounting Orders (the "Accounting Orders") promulgated by the Guam Public Utilities Commission (the "PUC"). Specifically, among other things, the Accounting Orders direct the Guam Waterworks Authority (the "Authority") to classify certain categories of costs of the Authority as so-called regulatory assets and direct the Authority to amortize such costs over a multi-year period in order to assist the Authority in complying with the Rate Covenant (as defined below) established under the GWA Indenture.

For reference, certain capitalized terms not defined in this letter will have the meaning ascribed to such terms in the Indenture, dated as of December 1, 2005, as amended and supplemented (the "GWA Indenture"), by and among the Authority, Bank of Guam as Trustee and as Depositary, and U.S. Bank Trust Company, National Association, as Co-Trustee and Paying Agent, as successor to U.S. Bank National Association.

Section 6.12 of the GWA Indenture (described herein as the "Rate Covenant") provides, in part, that "[t]he shall at all times fix, prescribe and collect rates, fees and charges in connection with the services furnished by the System which will be sufficient to yield the sum of Net Revenues during each Fiscal Year equal to at least 1.25 times the Aggregate Annual Debt Service for such Fiscal Year and to yield Revenues during each Fiscal Year equal to at least the aggregate amount of all transfers required by Section 5.02(A) through (E) for such Fiscal Year. The debt service coverage ratio specified in this Section shall be the debt service coverage ratio used by the PUC, together with other appropriate factors, in setting rates."

The term "Net Revenues" is defined under the Indenture to mean, for any particular period, (a) the sum of (i) all of the Revenues (other than Payment Agreement Receipts) received during such period plus (ii) the aggregate amount of all transfers from the Rate Stabilization Fund to the Revenue Fund during such period, less (b) the sum of (x) all Operation and Maintenance Expenses incurred during such period plus (y) the amount of all transfers from the Revenue Fund to the Rate Stabilization Fund during such period.





Taling M Taitano, CPA, CGFM, CGMA

June 25, 2025

Page 2

The term "Operation and Maintenance Expenses" is defined under the Indenture to mean "such reasonable and necessary current expenses of the Authority, paid or accrued, for operation, maintenance and repair of the System as may be determined by the Board, and the term may include at the Board's option, except as limited by contract or otherwise limited by law, without limiting the generality of the foregoing:

- (a) Legal and overhead expenses of the Authority directly related and reasonably allocable to the administration of the System;
- (b) Fidelity bond and insurance premiums appertaining to the System or a reasonably allocable share of a premium of any blanket bond or policy pertaining to the System;
- (c) Contractual services, professional services, salaries, administrative expenses, and costs of labor appertaining to System, including fees and expenses of the Trustee;
- (d) The costs incurred in the collection of all or any part of the Revenues; and
- (e) Any costs of utility services furnished to the System by the Authority or otherwise.

However, the term "Operation and Maintenance Expenses" as used herein does not include:

- (i) Any allowance for depreciation;
- (ii) Any costs of System capital renewals, replacements, major repairs, reconstruction, improvements, extensions or betterments;
- (iii) Any accumulation of reserves for System capital renewals, replacements, major repairs or reconstruction;
- (iv) Any reserves for operation, maintenance or repair of the System;
- (v) Any liabilities incurred in the acquisition or improvement of any properties comprising the System or any combination thereof;
- (vi) Any other legal liability not based on contract;
- (vii) Payments made by the Authority to the United States Treasury, the Guam Power Authority or the Guam Public Utilities Commission from revenues derived from the Navy/GPA Surcharge; and
- (vii) Payments made by the Authority to Guam Power Authority for power delivered prior to the Fiscal Year commencing October 1, 2003."



Taling M Taitano, CPA, CGFM, CGMA

June 25, 2025

Page 3

Critically, notwithstanding the Accounting Orders, the Indenture does not allow for the amortization of Operation and Maintenance Expenses but rather defines such term as being "such reasonable and necessary **current** expenses of the Authority, ***paid or accrued***, for operation, maintenance and repair of the System..." (emphasis added) Therefore, it is our interpretation that the Rate Covenant needs to be calculated, again notwithstanding the Accounting Orders, without taking the account the amortization of certain Operation and Maintenance Expenses.

We do note, however, that the Accounting Orders reference the amortization of certain legal expense relating to the litigation over the ownership of land on which the Authority's Norther District Wastewater Treatment Plant is located. We do not view these expenses as being "reasonable and necessary current expenses of the Authority" as such costs relate to a litigation that is extraordinary, and that therefore, we believe that, rather than amortizing these costs, these costs do not constitute Operation and Maintenance Expenses in the first instance, and can therefore be excluded when calculating the Rate Covenant.

Please do not hesitate to reach out should you have any questions or need further assistance.

Very truly yours,

A handwritten signature in blue ink, appearing to read "John Y. Wang", written in a cursive style.

John Y. Wang

## **Bond Counsel's Key Interpretations: Re The Interpretation of Operation and Maintenance Expenses under the GWA Indenture**

### **1. Bond Indenture §6.12:**

- GWA must collect sufficient revenues to achieve **Net Revenues  $\geq 1.25x$  Annual Debt Service** and meet all required fund transfers.
- “Net Revenues” = Revenues – O&M Expenses (as defined in the Indenture)

### **2. O&M Expense Definition (Indenture):**

- Defined as “**reasonable and necessary current expenses... paid or accrued**”.
- Includes salaries, admin, legal, utility costs, etc.
- **Explicitly excludes:** depreciation, capital projects, reserves, non-contract liabilities, and legacy power costs.

### **3. Regulatory Asset Amortization:**

- The **Indenture does not permit amortizing O&M expenses**—only **current paid or accrued costs** can be included.
- Therefore, the **amortized portion of any reclassified expenses** (such as legal costs turned into regulatory assets) **should not be used** when calculating Net Revenues for debt service coverage under the Indenture.

### **4. Litigation Expenses (e.g., land dispute):**

- Bond counsel further opines that **extraordinary legal costs** (like litigation over land ownership) **do not qualify as O&M Expenses at all**—even in the year incurred.
- These can be **entirely excluded** from the Rate Covenant calculation, without needing to amortize.

## **Implication for GWA's Compliance:**

- GWA must **exclude amortized regulatory asset expenses** when calculating Net Revenues under the Indenture.
- Instead, the **full eligible O&M cost must be counted in the year it is incurred**, if at all.
- This approach **differs** from PUC guidance but is required to remain compliant with bond covenants.