



Guam Economic Development Authority FY 2008 Financial Highlights

April 22, 2009

The passage of Public Law 29-113 renamed the Guam Economic Development and Commerce Authority to the Guam Economic Development Authority (GEDA). GEDA's financial audit report includes two sections on the financials of (1) GEDA and the Tobacco Settlement Authority (TSA), and (2) several trust funds¹ administered by GEDA, primarily the Guam Development Fund Act (GDFA) and Agricultural Development Fund (ADF). Independent auditors Deloitte and Touche issued two separate opinions for each section, both were unqualified or "clean" opinions.

In fiscal year (FY) 2008, GEDA and TSA closed the year with a net decrease of \$6.8 million (M). The dramatic decrease is attributable to the refinancing of the 2001 Tobacco Settlement Asset Backed Bonds. The refinancing provided additional funds of \$8.3M to the Department of Public Health and Social Services (DPHSS) and the Guam Memorial Hospital Authority (GMHA).

GEDA operations closed FY 2008 with an increase in net assets of \$803 thousand (K).

On the trust funds side, GFDA and ADF have combined loans of \$6M, of which only \$859K or 14% are deemed collectible.

The 2001 Tobacco Settlement Asset Backed Bonds Refinanced

In December 2007, the 2001 Tobacco Bonds with an outstanding balance of \$25M were refinanced. The 2007 Tobacco Bonds are now \$32.4M. GEDA incurred \$827K in bond issuance costs. The refinancing resulted in \$8.3M of bond proceeds, of which \$6.3M went to DPHSS to fund renovation and capital improvement needs of the Southern Regional Health Center. The remaining \$2.1M will be made available to the GMHA radiation therapy cancer treatment program for patients under the Medically Indigent Program.

GEDA Operations

For FY 2008, GEDA closed the year with an increase in net assets of \$803K. The increase was due in part to a slight increase in revenues of \$81K, which was off-set by increases in expenses of \$37K. Although salaries and benefits increased by \$116K from \$1.2M in FY 2007 to \$1.3M in FY 2008, expenses were off-set by the \$121K decrease in legal and professional fees from \$329K to \$208K.

¹ The Guam Development Fund Act, Agricultural Development Fund, Microenterprise Development Program, Guam Territorial Aquarium Foundation, Music and Legends of Guam Fund, US Base Realignment and Closure Committee, and Housing and Urban Development Fund.

The major income increase came from \$451K, which was previously set aside in the legal dispute of two former employees seeking reinstatement of employment and back wages. The case was resolved in GEDA's favor. Subsequently in 2009, one of the employees was rehired by GEDA. An additional income increase came from a \$328K debt forgiveness from the GDFA.

GEDA Trust Fund Loans Uncollectible

GEDA administers various trust funds of which the two largest are the GDFA and ADF. Over the years, these trust funds have made loans for various projects to encourage economic and agricultural development. For FY 2008, there were \$6M in outstanding loan receivables, of which \$5.1M are reserved for allowance for doubtful accounts leaving only \$859K in performing loans or loans with adequate collateral. This means that GEDA is expected to collect only 14 cents on the dollar. These performing loans brought in only \$25K in interest. GDFA closed FY 2008 with a net asset loss of \$140K, which is primarily attributable to the \$328K GEDA debt forgiveness.

Bond Market Outlook

In its Management Discussion and Analysis, GEDA stressed that the municipal market has not been immune from the global financial crisis. As of the third quarter of FY 2008, the government of Guam has had a lack of market access to fund financial projects, namely the closure of the Ordot Dump and construction of the new landfill for \$202.4M, and the COLA deficit financing bond for \$246.8M. Despite the government of Guam's credit rating upgrade from "B" to "B+," the government was unable to sell its General Obligation bonds in December 2008 due to the weakening market conditions and its current non-investment grade status of "B+." No non-investment grade credits accessed the market during the fourth quarter of 2008. Very few non-investment grade credits have been able to access the market during the first few months of FY 2009 as more than 90% of all issuers entering the market were rated at investment grade in the "A" category or above.

A separate document to the Board was issued by Deloitte and Touche auditors outlining audit strategies, emphasis, required communications, audit differences, and adjustments.

For a more detailed commentary on GEDA's operations, refer to the Management Discussion and Analysis in the audit report. You may also view the reports in their entirety at www.guamopa.org and www.investguam.com.