



OFFICE OF THE PUBLIC AUDITOR
TERRITORIAL HIGHWAY FUND
Year Ending September 30, 2007

April 1, 2008

After years of outstanding streetlight obligations of nearly \$11 million (M) to the Guam Power Authority (GPA), the Department of Administration (DOA) transferred \$8M of this obligation to the General Fund. The Territorial Highway Fund (THF) also saw an increase in revenues, but was offset by a greater increase in operational expenditures, such as salaries and benefits, leaving little to pay down its outstanding \$3.1M debt to GPA. Additionally, in November 2006, \$4M was transferred from the THF Construction Fund to pay for annual Cost Of Living Allowance (COLA) instead of the court-ordered COLA.

Streetlight Liability Transfer

In September 2002, the THF accrued \$10.9M, \$9.2M in principal and \$1.7M in interest, for services and upgrades to streetlights. After years of outstanding streetlight obligations to GPA, the DOA Director determined that only \$2.5M was an obligation of the THF and transferred \$8M to the General Fund. The transfer was made so that the THF only pays for primary and secondary streetlights, leaving expenditures related to upgrades, expansions, and others to be borne by the General Fund. The transfer only shifted the liability from the THF to the General Fund; the liability still exists and its repayment remains unknown. Payment of this long outstanding debt now has to come from the already cash-strapped General Fund.

COLA Payments

In October 2006, PL 28-151 appropriated \$4M from the THF Construction Fund to the General Fund for the payment of court-ordered COLA to retirees. However, because the monies were used to pay regular annual COLA and not the court-ordered COLA award, the Office of the Attorney General determined that the \$4M should be repaid back to the Construction Fund. The repayment agreement calls for the General Fund to pay the Construction Fund monthly installment of \$500,000 beginning in October 2007 and ending on May 2008. As of the date of this report, the General Fund is current on its payments.

Operations

Revenues increased by \$1.7M to \$15.8M in 2007 from \$14.1M in 2006 largely due to a \$1.2M increase in licenses, fees, and permits. An increase in rates was implemented in May 2007. Expenditures appear to have decreased in 2007, because of a \$9.1M decline in grants, subsidies and write-off in 2006. The decline was offset by a \$2.2M increase in operational expenditures, primarily in salaries and benefits for the Department of Public Works (DPW) Highway Maintenance Division, going from \$5M in 2006 to \$7M in 2007. Employee count increased by 17 to 118 in 2007 from 101 in 2006, all of which occurred at DPW. Expenditures for the Guam Mass Transit Authority increased in 2007 by \$206,985 to \$2.5M in 2007 from \$2.3M in 2006. The THF also provides \$500,000 annually to the University of Guam Capital Improvements Fund.

The THF deficit shrunk from \$13.2M in 2006 to just \$3M in 2007 primarily as a result of the transfer of the streetlight liabilities. Increases in revenues were quickly absorbed by increases in expenditures, thus leaving little to pay for the past due debt to GPA.