



Special Board Meeting
CCU Conference Room, Gloria B. Nelson Public Service Building
5:30 p.m., April 4, 2019

MINUTES

1. CALL TO ORDER

The Chairman called the CCU regular meeting of April 4, 2019 to order at 5:33 p.m. He said four (4) Commissioners were present adding that Comm. Guthertz was present before the start of the meeting but felt ill and is excused. Others in attendance include:

Commissioners:

Joseph T. Duenas	CCU Chairman
Francis E. Santos	CCU Vice Chairman
Michael T. Limtiaco	CCU Secretary
Simon A. Sanchez	Commissioner

Executive Mgmt.:

Miguel Bordallo	GM / GWA
Chris Budasi	AGMA / GWA
Gilda Mafnas	CFO (A) / GWA
Kelly Clark	Staff Attorney / GWA

Management & Staff:

Paul Kemp	AGM Compliance & Safety / GWA
Ron Topasna	O&M Mgr, Water Treatment / GWA
Vangie Lujan	Compliance & Safety / GWA
Heidi Ballendorf	Public Information Officer / GWA
Tom Cruz	Chief Engineer / GWA
Dave Fletcher	O&M Mgr, WW Treatment / GWA
Chris Putin	IT / GWA
Yvonne Cruz	Budget Officer, GWA
Josephine Evangelista	GWA
Antoinette Acfalle	Legal Secretary / GWA
Lou Sablan	Board Secretary / CCU

Guest:

Mark Miller	Commissioner / PUC
-------------	--------------------

2. COMMUNICATIONS

2.1 Public Comments - None

3. GWA

3.1 New Business

3.1.1 Resolution No. 20-FY2019 – Draft 5-Year Capital Improvement Program and Financial Plan

The objective of the Draft 5-year Financial Plan and Capital Improvement Program is to present the first five-years of capital improvement projects adopted under the 2018 Water Resource Master Plan update, as well as projects necessary to complete the 2011 Court Order and other regulatory compliance objectives. The projects outlined in the Capital Improvement Program includes projects that will be conducted island-wide and will also provide for the continued modernization, operation, maintenance, and repair of GWA’s water and sewer systems and the Financial Plan provides for revenues to support debt service on approximately \$260 million bonds to pay for much-needed capital improvements to benefit all of the people of Guam.

The Financial Plan addresses the 5-year period FY2020-FY2024 and includes: (1) estimated annual budgets for operations, maintenance and repair of GWA’s water and sewer system, including capital improvement projects; and (2) a detailed descriptive plan for raising sufficient revenue to meet the projected costs set forth in the budgets, including adjustments or increases in other sources of revenue such as the Legislative surcharge.

Approval of the Draft Five-Year Financial Plan and Capital Improvement Program is urgent and necessary to begin the 90-day Public Notice period mandated under the Ratepayer’s Bill of Rights (12GCA §12102.2 (b)), and to allow sufficient time for CCU and PUC approval prior to the start of the next fiscal year.

The total funding required for the Draft Five-Year Financial Plan and Capital Improvement Program is \$260,000,000. The period covered by the draft plan is from FY2020 to FY2024

Comm. Duenas asked clarification if the \$260M includes the currently authorized \$130M; GM Bordallo said it includes the already authorized \$130M. Comm. Sanchez reiterated that this is just the borrowing portion of the CIP. The total CIP is \$524M from all sources - \$170M from Dept. of Defense; \$96M from revenues due to rate increases.

GM Bordallo mentioned that the complete financial plan and CIP is included in Exhibit A of the resolution and additional supplemental information and schedules are included in that package. The GM referenced the operating revenues from 2020 to 2024.

Comm. Sanchez asked if there will be sample bill illustrations to show ratepayers what to expect and the GM said yes.

In Table 1 below, GM Bordallo said that the projected basic water rate increases will range from 10% in 2020, 8.5% in 2021, 8% in 2022, 6.5% in 2023 and 5% in 2024 and showed corresponding growth and operating revenues.

	Projection				
	2020	2021	2022	2023	2024
Basic Charge -Water	10.00%	8.50%	8.00%	6.50%	5.00%
Lifeline Increase	0.00%	0.00%	8.00%	0.00%	0.00%
Non-Lifeline Increase	10.00%	8.50%	8.00%	6.50%	5.00%
Legislative Surcharge	3.60%	3.60%	3.50%	3.40%	3.45%
Customer Growth	0.50%	0.50%	0.50%	0.50%	0.50%
Demand Growth	0.00%	0.00%	0.00%	0.00%	0.00%
OPERATING REVENUES					
Water Revenues	\$77,204,920	\$83,410,356	\$90,162,843	\$95,753,251	\$100,357,472
Wastewater Revenues	43,990,559	47,006,684	50,816,250	53,527,730	55,758,216
Legislative Surcharge	3,855,370	4,165,719	4,397,793	4,552,730	4,853,770
Other Revenues	431,932	430,737	433,741	432,137	432,205
System Development Char	914,964	929,304	832,509	892,259	884,891
Total Operating Revenues	126,397,745	135,962,780	146,643,136	155,158,107	162,286,353

Comm. Sanchez noted that management forecasted the lifeline rates to increase in 2022. When costs are projected to increase the lifeline rate is also expected to move up in time. He reconfirmed with management that revenue streams shown here is result of estimated projections on population growth, demand growth, kgal sales projections and based on these, ran rates to create these revenue streams – the GM confirmed yes that is correct.

O&M Expenses	Projected FY2020	Projected FY2021	Projected FY2022	Projected FY2023	Projected FY2024
Water Purchases	\$ 9,902,414	\$ 10,694,607	\$ 11,550,175	\$ 12,474,189	\$ 13,472,124
Power Purchases	\$ 14,935,381	\$ 15,234,089	\$ 15,538,771	\$ 15,849,546	\$ 16,166,537
Salaries & Benefits	27,199,775	28,677,206	29,340,741	30,018,089	30,709,538
Administrative and General Expenses	12,066,903	12,410,865	12,459,954	12,697,966	13,139,631
Contractual Expense	6,054,073	7,397,524	8,675,011	10,009,518	11,832,223
Retiree Supplemental Annuities and health	3,763,479	3,933,179.8	4,112,018	4,300,483	4,499,094
Total Operating Expenses (Less Depreciation)	73,922,025	78,347,471	81,676,670	85,349,791	89,819,147
Increase/(Decrease)		9%	6%	4%	4%
				4%	5%

In Table II above, the GM projected increases ranging from 4-9% for the next 5 years ranging from \$74.9M to \$89.8M for FY2020 – F2024.

In Table III below relative to salaries and wages including benefits details \$27.2M in FY2020 up to \$30.7M in FY2024. RE employee count filled vs. vacant it is projected that all vacancies would be filled by FY2020 at 400 FTE with further increase to 412 in FY 2021 due to planned asset management activity.

Comm. Santos asked if salaries and wages are tied to increments and asked what other factors were considered the GM responded yes and also includes provisions for the Boards directive migration towards the 20th percentile; premium pay is also allotted in estimates \$1M every year over time and night differential and holiday work based on historical values of 1.4%.

Comm. Santos asked the # of employees are on defined benefit and DC – management said

they can get the details for him. He asked for modeling of savings to GWA if the agency breaks away from GovGuam relative to health insurance. On salary / wages – what is due to increments and other factors. He would like a better look at the numbers.

Table III

Salaries & Benefits	Projected FY 2020	Projected FY 2021	Projected FY 2022	Projected FY 2023	Projected FY 2024
Salaries & Wages	19,254,479	20,211,432	20,679,621	21,157,173	21,644,277
Benefits & Retirement	7,945,297	8,465,774	8,661,120	8,860,916	9,065,261
Total	27,199,775	28,677,206	29,340,741	30,018,089	30,709,538
Full-Time Employee Count					
*Filled	363	363	363	363	363
*Vacant	37	37	37	37	37
New		12	12	12	12
TOTAL	400	412	412	412	412

- SALARIES:
 - FY2020 – funds 400 Full Time Employees (FTEs)
 - FY2021 – Projected 12 FTEs for Construction & Maintenance Division
 - Provides funds to migrate to 20th Market Percentile
- PREMIUM PAY
 - Overtime is flat at \$1M each year assuming all positions filled
 - Night Differential and Holiday Work based on historical 1.4% and 1% of base
- BENEFITS
 - Insurance based on average rate GWA currently pays and adjusts 2% annually
 - Medicare is based on the standard rate of 1.45%
 - Retirement budgeted at 28% of base salaries

Table IV

Administrative and General	Projected FY2020	Projected FY2021	Projected FY2022	Projected FY2023	Projected FY2024
Sludge	1,689,381	1,740,401	1,792,961	1,847,108	1,902,891
Chemicals	2,539,046	2,572,745	2,372,530	2,293,729	2,337,531
Materials & Supplies	2,369,442	2,440,525	2,467,552	2,555,410	2,632,073
Transportation Expense	477,684	492,014	506,775	521,978	537,637
Telephone & Communication	186,069	191,012	196,742	202,645	208,724
Claims	66,351	68,342	70,392	72,504	74,679
Insurance	982,136	1,011,600	1,041,948	1,073,206	1,105,403
Training & Travel	375,523	411,517	423,863	436,579	535,043
Advertising	145,312	149,672	154,162	158,787	163,550
Regulatory	309,358	318,639	328,198	338,044	348,186
Bad Debts Provision	1,781,672	1,835,123	1,890,176	1,946,882	2,005,288
Miscellaneous	1,144,928	1,179,276	1,214,654	1,251,094	1,288,627
	12,066,903	12,410,865	12,459,954	12,697,966	13,139,631

In Table IV above GM said this details Administrative and General Expenses which represents a 2-3% increase from year to year based on the factors below:

Sludge

- GWA's projection for sludge costs in FY2020 show an 8% reduction from the current FY2019 budget levels. In prior years, GWA budgeted for anticipated rate increases in disposal fees that did not materialize resulting in actual costs much lower than approved budgets.
- The FY2020 budget estimate is more consistent with prior year disposal costs. Moving forward, the budgets are based on 1% increases in flowdata that determines sludge production, and 2% increases in per ton disposal rates.

Chemicals

- Chemicals are projected to spike in FY2020 due to significant price changes in recent months, particularly for wastewater chemicals. Thereafter, chemical costs are estimated based on changes in projected demand and contractual price adjustments.
- Wastewater chemical requirements are expected to decrease after December 2021 upon commissioning of secondary treatment at the Northern District Treatment Plant.

Chemicals	Original Cost	New Cost	% Change
	+		
ACH	1.06	1.25	18%
Anionic	1.40	1.98	41%
Cationic	1.45	1.56	8%
Chlorine - 150lb	559	587	5%
Chlorine - 1 Ton	5,807	6,098	5%

In Table V below Contractual Services is projected to increase from \$6M in FY2020 to \$11.8M in FY2024. It is anticipated that there will be increases in finance and information technology software and software maintenance requirements will increase after moving to Enterprise One. The software maintenance cost is a big chunk of this expense

Comm. Sanchez asked details for Other on the category – the GM said this includes road repair, grounds maintenance and things that GWA has not been doing in the past. The Commissioner said he would like more detail on this category since not much narrative is provided.

The GM also said that in the past there's been swings in the amount spent and many times deferred due to revenue flow. Management is now trying to be more consistent.

Comm. Santos asked on migration to new software for Enterprise One – how much can be postponed without jeopardizing the system. AGMA Budasi said that their estimates were conservative and there is flexibility to reduce it if needed.

Comm. Sanchez commented that these projections are not set in stone and will be reviewed annually. Comm. Duenas clarified that the PUC will approve the 5-year rate plan and annually via the true-up process adjustments will be made going forward rate increases for future years, as needed. Comm. Sanchez said that he would recommend that management include language in the resolution that the projections will be reviewed annually or if you want to call it a true up and subsequently make the increases smaller if possible. He wants to make sure we protect the CCU’s ability to review this often. Comm. Duenas cautioned and asked legal counsel / management to make sure that the language is consistent with the other prior 5 year rate plans. Comm. Limtiaco commented that the resolution mentions the Commission will review the final rate plan in 90 days.

Table V

Contractual Services	Projected FY 2020	Projected FY 2021	Projected FY 2022	Projected FY 2023	Projected FY 2024
Other	3,073,788	3,509,524	4,234,041	5,057,747	5,994,430
Rental (Building)	474,142	488,366	503,017	518,107	533,651
Rental (Equipment)	1,003,554	1,053,733	1,243,405	1,417,482	1,601,754
Finance & Information Technology	1,065,238	1,855,138	2,189,063	2,495,532	3,166,119
Lab Testing	430,899	480,763	495,186	510,041	525,343
Legal	6,452	10,000	10,300	10,609	10,927
Total	\$6,054,073	\$7,397,524	\$8,675,011	\$10,009,518	\$11,832,223

Contractual Services reflect the largest of increases from year to year in this Rate Plan. When managers initially submitted budget proposals for FY2019, contractual services amounted to nearly \$16 million. Those requests were drastically reduced to slightly more than \$5 million. The differences instead have been spread out over the next 5 years.

- Between 2014 and 2018, GWA's audited contractual expenses reflected erratic spending with variances from year to year between -15% and 47%.
- The increases reflected below are intended to consistently fund contractual costs and provide for new services associated primarily with new technology, interim professional services and equipment rental.
- While most of the contractual line items are self-explanatory, an array of services comprises "Other" contractual expenses to include grounds maintenance, print and copier services, trash collection, permits, drug testing, consulting services, road restoration and other operational support functions.

Contractual Services	Requested FY 2019	Approved FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Other	\$ 7,905,591	\$ 2,561,490	3,073,788	3,509,524	4,234,041	5,057,747	5,994,100
Rental (Building)	449,460	460,332	474,142	488,366	503,017	518,107	533,100
Rental (Equipment)	3,167,910	959,755	1,003,564	1,053,733	1,243,405	1,417,482	1,601,100
Finance & Information Technology	3,105,473	705,400	1,065,238	1,856,138	2,189,063	2,495,532	3,166,100
Lab Testing	997,785	418,349	430,899	480,763	495,186	510,041	525,100
Legal	50,000	6,145	6,452	10,000	10,300	10,609	10,100
Total	\$ 15,676,219	\$ 5,111,471	\$ 6,054,073	\$ 7,397,524	\$ 8,675,011	\$ 10,009,518	\$ 11,832,100

Increase/(Decrease)

18%	22%	17%	15%
-----	-----	-----	-----

Referencing the next table, GM Bordallo next talked about GWA Capital Improvement Projects (CIPs) which led to discussion on the borrowing figures. The total CIP amount is \$520. At the end of the discussion Comm. Sanchez asked management to give the Commission the gross borrowing that will net \$260. Comm. Sanchez said the numbers have to be accurately reflected in the resolution. GM Bordallo confirmed that the gross borrowing is \$260 which will net is \$211.

**Guam Waterworks Authority
Schedule of Capital Projects
FY 2020-2024**

	2019	2020	2021	2022	2023	2024	TOTAL
2010 Bond Series	3,804	-	-	-	-	-	3,804
2013 Bond Series	1,453	-	-	-	-	-	1,453
2016 Bond Series	52,563	2,703	-	-	-	-	55,266
2020 Bond Series	50,345	28,631	28,350	1,600	-	-	108,926
2022 Bond Series	-	-	-	24,209	18,664	5,900	48,773
2023 Bond Series	-	-	-	-	18,824	18,852	37,676
State Revolving Fund (SRF)	7,000	5,088	3,000	8,000	8,000	8,000	39,088
System Development Charge (SDC)	6,700	500	1,000	500	500	500	9,700
Grants	110,387	13,061	-	-	-	-	123,448
Internally Funded CIP (PAY GO)	-	15,000	15,000	20,500	21,000	24,500	96,000
Total	232,252	64,983	47,350	54,809	66,988	57,752	524,134

	2019	2020	2021	2022	2023	2024	TOTAL
Potable Water	100,586	28,870	14,450	27,540	38,996	27,403	237,845
Wastewater	126,708	28,008	26,350	24,069	22,242	21,119	248,486
Electrical	1,710	1,510	2,600	1,500	3,200	5,530	16,050
Miscellaneous	3,253	6,600	3,950	1,700	2,550	3,700	21,753
Total	232,252	64,983	47,350	54,809	66,988	57,752	524,134

The next discussion was regarding Debt Service Coverage. GM Bordallo said the debt service coverage ranges from 1.86 to 2.05 over the 5 year period.

Comm. Sanchez asked management if the debt service coverage was 1.75, the level that PUC preferred indenture coverage, how much would that lower the rate increases and would it still protect the 1.25 debt service coverage in the indenture. He was asking for a sensitivity analysis.

GM Bordallo said yes management could do that but wanted the Commission to understand how they arrived at these coverages with recommended goal of indenture coverage of 1.5. Doing so would enhance GWA's borrowing, improve ratings etc. The logic that GWA's financial consultant has shared and understanding that the PUC coverage is 1.75, the rating agencies look at is the indenture number not the PUC number.

Chairman Duenas concurred that management should look at what this number is in the past and stick to this number – this is the driving force.

Comm Sanchez asked management to run both numbers and what the resulting indenture coverages are to see if it makes sense.

GM Bordallo said that historically it's been above the 1.25 but not meeting the 1.5 target. Comm. Sanchez said he just wants to see the sensitivity analysis to see if we can make ratepayers happy and that they can afford this. Let's run the analysis to see if there needs to be little less or little more cushion

	Projection				
	2020	2021	2022	2023	2024
BOND DEBT SERVICE	34,175,188	34,229,950	43,204,135	43,195,705	47,217,036
DEBT SERVICE COVERAGE CALCULATION - Section 6.12					
Earnings (Loss) from Operations	30,513,050	35,344,278	42,665,845	47,160,144	48,428,785
Investment Income-Other funds	216,573	248,637	210,495	225,235	228,122
COLA	644,877	688,520	735,117	784,867	837,984
System Development Charge	(914,964)	(929,304)	(832,509)	(892,259)	(884,691)
Depreciation	21,962,670	22,271,032	22,300,621	22,648,171	24,038,420
Balance Available for Debt Service - Section 6.12	52,422,206	57,623,163	65,079,569	69,926,159	72,648,621
Debt Service Coverage (1.25X) - Section 6.12	1.53	1.68	1.51	1.62	1.54
DEBT SERVICE COVERAGE CALCULATION - PUC Debt Ratio					
Balance Available for Debt Service	52,422,206	57,623,163	65,079,569	69,926,159	72,648,621
Transfer - Reserve for O & M					
Transfer - Reserve for Debt Service			8,000,000		5,000,000
2017 Refunding bond savings					
Available for Debt Service -Reserve for Debt Service	11,244,664 *	11,244,664 *	11,244,664	19,244,664 *	19,244,664
Balance Available for Debt Service - PUC	63,666,870 *	68,867,828 *	84,324,235 *	89,170,823 *	96,893,286
Debt Service Coverage (1.75X) - PUC	1.86	2.01	1.95	2.06	2.05

The GM said the table below shows the cumulative percentage rate increase for prior year borrowings which ranged from 17.4%, 53.5% and now 28%

**Guam Waterworks Authority
New Borrowing Requires Legislative Authorization
FY2020-2024**

Total Amount Authorized	<u>670,000,000</u>
Less: Amount Borrowed - 2005 Series Bond	101,175,000
2010 Series Bond	118,825,000
2013 Series Bond	172,630,000
2016 Series Bond	<u>143,310,000</u>
	<u>535,940,000</u>
Amount Available for 2020 Series Bond	<u>134,060,000</u>
Amount Requires Legislative Authorization for New Bonds	
2022 Series Bond	60,000,000
2023 Series Bond	<u>66,000,000</u>
Total	<u>126,000,000</u>

Rate Plan Period	Yr-1	Yr-2	Yr-3	Yr-4	Yr-5	Cumulative
FY2009 - FY2013	6.60%	14.00%	8.00%	12.77%	6.10%	47.47%
FY2014 - FY2018	15.00%	14.50%	16.50%	3.50%	4.00%	53.50%
FY2020 - FY2024	10.00%	8.50%	8.00%	6.50%	5.00%	38.00%

GM Bordallo then discussed some sample bills across all customer bases – residential, commercial, government and hotel. Under residential, the combined bill currently at \$62.98 which will move up to \$76.38 at the end of the 5year period. It was pointed out that the average water customer range is more than 5k per month, currently \$93.83 on chart provided and will move up to \$119.64 per month at the end of the 5year period.

Comm. Sanchez then pointed out the increases for commercial customers. The magnitude is huge for this sector.

There was discussion on farming rates and the Commission wanted a sampling of this segment in the scenario as well. Management have kept rates for his sector static for more than 3 years but it was mentioned that they will be impacted. As the process reaches the 90-day period this may change.

Comm. Duenas commented that one of the biggest problem management has to put redundancy and resiliency in the Tumon area.

Comm. Santos said that what happens to this model if we spread it out over a longer period of time. GM Bordallo said the first thing that would be compromised is compliance. Another thing is improving service and getting service to where it should be – this may also be impacted. The focus has been to work in areas that are in the worse condition. Management is trying to get to these areas asap.

Comm. Sanchez says what is good about this board is we are willing to look at all possible scenarios and tradeoffs.

Comm. Santos asked what USEPA is focused on – GM Miguel said pump stations. He added that management is in sensitive discussion with USEPA and would not want to discuss in this setting.

There was a discussion on the possibility of increasing the model another 5-10 years. The Chairman said it is important that we not lose sight.

The GM reiterated that management is not asking the CCU for approval of this plan, management is asking to release the draft to start the process. He said the public notice must be released to kick off the 90-day period. He showed the Commission the Draft Financing Schedule for the 2020 borrowing. The Court Ordered project has not gone away and we need to get the draft release to cover the funding we need the first rate increase. If the CCU approves the release, management will schedule public hearings and by June, management will present the approval in June petition PUC to hear it in August and go to market late October and close in late November.

Comm. Sanchez said the sensitivity analysis is important for the Commission to see the analysis on behalf of ratepayers to ensure all things are being considered.

Comm Santos asked about bond terms – it was confirmed that the term is 30 years.

Comm. Santos motioned to adopt Resolution 20-FY2019; second by Comm. Sanchez. There being no further discussion or objection the motion passed 4-ayes; 1 absent.

Guam Waterworks Authority
Sample Bill Summary
FY2019-2024

Rate Class	Current 2019	10.00% 2020	8.5% 2021	8.0% 2022	6.5% 2023	5.0% 2024
Residential = 5k Increase	62.98	65.29 2.30	67.47 2.19	72.84 5.37	74.77 1.93	76.38 1.62
Residential > 5k Increase	93.83	98.87 5.04	103.66 4.78	111.88 8.23	116.10 4.22	119.64 3.54
Commercial 1 Increase	740.38	813.24 72.86	882.36 69.13	952.03 69.67	1,012.93 60.90	1,064.09 51.16
Commercial 2 Increase	12,292.07	13,501.73 1,209.66	14,649.37 1,147.65	15,806.05 1,156.68	16,817.18 1,011.13	17,666.58 849.40
Commercial 3 Increase	1,823.76	2,003.23 179.48	2,173.51 170.27	2,345.12 171.61	2,495.14 150.02	2,621.16 126.02
Government - G6 Increase	1,785.53	1,961.24 175.71	2,127.95 166.71	2,295.96 168.02	2,442.84 146.88	2,566.22 123.38
Hotel Increase	298,649.32	328,039.29 29,389.97	355,922.63 27,883.34	384,025.40 28,102.77	408,591.90 24,566.49	429,228.95 20,637.05

4. **ANNOUNCEMENTS**

4.1 **Next CCU Meetings: April 16 – GWA WS; April 18 – GPA WS; April 23**

The Chairman announced that the next CCU meeting would be a work session for GWA on April 16; GPA Work Session on April 18 and this month the regular monthly CCU meeting on Thurs., April 25.

5. **ADJOURNMENT**

There was no further business to bring before the Commission.

Comm. Santos motioned to adjourn the meeting; Comm. Limtiaco seconded.

It was 6:52 p.m.

||s||

Bls

Attested:



JOSEPH T. DUENAS, Chairman



MICHAEL T. LIMTIACO Secretary