GWA RESOLUTION NO. 17-FY2020

RELATIVE TO ADOPTING A DEBT SERVICE COVERAGE TARGET OF 1.50 AND A WORKING CAPITAL RESERVE OF 120 DAYS OF OPERATING AND MAINTENANCE EXPENSE

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 is a Guam Public Corporation established and existing under the laws of Guam; and

WHEREAS, in 2014 the CCU adopted Resolution 21-FY2014 which established certain unrestricted cash reserves and set forth a policy of using such reserves to augment GWA’s net revenues for the purposes of calculating a Debt Service Coverage Ratio (DSCR) to comply with existing PUC policy of achieving coverage of 1.75x; and

WHEREAS, GWA’s long term financial plan, as presented in Volume 1, Section 12 Financial Planning, of the 2018 Water Resources Master Plan as approved and adopted by the CCU, sets forth certain financial planning targets and states, “For master planning purposes, these targets include ensuring that traditionally calculated debt service coverage meets or exceeds a target of 1.50x, conservatively above GWA’s covenanted requirements of 1.25x”; and

WHEREAS, as part of Docket Number 19-08, Public Utilities Commission (PUC) proceedings on the Petition for Approval of GWA’s Third Five-Year Financial Plan, on January 17, 2020, GWA and Georgetown Consulting Group, Inc. (GCG), the PUC’s consultant, signed a stipulation in which the parties agreed to support the approval of a policy change to adopt a minimum 1.40x debt service coverage ratio based on a calculation consistent with GWA’s indenture (and common municipal finance practice) that does not supplement Net Revenues with reserves; and

WHEREAS, On February 27, 2020, the PUC approved GWA Docket 19-08 FY2020 Rate Decision which included in the Ordering Provisions the following:
16. Both GWA and GCG will support policy changes that create one standard for debt service coverage at 1.40x...

17. The Parties shall use best efforts to review the CCU policy (Resolution No. 21-FY2014) that establishes a cash reserve for purposes of meeting PUC’s current Aggregate Debt Service Coverage Ratio of 1.75x. Such revision will mean that net revenues are not supplemented with cash reserves.

18. The Parties will also use best efforts to revise and clarify the PUC Order, Docket 04-01, FY2005 Rate Order, that establishes a minimum 1.75x coverage ratio for setting just and reasonable rates; and

WHEREAS, as part of GWA’s petition for approval of the sale Series 2020 Bonds, it has provided a draft Order to the PUC that, if adopted, will allow the PUC to reset the Policy and for the immediate Bond offering, require Guam Waterworks Authority’s minimum Debt Service Coverage Ratio be 1.40x on an interim basis; and

WHEREAS, the CCU recognizes the merit of the PUC’s ordering provisions in GWA Docket 19-08 promoting adoption of a 1.40 minimum coverage ratio, and that it would be best for GWA to align its DSCR with adopted long term strategic financial planning targets; and

WHEREAS, the CCU also believes the adoption of a minimum Debt Service Coverage Ratio of 1.50x on an interim basis will benefit GWA during the rating process which will result in lower interest rates for the Bond issuance and is reasonable, necessary and in the public interest at this time allowing the Authority to maintain just and reasonable rates; and

WHEREAS, the prospective review of capital financing options and policy reevaluation to be undertaken as required by the PUC’s ordering provisions in GWA Docket 19-08 may suggest upward adjustments to the stipulated PUC 1.40x debt service coverage ratio; and

WHEREAS, the CCU recognizes that sound financial and risk management entail the preservation of adequate financial reserves to cover cash flow variations from short term volatility in revenues and expenses and unanticipated and unforeseeable expenses; and

WHEREAS, the CCU also recognizes that financial reserves are one of the major components that bond rating agencies study in determining the creditworthiness of an issuer which in turn can impact interest rates on debt issuance; and
WHEREAS, the CCU also recognizes that reserves, when properly established and applied, can be used as a tool for mitigating water rate fluctuations influenced primarily by (1) volatile and temporary financial adversities; and/or (2) unexpected capital or operational expenses; and

WHEREAS, the CCU also recognizes it would be prudent to adopt a policy setting the Working Capital Reserves at 120 days of operating and maintenance expense.

NOW BE IT THEREFORE RESOLVED, the Consolidated Commission on Utilities does hereby approve the following:

1. The recitals set forth above hereby constitute the findings of the CCU.

2. The adoption of a policy setting a target minimum debt service coverage ratio of 1.40X for FY2020 and FY2021, with a near term goal of 1.50X beginning in FY2022, calculated on the same basis as called for in GWA Revenue Bond Indenture.

3. Upon completion of GWA’s review and evaluation of capital finance options, this policy will be reevaluated and may be revised.

4. The CCU authorizes the dissolution of the Working Capital Reserves for Debt Services and the transfer of cash balances into the Working Capital Reserve.

5. The adoption of a policy setting minimum balances for the Working Capital Reserve at 120 days of Operations and Maintenance Expenses. The Chief Financial Officer shall have the authority to draw up to $500,000, subject to the approval of General Manager, for Operations and Maintenance Expenses as defined pursuant to the GWA Revenue Bond Indenture. The General Manager shall inform the CCU within thirty (30) days of any such drawdowns. For draws greater than $500,000, prior approval from the CCU is required.

6. The Reserve may be withdrawn and used to the extent necessary to pay for operational and maintenance expenses if cash flow is insufficient for such purpose.

7. A monthly report of the DSC ratio and the reserve level will be provided to the CCU. This report will include reserve level required and date and reason for any withdrawals from the reserve.

8. This Resolution repeals and replaces CCU Resolution 21-FY2014.
RESOLVED, that the Chairman certified, and the Board Secretary attests to the adoption of this Resolution.

DUALLY AND REGULARLY ADOPTED, this 24th day of March 2020.

Certified by: Attested by:

JOSEPH T. DUENAS MICHAEL T. LIMTIACO
Chairperson Secretary
SECRETARY’S CERTIFICATE

I, Michael T. Limtiaco, Board Secretary of the Consolidated Commission on Utilities as evidenced by my signature above do hereby certify as follows:

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

AYES: 5
NAYS: 0
ABSTENTIONS: 0
ABSENT: 0