



**CONSOLIDATED COMMISSION ON UTILITIES**  
Guam Power Authority | Guam Waterworks Authority  
P.O. Box 2977 Hagatna, Guam 96932 | (671)649-3002 | guamccu.org

**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:

1           16. Both GWA and GCG will support policy changes that create one standard for debt  
2           service coverage at 1.40x...,

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

7           18. The Parties will also use best efforts to revise and clarify the PUC Order, Docket 04-  
8           01, FY2005 Rate Order, that establishes a minimum 1.75x coverage ratio for setting just  
9           and reasonable rates; and

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

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

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

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

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

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

4           **WHEREAS**, the CCU also recognizes it would be prudent to adopt a policy setting the  
5 Working Capital Reserves at 120 days of operating and maintenance expense.  
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7           **NOW BE IT THEREFORE RESOLVED**, the Consolidated Commission on Utilities  
8 does hereby approve the following:

- 9           1. The recitals set forth above hereby constitute the findings of the CCU.
- 10           2. The adoption of a policy setting a target minimum debt service coverage ratio  
11 of 1.40X for FY2020 and FY2021, with a near term goal of 1.50X beginning in  
12 FY2022, calculated on the same basis as called for in GWA Revenue Bond  
13 Indenture.
- 14           3. Upon completion of GWA's review and evaluation of capital finance options,  
15 this policy will be reevaluated and may be revised.
- 16           4. The CCU authorizes the dissolution of the Working Capital Reserves for Debt  
17 Services and the transfer of cash balances into the Working Capital Reserve.
- 18           5. The adoption of a policy setting minimum balances for the Working Capital  
19 Reserve at 120 days of Operations and Maintenance Expenses. The Chief  
20 Financial Officer shall have the authority to draw up to \$500,000, subject to the  
21 approval of General Manager, for Operations and Maintenance Expenses as  
22 defined pursuant to the GWA Revenue Bond Indenture. The General Manager  
23 shall inform the CCU within thirty (30) days of any such drawdowns. For draws  
24 greater than \$500,000, prior approval from the CCU is required.
- 25           6. The Reserve may be withdrawn and used to the extent necessary to pay for  
26 operational and maintenance expenses if cash flow is insufficient for such  
27 purpose.
- 28           7. A monthly report of the DSC ratio and the reserve level will be provided to the  
29 CCU. This report will include reserve level required and date and reason for  
30 any withdrawals from the reserve.
- 31           8. This Resolution repeals and replaces CCU Resolution 21-FY2014.  
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1           **RESOLVED**, that the Chairman certified, and the Board Secretary attests to the adoption  
2 of this Resolution.

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4           **DULY AND REGULARLY ADOPTED**, this 24<sup>th</sup> day of March 2020.

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6           Certified by:

                  Attested by:

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8           



9           **JOSEPH T. DUENAS**  
10          Chairperson

**MICHAEL T. LIMTIACO**  
11          Secretary

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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:	<u>    5    </u>
NAYS:	<u>    0    </u>
ABSTENTIONS:	<u>    0    </u>
ABSENT:	<u>    0    </u>



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