



**GWA RESOLUTION NO. 11-FY2021**

**RELATIVE TO ESTABLISHMENT OF A GWA RATE STABILIZATION FUND**

**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”, “Authority”); and

**WHEREAS**, the Guam Waterworks Authority (“GWA”) is a Guam Public Corporation established and existing under the laws of Guam; and

**WHEREAS**, the CCU recognizes that sound financial and risk management entails the strategic deployment of financial reserves to cover cash flow variations from short term volatility in revenues and expenses, downturns in revenues, and unanticipated and unforeseeable expenses; and

**WHEREAS**, the CCU also recognizes that financial reserves and reserve policies are major factors 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) debt service coverage requirements set forth by bond covenants and/or regulatory entities; and

**WHEREAS**, 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 dissolved the Working Capital Reserves for Debt Services and provided for the transfer of the related cash balances into the Working Capital Reserve of approximately \$11.4 million; and

1           **WHEREAS**, *Section 1.01 Definitions* of the Bond Indenture defines Net Revenues (as  
2 used in the calculation of debt service coverage) for any period *as (a) the sum of (i) all of the*  
3 *Revenues (other than Payment Agreement Receipts) received during the period plus (ii) the*  
4 *aggregate amount of all transfers from the Rate Stabilization Fund to the Revenue Fund during*  
5 *such period, less (b) the sum of (x) all Operations and Maintenance Expenses incurred during*  
6 *such period, plus (y) the amount of all transfers from the Revenue Fund to the Rate Stabilization*  
7 *Fund during such period; and*

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9           **WHEREAS**, *Section 5.02 Allocation of Revenues* of the Bond Indenture states that funds  
10 flow into the Rate Stabilization Fund in *the amount specified for such month in a Certificate of*  
11 *the Authority which also certifies that such amount is consistent with the annual budget*  
12 *established by the Authority, and Section 6.08 Authority Budgets* of the Bond Indenture states  
13 that *the Authority, as part of the annual budget, may transfer funds to or from the Rate*  
14 *Stabilization Fund each month; and*

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16           **WHEREAS**, revenue loss and economic disruption associated with the COVID-19  
17 Public Health Emergency will impact GWA financial performance; and

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19           **WHEREAS**, a Rate Stabilization Fund is designed to mitigate rate spikes and allow the  
20 smoothing of annual rate increases; and

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

- 24           1. The recitals set forth above hereby constitute the findings of the CCU.
- 25           2. The CCU finds that the establishment and implementation of a Rate  
26           Stabilization Fund serves to help address financial risks associated with utility  
27           operations and capital financing.
- 28           3. The CCU finds that the adoption of this policy promotes best practice in  
29           utility management by establishing an additional mechanism for managing  
30           uncertainties and risks and promoting predictable rates consistent with  
31           community expectations and acceptability.

- 1 4. Given that COVID-19 related financial impacts are projected to affect GWA  
2 financial performance throughout FY 2021 – 2024. The CCU amends the  
3 FY2021 budget and hereby certifies that no more than \$11.4 million will be  
4 transferred from GWA’s Working Capital Reserves into a Rate Stabilization  
5 Fund.
- 6 5. GWA transfers to and from the Rate Stabilization Fund are to be structured to  
7 enable GWA to target achievement of a minimum Debt Service Coverage  
8 ratio of 1.3x during the pendency of adverse financial conditions that occasion  
9 deferral of GWA’s conformance with previously established CCU and PUC  
10 policies related to targeted debt service coverage of 1.50x and Working  
11 Capital Reserves equal to at least 120 days of annual Operations and  
12 Maintenance expenses.
- 13 6. The CCU hereby further directs the management of GWA to set up the Rate  
14 Stabilization Fund as a separate account of the Authority held by the Trustee,  
15 segregated from other Authority Funds, and managed in a manner consistent  
16 with the Authority’s Indenture (dated 2005 as amended).
- 17 7. The CCU directs that GWA Management shall notify the CCU of the final  
18 amount of any planned deposits (transfers into) up to the authorized amount,  
19 and further directs that any planned utilization (transfers out) of the Rate  
20 Stabilization Fund will be formally approved by the CCU as part of the annual  
21 approval of the budget and that any interest earned on the Rate Stabilization  
22 Fund will be accounted for as general revenues and transferred into the GWA  
23 Revenue fund.

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25 **RESOLVED**, that the Chairman certified, and the Board Secretary attests to the adoption  
26 of this Resolution.

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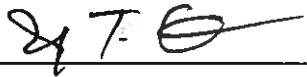
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1 **DULY AND REGULARLY ADOPTED**, this 23<sup>rd</sup> day of February 2021.

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3 Certified by:

Attested by:

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9 **JOSEPH T. DUENAS**

**MICHAEL T. LIMTIACO**

Chairperson

Secretary

10 **SECRETARY'S CERTIFICATE**

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

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

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18 AYES:

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19 NAYS:

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20 ABSTENTIONS:

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21 ABSENT:

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