

SPECIAL ECONOMIC SERVICE

July 8, 2011

MEETING MINUTES

AGENDA	DISCUSSION/TOPIC	ACTION/STATUS
In Attendance	<p>SES Members Speaker Judith T. Won Pat (in lieu of Senator Pangelinan) Chris Budasi – Director, OFB Gary Hiles – Chief Economist, DOL Karl Pangelinan – Acting Administrator, GEDA Ed Cruz – Chief Information Officer, BIT Benita Manglona – Acting Director, DOA Doris Flores Brooks – Public Auditor, OPA Albert Perez – Chief Economist, BSP John Camacho – Director, DRT John Rios – Acting Director, BBMR</p> <p>Other Participants Senator Yamashita Senator Chris Duenas Senator Tony Ada</p>	
Called to Order	2:09 pm	
FY 2011 Expenditures	<p>TABLED till the next meeting (July 22, 2011)</p> <p>Chris Budasi reported that there is information that was to be presented by the Department of Administration which was requested at a previous Round Table discussion on income tax refunds but has not been received.</p> <p>Doris Flores Brooks reported that during the audit process that a separate request was made with DOA for financial statements (similar to what was provided to the</p>	<p>DOA to provide the cash flow presentation reported at previous Income Tax Round Table meeting</p>

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<p>FY 2012 – Debt Service Structural Refunding</p>	<p>transition committee) and asked where DOA is in providing the information. The information that was provided to the transition team was quite helpful in projecting the deficit to be about \$83 million and the final audited number ended up at about \$71 million with tax refunds in the flux. DOA was expected to provide the data on a quarterly basis, but the OPA is still waiting for the March 31st numbers to date. Benita Manglona stated DOA is behind in providing the information, because the department is focusing on a lot of things that have happened in the past six months.</p> <p>Chris requested that the June 30 statements be provided as well.</p> <p>Speaker Won Pat asked that DOA prioritize providing this information in preparation of the upcoming budget, stating that not having this information makes it difficult for the Committee and the Legislature to schedule session dates for discussion on the budget.</p> <p>Chris reported the relevance of the cash flow presentation projected expenditures for the out months (June, July, August, and September), and the SES should look at the projections and the 8 months of actuals, 4 months of estimated (8+4) expenditures.</p> <p>(See handouts with debt service information extracted from Bill 145-31.)</p> <p>This information is part of the annual budget act that will be restructured or paid from a different source other than what they're (the debt services) are normally paid from. At the public hearing for Bill 145-31, it was still unclear afterward as to how the restructuring would occur. The structure of the debt service is important, because the money that is normally used to pay for the debt service payments is reprogrammed in the Biennial Executive Budget Request to pay for operational expenses in Fiscal Years 2012 and 2013. The Committee needs to understand what</p>	<p>GEDA to provide explanation of restructuring, including cost at next meeting.</p>

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	<p>the cost associated with the restructuring is and whether or not it is achievable, because if it isn't, then money will have to be shuffled around to pay for the debt service and find more money to pay for the items the debt service payments cover.</p> <p>Karl Pangelinan reported that that this method is referred to as <i>scoop and toss</i> where you scoop debt service or payments due for a particular period and toss it to the back end or along the life of the note. This is not a new exercise and is done in various other ways even at the local level. He reported that due to public notice complications, the underwriters have not been selected yet. The next board meeting is next Friday (July 15, 2011) at which time the underwriters will be selected.</p> <p>Discussion took place, and it was explained that if the debt is shifted to the back end, then payments will cede to pay operations, eventually leading to a final payoff for the debt services.</p> <p>Karl reported that three general obligation issues have been identified where debt service payment will be extended out toward the back end of the term. There are still questions regarding cost, and nothing is final yet. This method will free up cash flow but extends it to the end. There is a cost over the long haul; there's not a <i>today cost</i>.</p> <p>Speaker Won Pat pointed out the debt service to the TEFF of which a portion was used for DOE and asked how, then, will the debt service be paid if the full amount will be for operations? Is this a recommendation of the underwriters?</p> <p>Karl advised that this is included in the proposals of the underwriters, as part of the structure and varying options on how to accomplish this mechanism.</p> <p>Speaker requested that once the underwriters come on board that GEDA report back</p>	<p>GEDA to provide cost analysis</p>

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<p>Growth of Structural Deficit Due to Under Provision of Income Tax Refund Payments</p>	<p>with an analysis from the underwriters as to what the impact will be to our government and our bond rating.</p> <p>Chris reported that \$38M of principal and interest on debt service is being deferred in FY 2012, and the extended costs on that could cost an additional \$42M to defer that principal and interest.</p> <p>Refunds in Annual Appropriations Act (See handouts)</p> <p>This is brought to the table as a matter of policy on how the provisional income tax refunds are handled in the annual budget. Based on the current methodology, we've come in lower for certain years, while for other years, we've come in higher. This is brought to the attention of the SES to see if a more precise methodology should be established or if the group agrees to accept the current methodology. If we were to be current in our income tax refund payments, the provisional set aside in a given fiscal year, using FY10 as an example, would be paying for Tax Years 2008 and 2009 refunds. The way we look at this is that FY10 starts October 2009 through December 2009 with Tax Year 2008 paid during 2009. This gives 25% of income tax refund provisions in the FY10 budget; if we pay our refunds on a regular basis, we would be paying 25% of the TY08 refunds from the provision of FY10 with 75% of TY09 refunds from provision of FY10. (The chart is color-coded to show TY09 crosses FY10 & FY11.)</p> <p>The exhibit on the next page shows the experience or history of the provisions versus actual tax liability. The left side shows the fiscal years with Column B listing the provisions. Columns C-I show the tax years with the liabilities during those tax years for income tax refund payments. There are bigger under provisions for TY10 and TY11. We need to determine, from a policy standpoint, if the provision should</p>	

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<p>FY 2012 Estimate for Provision for Income Tax Refund Payments Detail</p> <p>Continuing Appropriations</p>	<p>be bumped going forward.</p> <p>Chris explained that this information was provided to the Committee by DRT at a previous Round Table Meeting on Income Tax Refunds.</p> <p>Chris explained that the current method uses a three-year average for the provision, and the discussion should be if that's the right way to do it, or is there another way to look at it to hit the mark a little better? The Committee wanted to put this in front of the SES to generate ideas and discussion. Everyone can look this over and think about it for the next meeting to discuss if there's a better way to handle this.</p> <p>John explained that the statute requires that we look at the last three years. We look at the average and estimate for the refunds provisions.</p> <p>Chris advised that the detail for FY12 & FY13 has not been received from DRT yet.</p> <p>John Camacho reported that when the Executive Budget Request was done, the numbers were only a rough estimation but that DRT now has more accurate projections. The FY12 anticipated provision is up by \$2M (\$107M), and the 2012 went down by \$1M.</p> <p>This is a matter that was brought up with SES last year. When we query the system, there is roughly \$15.5M of continuing appropriations in various funds. The majority come from the General Fund with several throughout different Special Funds. The discussion is: looking ahead to the future, given the fact that the deficit is where it is, what is the position or policy call of the SES regarding continuing appropriations? Should it be criteria-based? Should it based on whether there is a surplus run in a given fiscal year? Should it only be for federal matching funds, MIP, capital</p>	<p>DRT to provide detail of provision calculations for FY12 & FY13 biennial budget submission.</p>

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	<p>projects? If we don't run a surplus and these continuing appropriations get filled then something else in the budget will be short. We've found this to be the case over the last several years when these continuing appropriations are filled. We wanted feedback from the members on this issue.</p> <p>This would be a carryover from the previous fiscal years that wasn't filled. For instance, if you only received 90% of this year's budget and the next year's budget act allowed you to carry that over with an unfilled appropriation until you receive that. There's about \$15.5M of those within the AS400 system. (This is separate and apart from prior year obligations.)</p> <p>This is the number of appropriations not filled by the end of the fiscal year; usually, often times, many are filled in the first quarter of the following fiscal year. These are appropriations that carried over because they weren't used or there was no money to fund them. Some of these are bond funds, construction projects... other items such as the appropriation for the JFK lease of \$4.5M from 2009 was never used. It's still on the books as an appropriation available to be used. That's what these represent—there's \$15.5M of that.</p> <p>Doris requested that this information be provided by BBMR with details from John Rios as to what the appropriate criterion would be.</p> <p>Speaker Won Pat observed that many times, individual departments and agencies come to the legislature to ask if a provision can just be given for continuing appropriations. A criterion should be established for the entire government of Guam rather than individually.</p> <p>Discussion to be continued at next meeting.</p>	<p>BBMR to provide detail of continuing appropriations</p>

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<p>Discussion of \$26 million of 2009 and Prior Year obligations recorded in FY10/recognized as liabilities of the government of Guam in FY2010 audit</p>	<p>When the Executive Summary was released for the Government-Wide audit with an item of \$13M of 2009 and prior year obligations that were recorded and recognized as liabilities in FY 2010. Upon further research, with attempting to find out if DOE was included in that number, they also had another \$13M of 2009 and prior year obligations that were recorded (according to feedback received yesterday). DOE is a component unit, and there was an additional \$13M.</p> <p>1. What is the nature of the transactions that were recognized and were that old in FY10? 2. What, if any, are the fiscal controls that didn't happen that allowed for this much of an amount to go unchecked and unpaid? What is the aging on this (mostly 2009, 2005, 2006, etc.)?</p> <p>Doris stated that during discussions with DOA, the number was around \$13M to \$15M going as high as \$26M. The final number ended up at only \$6M with a total of \$13M, half of it from DOE which was already recorded within DOE's financials and its audit. The number was around \$6-7M (General Fund) recorded in FY10's budget. As part of the closing procedures for the final audit number. The other number was for GFD with supplies for the ambulances is around \$900k, dating back several years.</p> <p>Benita will provide detail at the next meeting.</p> <p>Speaker Won Pat suggested that the list should show who is being paid, the prioritization of the payments, and whether or not interest is accruing on any of these obligations. Speaker requests that these reports ought to be provided on a quarterly basis. The details should also include other obligations in situations where</p>	<p>DOA to provide policy and procedures put in place to fix fiscal control breakdown to SES.</p> <p>DOA to provide details of PYO at next meeting including interest, if any that is accruing.</p>

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<p>Status of Convenience Fee Implementation</p>	<p>the government has been sued (e.g. teacher furlough). The speaker also called for recommendations on paying the obligations as well as a narrative of the administration’s prioritization of payments.</p> <p>Benita suggested meeting with the speaker to review the reporting format for possible changes and improvements with additional information.</p> <p>Sen. Aline Yamashita suggested adding the payment for Mr. Reyes at \$250k, accruing 6% every year. (We’re now up to \$300k in outstanding debt to Mr. Reyes.)</p> <p>Chris requested that the detail should list which ones are interest-bearing and for the items that <i>are</i> interest-bearing that there should be an indication as to when interest begins accruing for that obligation.</p> <p>In the budget act of this year, it was required that when people use their credit cards there is a bank fee associated with that. Traditionally, that has been an unbudgeted item. As people use their cards more and more, that number has grown to over \$4M a year. One of the policy calls in the budget, this year, was to implement a convenience fee which passes on that bank fee to the consumer. When they use their credit card, they pay their obligation to the government as well as the bank fee. Because of the credit card rules, there is a very specific way you have to do that, and that’s why it’s called a <i>Convenience Fee</i>.</p> <p>Benita explained to the group that after the RFP was issued, there was a protest causing a delay in the process. After the protest, an appeal wasn’t filed.</p> <p>Benita reported that DOA is still working with the vendor and progress is being made on this issue. This system should be in place soon. Benita did not want to give</p>	

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<p>Unbudgeted Items FY 2012 Executive Request</p>	<p>a date as of the meeting.</p> <p>(Handouts provided)</p> <p>The Executive Budget Request was received on April 8. Items that are not included (based on our analysis) that are of immediate concern are: the JFK Lease-Back additional rent (\$1.6M); the Solid Waste Operations Fund court-ordered repayments (\$2.3M); the utility cost account (\$4M for power) taking in to account the LEAC adjustment in August and other increases being petitioned at the PUC; minor unbudgeted for power/water; and the DMHSA permanent injunction (\$1M short). If the bond for the income tax refunds go through then items B3 and B4 become non-issues which are the \$3M tax refund interest and the \$20.5M of the under provision as we discussed earlier. Item 5 has been clarified to a certain extent (prior year obligations) which is about \$13M.</p> <p>Doris advised that these prior year obligations have already been reflected in the 2010 audit and can be stricken out from this report. But in FY12, there might be other issues of other prior year obligations. Some agencies are holding back on invoices and only turning them in?</p> <p>Chris asked the group that from a policy perspective should prior year obligations be restructured?</p> <p>Benita advised that DOA has put a system in place this year by cutting off requisitions earlier, and purchase orders have to be submitted and fulfilled earlier. This policy was implemented earlier this year.</p>	<p>DOA to provide policy and procedures to SES.</p>

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Announcements Adjournment	<p>Gary stated that another item for unbudgeted items is the lawsuit for the employees' meritorious pay. Discussion took place as to how these numbers could be determined.</p> <p>Chris suggested that the purchase of the land for Layon be added to the list of unbudgeted items as well. The number is as high as \$30M or in the hundreds of millions which will become an obligation of the government.</p> <p>Karl reported to the group that the JFK leaseback was bonded for (2011), the additional rents should have been budgeted by DOE. Speaker Won Pat said that DOE did not budget for the additional rent.</p> <p>Next two meetings will be on Fridays, July 22 and 29.</p> <p>3:25 pm</p>	