



**PORT OF GUAM**  
*ATURIDAT I PUETTON GUAHAN*  
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Eddie Baza Calvo  
Governor of Guam  
Ray Tenorio  
Lieutenant Governor

## SPECIAL MEETING OF THE BOARD OF DIRECTORS

Jose D. Leon Guerrero Commercial Port

Wednesday, September 7, 2016

11:45am

### AGENDA

- I. CALL TO ORDER
  
- II. NEW BUSINESS
  1. Port Terminal Tariff Petition
  
  2. Board Resolution No. 2016-05 Port Terminal Tariff
  
- III. ADJOURNMENT

**To:** General Manager, Port Authority of Guam  
**From:** Parsons Brinckerhoff  
**Date:** September 7, 2016  
**Subject:** 5-Year Accelerated Tariff Petition Analysis (2017-2021)

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### **Overview**

This memo summarizes the results of Parsons Brinckerhoff's analysis of the Port Authority of Guam's (PAG) tariff requirements for fiscal years (FY) 2017 through 2021, based on the Port business and capital investment program. The analysis utilizes the most recent information available about Port cargo throughput, financial results, near-term economic assumptions, and refinements to the Port's capital investment program.

In October 2015, the Public Utilities Commission (PUC) approved PAG's request to increase all port tariffs by 7% effective December 2015, with the exception of the crane surcharge, bunkering, fuel throughput, and waste oil charges. This followed a recommendation by Parsons Brinckerhoff, developed in December 2014, for a 5-year petition increasing rates by 7% annually from 2016 through 2020. However, only the first year tariff increase was ultimately implemented. Thus, a new analysis and tariff petition are required to set rates for 2017 forward.

The 2013 Master Plan Update Report recommended a Port Modernization Program (PMP) and contained a High Level Implementation Plan, a Financial Feasibility Assessment, and an Economic Impact Statement (assessment) with the following stated goals:

- Modernize the Port in the next five years
- Prepare for a downsized and delayed military build-up
- Provide a balanced focus on improvement and long-term sustainability
- Provide a strategy to secure financial self-sufficiency

Annual tariff increases for the first five years were estimated in the 2013 Master Plan Update to address increased expenditures associated with achieving the following objectives:

- Complete minimum PMP investments (i.e. gantry crane acquisition, service life extension [SLE] for wharfs, upgrade financial management system [FMS], upgrade terminal operating system [TOS], new gate operating system [GOS])
- Institute structured maintenance programs
- Prepare for replacement of aging facilities (sustainability projects)
- Implement salary and wage increases required by Public Law (P.L.) 30-43
- Retain buying power in the face of inflation
- Address depreciation of existing and future assets

Several conditions have changed that affect the proposed tariff rate increase necessary to fully fund the 5-year Capital Improvement Program (CIP) and successfully operate the port through 2021. The analysis is based on audited FY2015 financial and cargo volume data. Below is a summary of key refinements to the assumptions and analysis inputs that affect the results and subsequent recommendations:

- Several of the PMP projects have been completed or are in process. The SLE of wharfs F3-F6 is complete. Work on the TOS is still on-going, with a possible extension of work and cost increase. Upgrades to the FMS are no longer in the five-year CIP as a decision has been made to keep the current system in place for now and evaluate newer technology at a later date.
- At the same time, capital needs beyond the PMP have been better defined. As detailed in this memo, the five-year CIP total has increased by approximately \$4.7M, to \$57.7M from \$53M.
- The previous analysis included facilities renewal and replacement costs of \$2.25M per year, assuming that 1.5% of the total approximate facility value of \$150M would be invested each year. Better definition of the near-term CIP enables us to include defined projects in the 5-year CIP rather than a general estimate.
- Per Public Law (P.L.) 30-43, salary levels for PAG are projected to increase in the analysis period. As detailed below, these costs are now projected to rise more slowly than previously forecast since PAG has adopted a phased increase schedule through 2019, with no further increases (other than keeping up with inflation) considered in the analysis.
- Near-term inflation has been adjusted to 1%, down from 3.5%, to reflect recent economic conditions in Guam. This leads to lower operating costs escalation over the five-year horizon.
- For breakbulk revenue forecasts, the historical average of breakbulk tonnage is used as the base figure rather than the last year actual tonnage. This is done to generate a conservative estimate by avoiding the effect of recent changes in breakbulk tonnage.
- After declining by nearly 30% from 2013 to 2015, transshipment throughput has returned to prior levels. Since it is unclear if this trend will continue, the analysis conservatively grows transshipment from 2015 figures.
- All crane-related capital and operating costs and revenues have been separated from other port functions, with the assumption that crane costs will be fully paid using crane surcharge funds. A separate crane analysis has been submitted that takes into account all sources and uses of funds and required financing related to crane operations and capital replacement. The crane revenues include the crane surcharge revenues, which are used to pay off crane operating and maintenance costs, and POLA loan debt service. Excess crane surcharge revenues were previously considered available cash flow for the Port's cash-supported capital projects.

## Assumptions

### Capital Program

Table 1: Updated CIP (YOE \$000s); \* indicates new project

	2017	2018	2019	2020	2021
<b>CIP CapEx Funded Through the USDA Loan</b>					
Purchase Replacement and Additional Yard Equipment	1,318	256	-	-	-
<b>Total USDA Loan CapEx</b>	<b>1,318</b>	<b>256</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CIP CapEx Funded Through the SLE Loan</b>					
PAG Service Life Extension of F3 - F6	-	-	-	-	-
SLE Acquisition of Cargo Handling Equipment	2,000	-	-	-	-
<b>Total SLE Loan CapEx</b>	<b>2,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CIP CapEx Funded Through the Bond Debt</b>					
Gate Operating System	-	-	-	1,184	1,268
Replacement of Administration Building	555	5,000	5,100	5,203	-
Replace Hotel Wharf and Access Road	555	1,504	12,134	-	-
Waterline Replacements*	-	3,000	-	-	-
<b>Total Bond Debt CapEx</b>	<b>1,110</b>	<b>9,504</b>	<b>17,234</b>	<b>6,387</b>	<b>1,268</b>
<b>CIP CapEx Funded Through the Budget</b>					
Container Yard Storm Drain Channel Repairs	-	-	-	-	-
Demolition equipment*	-	758	765	-	-
Inbound/Outbound OCR Portals and Canopies	-	-	-	335	-
Architectural/Engineering Services - IDQ	500	1,125	1,125	1,125	1,125
Electrical Work for Additional 56 Reefer Outlets*	500	-	-	-	-
Port Police Security Upgrade *	-	200	-	-	-
Agat Marina Loading Dock Structural Repair*	-	750	750	-	-
Renovations to Harbor Refuge	-	100	-	-	-
Upg of Power Sys for IT Off/Genset & Line Conditioner*	-	35	-	-	-
Progressive Pavement Replacement all terminal yards*	150	400	400	400	400
Trailer Chassis Landing Continuous Pad	-	-	1,390	-	-
Yard Lighting*	-	725	-	-	-
A/E Services for Storm Drainage and Gatehouse*	250	-	-	-	-
F1 Fender Replacements*	-	-	-	-	-
Gulf Pier Repairs*	1,000	1,000	-	-	-
Agat Marina Demolition Dock B*	250	-	-	-	-
Harbor of Refuge A/E Design & Env Studies - Ph I*	-	120	-	-	-
Hagatna/Agat Marina WiFi Digital Connectivity*	-	150	-	-	-
Demolish Admin Building*	-	-	-	-	1,600
Data Warehousing Systems*	-	-	350	-	-
Gatehouse CapEx*	-	500	-	-	-
LAN Infrastructure Upgrades*	-	-	300	-	-
<b>Total Budget CapEx</b>	<b>2,650</b>	<b>5,863</b>	<b>5,080</b>	<b>1,860</b>	<b>3,125</b>
<b>Total CIP CapEx</b>	<b>7,078</b>	<b>15,622</b>	<b>22,315</b>	<b>8,247</b>	<b>4,393</b>

Note: Portion of Hotel Wharf cost funded by \$10M TIGER grant is not included in Table 1.

Port CIP projects for the next five years (both modernization and sustainability) funded by existing loans, future bonds, and the PAG budget projection are provided in Table 1 above. In addition to the existing Equipment and SLE loans, new debt issuances would be required to fund about \$32M in projects for the GOS, replacement of the Administration Building, renovation of Hotel Wharf and access road, and waterline replacements. The remainder of the CIP includes capital expenditures of approximately \$18.6M to be funded from general cash balances. The five-year capital program for FY2017-2021 covers total expenditures of \$57.7M, compared to about \$53M for FY2016-2020 in the previous tariff petition. PAG was recently awarded a TIGER grant for Hotel Wharf. To reflect this, The CIP in Table 1 for this item has been reduced by \$10M.

## Throughput Volume

In this tariff analysis, cargo volumes are forecasted using organic growth rates, which are limited to the anticipated population growth on Guam and the Micronesia region.

Table 2 below summarizes the Port's historical throughput volumes. Transshipment (containers) in recent years had been in decline, but rebounded in 2015. It is assumed to continue growing from this level, primarily because Guam remains a natural transshipment hub for neighboring islands. For the purpose of this analysis, the historical average was used as a base value to provide a more conservative forecast.

Table 2 Historical PAG throughput (Tons of Breakbulk, Container Count for Local and Transshipment)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	Historical Average
<b>Throughput Volume</b>										
Containers	99,620	99,908	94,073	96,952	96,065	92,747	90,803	85,696	90,762	94,070
Transshipment	31,854	30,962	29,107	30,673	30,211	28,889	25,382	19,445	25,940	28,051
Breakbulk	141,098	126,521	125,192	186,523	125,987	167,673	164,650	183,513	233,541	161,633

The organic growth assumptions are as follows:

- All containers (local and transshipped) grow at 1.1% per year through 2019, and 0.9% onwards.
- Breakbulk grows at about 1.15% in 2016, and gradually declines to about 0.96% onwards.

## Operating Costs

Staff salary increases were provided through 2019 by PAG consultant Alan Searle & Associates, as summarized below. For the remainder of the analysis period, salary expenses are expected to increase at the level of inflation. Planned salary adjustments have been revised as follows:

Table 3: PAG Salary Forecast 2016-2019

	2016	2017	2018	2019
Annual Salary (prior to Overtime)	\$15,602,517	\$16,866,603	\$17,372,601	\$18,483,927

All other operating costs are assumed to grow from their 2015 levels at 1% per year through 2021, which is conservative and consistent with the recent inflation rate experienced in Guam.

## Debt Service and Capital Costs (CapEx)

- PAG has outstanding loans from the Bank of Guam for SLE projects, including the purchase of the TOS system, and cargo handling equipment, as well as two loans backed by USDA for cargo handling equipment purchases<sup>1</sup>. Loan terms extended over 10 years for the SLE and 15 and 7 years for the USDA loans. Debt service is approximately \$1.5M for the SLE loan and \$689,000 for the USDA loans.
- Per the recommendation of PAG staff and after consultation with the Guam Economic Development Association (GEDA), PAG expects to issue 30-year general port revenue bonds in FY 2017 to provide funds for key capital projects. These include GOS, Hotel Wharf and access road, waterline replacements, Administration Building, and potentially Gulf Pier projects.
  - Interest on these loans is capitalized for two years during the construction period (i.e., added to the bond issuance amount)
  - Principal is assumed to be delayed for two years from issuance
  - Interest rate of 5.9% is assumed on debt issuance
- As the port facilities continue to age, an allowance for consulting support for capital investment will be necessary. A Program Management budget for this consulting support is established starting in FY2017. This can be used in combination with direct design and engineering services incorporated into individual projects to be determined and paid for by growing reserves.
- All other projects are assumed to be paid for by the annual cash flows of the port through its CIP budget.

Table 4 Summary of Debt Issuance

Debt Issuance Cost	Description	Amount
Net Bond Proceeds	Capital Projects	\$35.5 million
Issuance Cost	2% of issuance	\$844,000
Debt Service Reserve	2% of issuance	\$844,000
Capitalized Interest	Two years	\$5 million
<b>Total Issuance</b>		<b>\$42.2 million</b>
Annual Debt Service	Begins in 2020	\$3.1 million

Note: If Gulf Pier is included in debt issuance, total issuance will be \$44.6 million and annual debt service will be \$3.3 million.

## Findings

Parsons Brinckerhoff analyzed the 5-year financial projections for the Port. The analysis assumes that most projected revenues and expenses are set, and that the potential tariff increase is implemented after June 2017. In the absence of a tariff increase, the port faces annual cash flow shortfalls from FY2017-2021.

<sup>1</sup> POLA crane loans are repaid using crane surcharge funds and do not impact the tariff analysis.



## Operating Reserve

In keeping with good financial management, PAG has adopted a policy goal of maintaining an unrestricted cash reserve equal to three months operating costs (O&M Reserve). Based on current O&M expenditures, this translates to approximately \$8M in reserve funds. The current level of PAG's management reserve is \$4M. The O&M Reserve could be built up over time in the next three to five-year horizon. If this is acceptable to PAG, then the annual variable tariff increase shown in Table 5 accumulate sufficient balances to meet the operating reserve requirement. However, building up the operating reserve earlier would contribute to achieving an investment-grade bond rating when the Port issues debt to finance its CIP.

## Recommended Tariff Increase

The prior Parsons Brinckerhoff analysis recommended 7% per year for five years, the first of which was implemented in December 2015. **Parsons Brinckerhoff recommends a 7.0% increase in FY2017 and in FY2018, followed by a 1% increase through FY2021 to allow the Port's revenues to keep up with inflation.** The results are summarized in Table 5. This tariff accomplishes the dual goals of ensuring the 5-year CIP plan is funded and the 3-month O&M reserve is accumulated by 2020 or earlier. It would also potentially provide funds to move to a more efficient debt structure with less interest capitalization.

*Table 5 Recommended Tariff Increase*

	FY2017 (\$M)	FY2018 (\$M)	FY2019 (\$M)	FY2020 (\$M)	FY2021 (\$M)
<b>Variable Tariff</b>	7.00%	7.00%	1.00%	1.00%	1.00%
<b>Net Cash Flow</b>	0.53	2.52	2.46	2.21	1.62
<b>Cumulative Cash Flow</b>	0.53	3.05	5.51	7.72	9.34

We further recommend an annual update of the tariff analysis that considers the most recent cargo throughput and operating costs. Because the financial results depend directly upon cargo growth, it is critical for the Port to monitor cargo volumes and operating costs. We recommend communicating regularly with the military and shippers regarding their short-term forecasts, and reporting these to management at all meetings relevant to planning budget and CIP investments going forward.

## Summary of Sources & Uses of Funds and CIP Capital Projects

The following table provides additional details about the sources and uses of Port funds in the recommended annual tariff increase case (7% increase in 2017 and 2018, 1% in 2019-2021).

Table 6 Port Sources & Uses (YOE\$ x 000)

	2017	2018	2019	2020	2021
<b>Total Sources</b>					
Operating Revenue	35,404	40,276	41,126	41,918	42,725
Commercial Revenue	9,450	10,751	10,978	11,189	11,405
Other Revenue	44.5	2,572.7	2,586.1	93.2	107.7
<b>Total Sources</b>	<b>44,898</b>	<b>53,599</b>	<b>54,690</b>	<b>53,201</b>	<b>54,237</b>
<b>Total Uses</b>					
Labor Expenses	27,332	28,152	29,953	31,011	31,011
Other G&A Expenses	9,500	9,595	9,691	9,787	10,133
Facilities Expenses	-	-	-	-	-
Equipment Expenses	2,682	2,736	2,792	2,843	2,968
Debt Service on Outstanding Debt	2,206	2,206	2,206	2,269	2,269
Debt Service on Planned Debt	-	2,507	2,507	2,507	2,470
CIP CapEx Budget	2,650	5,863	5,080	1,860	3,125
Equipment CapEx Budget	-	22.6	-	98.7	-
<b>Total Uses</b>	<b>44,370</b>	<b>51,082</b>	<b>52,229</b>	<b>50,377</b>	<b>51,977</b>
<b>Net Cash Flow</b>	<b>528</b>	<b>2,517</b>	<b>2,461</b>	<b>2,824</b>	<b>2,261</b>



**BOARD OF DIRECTORS**  
*Francisco G. Santos, Chairman*  
*Oscar A. Calvo, Vice Chairman*  
*Timothy T. Kernaghan, Board Secretary*  
*Melanie R. Mendiola, Member*



**Resolution No. 2016-05**

**RELATIVE TO FILING THE MODIFIED ACCELERATED TARIFF PETITION TO THE PUBLIC UTILITIES COMMISSION TO SUPPORT CRITICAL PORT MODERNIZATION PROJECTS AND OTHER SUSTAINABILITY RELATED CAPITAL INVESTMENTS ASSOCIATED WITH PROJECTS IDENTIFIED IN THE PORT OF GUAM MASTER PLAN UPDATE 2013**

**BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE JOSE D. LEON GUERRERO COMMERCIAL PORT:**

**WHEREAS**, was created by Public Law 13-87 on October 31, 1975; and

**WHEREAS**, the Jose D. Leon Guerrero Commercial Port, through its Board of Directors, has the responsibility to ensure sustainable operations of the Commercial Port and improve upon services to the people of Guam; and

**WHEREAS**, on October 22, 2012, the Port filed its 20-Year Financial Plan and 5-Year Rate Plan describing certain near and long term sustainability projects with the Public Utilities Commission; and

**WHEREAS**, on July 19, 2013, the Port filed the Interim Tariff Petition with the Public Utilities Commission that was subsequently approved through Order of the Commission dated January 30, 2014, PAG Docket No. 13-01; and

**WHEREAS**, the Ordering Provisions of Public Utilities Commission PAG Docket No. 15-04 required the Port to file a multi-year Rate Plan by October 1, 2016; and

**WHEREAS**, the Port reengaged its Owner's Agent/Engineer to revisit, update and modify the current 5-Year Tariff Petition that was filed by the Port to the PUC on June 1, 2015; and

**WHEREAS**, it has been clearly determined through further financial analysis that there should now be annual adjustments in the Port's Terminal Tariff over the next five years in the amount of 7% for years 1 and 2, and a 1% increase for the years 3 through 5, followed by increases to subsequent years at the rate of 3.95%; and

**WHEREAS**, the Port now moves to adopt and approve the findings and recommendations contained in the 5-Year Accelerated Tariff Petition Analysis (2017-2021) prepared by Parsons Brinckerhoff dated September 7, 2016; and

**WHEREAS**, the Port hereby acknowledges that by doing so, that the newly adopted analysis, findings and recommendations contained in the updated report memo supersedes and compliments the previously approved Tariff Petition that is party to PAG Docket 15-04; now therefore be it

**RESOLVED**, the Board of Directors hereby adopts the recommendations contained in the report memo analysis and hereby authorize Management to file the modified 5-Year Accelerated Tariff Petition to the Public Utilities Commission and to collaborate with the PUC consultants in this regard; and be it further

**RESOLVED**, the Board of Directors further approve the Tariff increases in the manner and schedule as detailed above and that any such increase shall take effect upon the approval of the Public Utilities Commission; and be it further

**RESOLVED**, the Board of Directors hereby authorizes the release of any Public Notice related to this modified 5-Year Accelerated Tariff Petition, if so determined necessary; and be it further

**RESOLVED**, the Chairman certify to, and the Secretary attest to, the adoption hereof and that a copy of this resolution be sent to the Public Utilities Commission, the Honorable Judith B. Won Pat, Speaker of the 33<sup>rd</sup> Guam Legislature, and the Honorable Thomas C. Ada, Oversight Chair for the Committee on Transportation, Infrastructure, Lands, Border Protection, Veterans' Affairs and Procurement.

**PASSED AND ADOPTED UNANIMOUSLY BY THE BOARD OF DIRECTORS THIS 7<sup>th</sup> DAY OF SEPTEMBER, 2016.**

  
**FRANCISCO G. SANTOS**  
**CHAIRMAN, BOARD OF DIRECTORS**  
**PORT AUTHORITY OF GUAM**

  
**TIMOTHY T. KERNAGHAN**  
**BOARD SECRETARY, BOARD OF DIRECTORS**  
**PORT AUTHORITY OF GUAM**

