PORT OF GUAM
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Eddie Baza Calvo
Governor of Guam
Ray Tenorio
Lieutenant Governor

GL# 34-17-1048

October 6, 2017

2017 OCT -6 PM 1:05

The Honorable Benjamin J.F. Cruz
Speaker
IMina Trentai Kuattro Na Liheslaturan Guahan
163 Chalan Santo Papa
Hagatna, Guam 96910

Dear Speaker Cruz:

Hafa Adai!

Pursuant to Public Law 30-127, the attached report is for the 2015 Citizen Centric Report for the Port Authority.

If you have any questions regarding this matter or need additional information, please feel free to call our office at 477-5931/5 extension 303 or 302.

1048

Sincerely,

FELIXBERTO A. DUENAS
Acting General Manager

Attachments

Cc: Senator Frank Aguon
Public Auditor
Deputy General Manager, *Operations*
Deputy General Manager, *Admin. & Finance*
Acting Financial Affairs Controller

Speaker Benjamin J.F. Cruz
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Port of Guam, Jose D. Leon Guerrero Commercial Port is an Equal Employment Opportunity Employer

- Renovation of the Existing Pump-out Stations at the Gregorio D. Perez Marina is in progress and estimated to be completed in 2016 under the Clean Vessel Act Grant Program.
- Agat Small Boat Marina Concrete Catwalk is ongoing and estimated completion February 2016 under the Department of Interior Sport Fish Restoration Grant.

■ Service Life Extension (SLE) Program

The SLE Program was developed to address structural repair work at the Port's F-5 Wharf and marine repairs to F-3, F-4 and F-6 wharf. After obtaining approval from the Port's Board of Directors, the Authority engaged the Guam Economic Development Authority (GEDA) to begin soliciting the financing services on behalf of the Port to fund the SLE Program for $10 Million Dollars. In September 2012, GEDA issued the solicitation package for a $10 million dollar loan to fund the SLE Program, upgrade the Financial Management System and acquisition of cargo handling equipment. The financing contact award took place in November 2012. The $10M loan documents were fully executed on April 3, 2014.

The solicitation process for the construction work for the SLE Program began in April 21, 2014 through an Invitation for Bid. The Public Utilities Commission approved the construction agreement in the meeting of July 31, 2014; thereby followed by contract execution in August 20, 2014. The Notice to Proceed the construction work was issued in December 30, 2014 to take effect January 5, 2015 and anticipated completion within 360 calendar days (January 2016). Recent change order has extended construction to be completed in April 2016.

■ Terminal Operating System (TOS)

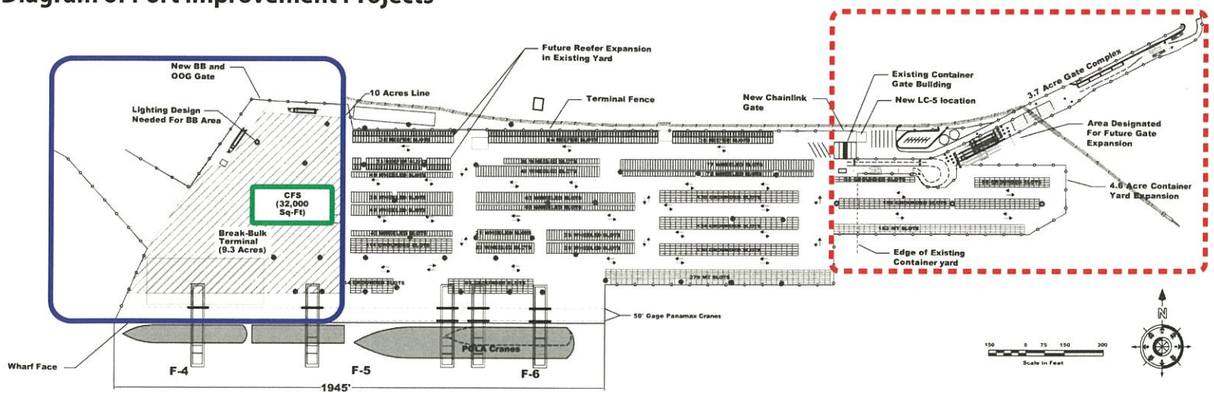
The Port Authority of Guam is striving to develop into the world-class container terminal of the Western Pacific Region. Along with the Port Modernization Project the Terminal Operating System is a new system to replace Port's GTS system used in operations. The TOS will allow for automated invoicing and cargo and container tracking system anticipated to be completed in July 2016. The TOS project is funded through loan proceeds and Port's funds.

The Port's Future—Challenges Ahead

Modernization Plan

In 2012, DOD announced a projected downsizing of the military build-up plans for Guam. The new mix of personnel relocating to Guam was reduced to approximately 5,000 Marines (one third permanent party and two-thirds rotational) and 1,300 dependents. The projected construction budget for projects on Guam dropped to about $8.6 billion in 2012 dollars. The timeframe for implementing realignment was pushed back from 2010-2014 to 2016-2020. Complicating matters are the Federal budget sequester, adjustments for progress on Japan projects, adjustment of the Okinawa consolidation to now include retaining some troops in Okinawa and expanding the U.S. realignment of departing Marines to now include positioning them in Hawaii and Australia. For these reasons, the pace of the Guam build-up is expected to be slowed further possibly pushing it to somewhere between 2020 and 2026 (when the Hawaii portion of the redistribution is scheduled for completion).

Diagram of Port Improvement Projects



Phase I: Completed February 2014 **Phase II: Completed May 2014** **Phase III: Completed October 2015**

In June 2008, PAG partnered with the Maritime Administration (MARAD), through a Memorandum of Understanding, for the "Port of Guam Improvement Enterprise Program". MARAD was designated as the lead agency to provide federal oversight and coordination of projects under the program. This partnership with MARAD was formalized through U.S. Public Law 110-417, National Defense Authorization Act for 2010, which also established the "Port of Guam Improvement Enterprise Fund" (the Fund). In August 2010, President Barrack Obama signed the 2010 Supplemental Appropriations Act which transferred $50 million from the Department of Defense to the Fund on September 22, 2010. The final phase of these improvements was completed in October 2015. A ribbon cutting ceremony was held in December 2015, along with local & federal partners and dignitaries celebrating this momentous milestone.

PORT OF GUAM

Table of Contents



Page 1 Overview, Mission and Vision Statement
Page 2 How are We Doing- A Performance Report on Key Mission and Service
Page 3 Revenues and Expenses
Page 4 Challenges Moving Forward – What's Next? Future Issues

Strategic Goals:



To modernize the Port as a first class facility in the region.

Provide cargo services in a safe, efficient and sustainable manner.

Promote economic growth and opportunities for maritime related industries.

Address the needs of Port Users.

About the Authority

The Port Authority of Guam was established as a public corporation and autonomous agency of the government by Public Law 13-87 in October 1975. The Port operates the only commercial seaport in the Territory and, as the primary seaport in Micronesia, serves as a transshipment point for the entire Western Pacific region. It operates the largest U.S. deepwater port in the region and currently handles about 2 million tons of cargo a year. The Port owns 5 cargo-handling piers along with two fuel piers and three marinas. The cost for operations and capital improvements are funded largely from the Authority's own revenues.

The Authority is presided over by five board members appointed by the Governor of Guam with the advice and consent of the Legislature. The Board of Directors appoints the General Manager and Deputy General Managers who are responsible for maintenance, operation and development of the Port and the agency's business affairs.

With more than 90% of the region's goods and supplies passing over its dock, the Port's impact on the quality and sustenance of life for residents of the region cannot be overstated. Primarily dependent on the importation of goods, the Port is truly the lifeline between the Western Pacific Region and the rest of the world.

The Port facilities were designed in the 1960s and put into service in 1969. The facilities have remained unchanged since its construction in 1969 with the exception of the repair of F5 Wharf in 1999. This is in contrast to most modern mainland ports which have undergone two or more cycles of technological and maintenance improvements during this same period of time.

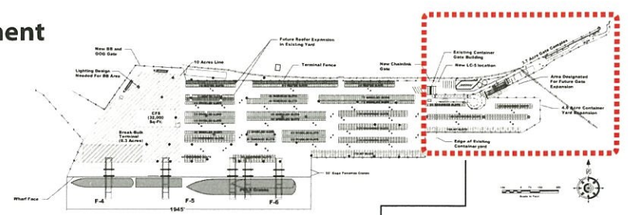


Mission Statement

The Port Authority of Guam is dedicated to providing full services to ocean vessels in support of loading and unloading cargo for Guam and Micronesia. PAG is the main lifeline of consumer goods into the island, and as such, recognizes its responsibility to deliver these goods in a timely and efficient manner. In support of this mission, the Port Authority also provides land and infrastructure to private interests to further develop the maritime industries on Guam. As a public corporation, the Port Authority dedicates all of its profits to the upgrading of equipment and facilities and the continued growth of the island's seaport.

Diagram of Port Improvement Projects

Phase III: Completed October 2015





Doc. No. 34GL-17-1048

Financial Highlights

The net position of the Authority as of September 30, 2015 was $93.6 million. Of this amount, $104.7 million is net investment in capital assets, $4.3 million is considered restricted and $(15.4) million is considered unrestricted.

The Port's net position increased by $61.9 million for fiscal year ended September 30, 2015.

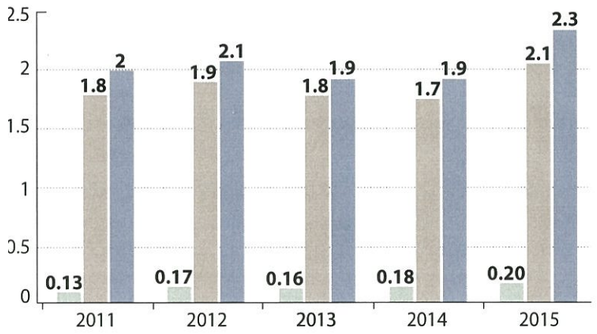
The Port's total assets increased by $61.6 million during the fiscal year ended September 30, 2015. The major components of this change was an increase in depreciable property, plant and equipment.

The total liabilities decrease by $1.8 million during fiscal year ended September 30, 2015. The major component of this change was due to decrease in net pension liabilities of $6.8 million due to the implementation of GASB Statement No.68.

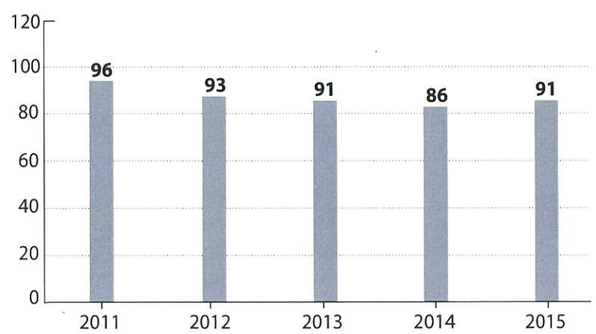
How Are We Doing – A Performance Report on Key Missions and Service

Breakbulk **Container** **Total Cargo Revenue Tons**

Total Revenue Tons (in millions)



Total Containers Handled (in thousands)





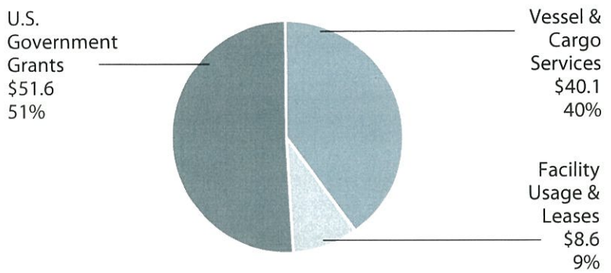






The Port's Finances – Revenues and Expenses

Primary Sources of Port Revenues — FY 2015

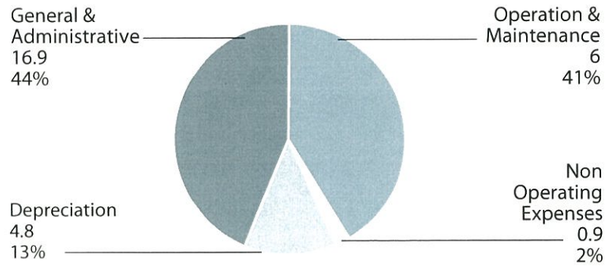


Vessel and cargo services revenues in FY 2015 increase by $2.9 million. The increase was primarily due to a full year of the Interim Rate Increase and cargo volume increase.

Facility usage and leases increased by 11% or $854 thousand, from $7.7 million in FY 2014 to $8.6 million in FY 2015.

Federal contributions in FY 2015 increased by $47.4 million, from $4.2 million FY 2014 to $51.6 million 2015. The increase was primarily due to the Port Modernization Program. No funds under the PMP passed to the Port. The Port of Guam Improvement Enterprise Program was created and MARAD was appointed as the lead federal agency to administer and disburse this program.

Primary Uses of Port Expenses — FY 2015



In Fiscal Year 2015 , the total operating expenses was $32 million and non-operating expenses were $880 thousand. Operating expense decreased by $1.7 million and non-operating expenses decreased $4.5 million compared to fiscal year 2014. Overall operating expenses for most categories increased from 2% to 6%, COLA/supplemental increased by 20% and operations increased by 9%. Non-operating expenses decreased by $4.5 million or 84%.

PAG's financial statements for fiscal year 2015 received a clean opinion from the auditors of Deloitte & Touche. This is the Port's 2nd consecutive year as a low risk audit. To view the Annual Audit Report or for more information visit: www.portguam.com

Give us your opinion, please tell us what you think about our report by contacting webmaster at (671)477-5931/5.

Key Project Initiatives

The following are the courses of action that the Port aims to accomplish or complete in FY 2016:

■ 5 Year Tariff Petition

In December 2014, the Port received the updated 5 Year Tariff Schedule that factored changes to the PMP and updated financial and volume information. On March 25, 2015 Board Meeting the Board of Directors approved the 1st year increase in the 5 Year Tariff Schedule to pursue Rate Increase with the PUC. The Port published its proposed rate on March 31, 2015 and filed the Increase Tariff Petition on June 1, 2015.

PUC held public hearings on October 15-16, 2015. PAG Docket 15-04 Tariff Rate Petition was heard and approved in the PUC regular October 29, 2015 meeting. New rates will be effective December 1, 2015.

Management intends to update the Tariff Schedule and pursue a 5 Year Tariff Schedule to support the required capital improvement projects.

■ Facility Maintenance Fee Projects

Through the Facility Maintenance Fee, the Authority plan the following projects:

- A/E Services for Wheel Stopper, Storm Drainage System Repair & Gate House Repair
- Concrete Storm Drain Channel System Upgrade
- Container Yard Water Line Valves
- Container Yard Asphalt Pavement Repairs
- Container Yard Stripping & Bumpers
- Canopy/Shelter for Maintenance

■ Port Security Grant Program (PSGP)

Through the Port Security Grant Program of the U.S. Department of Homeland Security program, the Authority proceeded with the following projects:

- Construction of CMU Wall and Replacement of Perimeter Security Fencing funded by the Port's 2013 PSGP with a completion date of January 2016.
- Upgrade and refurbishment of two (2) US Coast Guard Safe Boats with 2014 PSGP with a completion date of March 2016.
- Cyber Security Assessment to scan IT infrastructure for vulnerabilities, penetration test, and cyber resilience review with an estimated completion date of June 30, 2016.
- PAG was recently awarded 2015 PSGP for sustainment for access control systems and addition security lights to be installed at various strategic port locations.

■ Other Marina and Harbor of Refuge Projects

- Renovation of the Guam Harbor of Refuge-Architectural and Engineering Design including Environmental Study Phase for the moorings was completed on September 2015 under Boating Infrastructure Grant Program Tier1. Acquisition of a portable pump-out system is scheduled to be installed in 2016 and moorage repairs are scheduled in 2016/2017.

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