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Lourdes A. Leon Guerrero
Governor of Guam
Joshua F. Tenorio
Lieutenant Governor

BOARD POLICY MEMORANDUM NO. 2018-01

To: All Division Heads	Subject: Working Capital and General Reserve Fund Policy for Financial Stability and Operational Continuity
Effective Date: April 19, 2018	Amended: September 26, 2024
Approved by: **DOROTHY P. HARRIS, Chairperson, Board of Directors**	

I. PURPOSE:

The Port Authority of Guam (PAG) recognizes the need to establish and implement a comprehensive Working Capital and General Reserve Fund Policy to ensure the continuity of services by providing liquidity and a funding source for unforeseen obligations and cash flow demands. This amended policy aims to consolidate the Working Capital Reserve into the General Reserve Fund to manage the financial affairs of PAG in a fiscally prudent manner.

The purpose of this policy is to provide a source of cash or funding to satisfy:

1. Known operational and maintenance (O&M) contingencies where the specific timing and amount are uncertain;
2. Unforeseen O&M contingencies not anticipated at the time of the annual budget approval;
3. Liquidity in the event of a short-term disruption to the Authority's revenue or expenditure cycle;
4. Establishment and maintenance of a unified reserve account to ensure financial stability and operational sustainability.

II. FUNDING:

PAG maintains a commitment to transparency and accuracy in its financial disclosures. The working capital reserve account is not an indenture requirement and has no mandated amount. Despite this, PAG has consistently maintained substantial cash reserves since the issuance of the 2018 Series Revenue Bond.

With several reserve accounts in place, PAG currently holds approximately $120 million, which exceeds 800 days of operating funds, ensuring fiscal prudence and compliance. The required reserve level will be incrementally achieved over a 5-year period, aiming for an accreted value equivalent to 180 days of O&M costs of the current fiscal year.

III. WORKING CAPITAL AND GENERAL RESERVE FUND ACCOUNT:

Since the 2018 bond issuance, we have maintained $53.1M in cash reserves as of FY 2023. The "Working Capital Reserve Account" referenced in our bond indenture is optional and does not require a specific balance.

1. **Financial Policy - Working Capital Reserve for O&M Policy:**
   The Authority Board adopted a Working Capital Reserve for O&M policy on April 19, 2018, with the purpose of providing:
   (i) a source of cash to satisfy known operational and maintenance contingencies where the specific timing and amount are uncertain;
   (ii) to address unforeseen operational and maintenance contingencies not included in the Authority's routine budget process;
   (iii) to provide liquidity in the event of revenue shortfalls pending the implementation of approved expense cuts;
   (iv) to document and satisfy one of the bond rating agency considerations for establishing a rating on the Bonds.

The Working Capital Reserve for O&M Policy is not intended to be a substitute for the Authority's routine budgeting process but rather provides a mechanism for accumulating the optimum level of the Working Capital Reserve Account.

2. **Representation of the Policy:**
   The Authority makes no representation that the Working Capital Reserve for O&M Policy will not be revised or amended and, except to the extent required for compliance with the terms of the Indenture, makes no representation that this policy will be followed by the Authority (Port Authority of Guam 2018 Bond Official Statement, p. 39).

Recognizing the need for an unrestricted reserve fund, the Port established the General Reserve Fund in 2020, which now encompasses the purpose of the Working Capital Reserve. This unified fund, with a balance of $23.9M as of FY 2023, covers unexpected events, income losses, and unbudgeted expenditures like Typhoon Mawar repairs.

3. **Instruction to Merge Funds:**
   To streamline and simplify our reserve fund structure, this policy mandates the integration of the Working Capital Reserve into the General Reserve Fund. All assets from the Working Capital Reserve will be consolidated into the General Reserve Fund, resulting in a single unified reserve account. This merged fund will operate under the framework and guidelines established by Board Resolution 2020-05, ensuring adequate financial reserves for operational sustainability, fiscal prudence, and to address:

   - Known operational and maintenance (O&M) contingencies where the specific timing and amount is uncertain;

- Unforeseen O&M contingencies not included in the Authority's routine budget process;
- Liquidity in the event of revenue shortfalls pending the implementation of approved expense cuts;
- Other unforeseen events requiring financial resources.
- All future transactions and financial reporting will reflect this unified reserve account, effective immediately upon adoption of this amended policy. The Working Capital Reserve account will be closed upon the successful transfer of all assets. This unified fund will continue to support the Port Authority's strategic financial objectives, including maintaining fiscal responsibility, operational stability, and adhering to strict bond covenants.
- PAG's commitment to fiscal responsibility has led to significant improvements in the Port's bond ratings, with no concerns raised by bond raters. We appreciate the Public Auditor's diligence and are committed to upholding the integrity of our financial reporting.

IV. DEPOSITORY:

A single account, as established by PAG Board Resolution 2020-05 and maintained thereof, shall now be established and maintained as the unified reserve fund. The Bank of Guam Trust Services Department is authorized to manage the account for the General Reserve Fund. The Chief Financial Officer (CFO) is directed to coordinate with the Bank of Guam to ensure the consolidation of the Working Capital Reserve into the General Reserve Fund and to update all account documentation accordingly, completing this process within 30 days of this policy's adoption.

V. REPORTING:

Regular updates on the status of the unified reserve fund will be included in the financial reports prepared for the Board of Directors. The report will provide an overview of the fund's status, including reserve levels and significant transactions impacting the fund.

VI. MODIFICATIONS TO THE RESERVE POLICY:

This policy may be modified from time to time with the approval of the Board of Directors.

VII. SIGNATORIES FOR THE GENERAL RESERVE FUND:

The authorized signatories for the General Reserve Fund account are as follows:

1. Rory J. Respicio, General Manager
2. Dominic G. Muña, Deputy General Manager of Operations
3. Pacifico Martir, Deputy General Manager of Administration & Finance
4. Jose B. Guevara III, Chief Financial Officer