

BOARD OF DIRECTORS*Dorothy P. Harris, Chairperson**Conchita S.N. Taitano, Vice Chairperson**Fe R. Valencia-Ovalles, Board Secretary***Resolution No. 2025-20****RELATIVE TO AUTHORIZING A BOND DEFEASANCE TRANSACTION TO PAY DOWN OUTSTANDING 2018 REVENUE BOND OBLIGATIONS, IMPROVE DEBT SERVICE RATIOS, AND REDUCE FUTURE DEBT SERVICE COSTS.****BE IT RESOLVED BY BOARD OF DIRECTORS OF THE JOSE D. LEON GUERRERO COMMERCIAL PORT:**

WHEREAS, the Port Authority of Guam issued its 2018 Revenue Bonds to fund critical infrastructure improvements necessary to maintain and modernize the island's only commercial seaport; and

WHEREAS, , the 2018 Revenue Bond indenture requires the Port to maintain a minimum debt service coverage ratio (DSCR) of 1.25 in order to remain in good standing with bondholders and rating agencies; and

WHEREAS, the bond defeasance is a financial strategy utilized by bond issuers to remove outstanding debt obligations from their balance sheets through a deposit of cash in a restricted escrow account to pay specific bond principal and interest payments; and

WHEREAS, the Port has been contemplating utilizing a bond defeasance strategy as part of its efforts to continue toward credit enhancement through financial ratio improvement, and to achieve cost savings in the current interest rate environment; and

WHEREAS, the indenture's calculation of DSCR intentionally excludes revenues and related expenses tied to the Crane Surcharge, Facility Maintenance Fee, and Marina revenues, even though these are recurring revenue sources that support Port operations and capital improvements; and

WHEREAS, since FY 2020, the Port has tracked its debt service coverage ratio on a monthly basis to ensure compliance with the 2018 Revenue Bond indenture, and while the Port has met the required 1.25 DSCR each fiscal year since FY 2020, there were months where coverage was tight and required close monitoring and internal controls to maintain compliance; and

WHEREAS, because the Port has had to manage around a restricted DSCR calculation for years, the limitations of that structure are now unavoidable in FY 2025, where the Port is projected to fall below the required 1.25 threshold unless corrective action is taken; and

WHEREAS, in FY 2020, the indenture-defined DSCR was 2.29, and when the Crane Surcharge, Facility Maintenance Fee, and Marina revenues are included, the adjusted DSCR improves to 3.72; and

WHEREAS, in FY 2021, the indenture-defined DSCR was 1.35, and when the excluded revenues are included, the adjusted DSCR improves to 2.18; and

WHEREAS, in FY 2022, the indenture-defined DSCR was 3.66 as a result of cash infused by a one-time \$15 million payment by Governor Lou Leon Guerrero and Lt. Governor Josh Tenorio from the American Rescue Plan Act (ARPA) funds, and when the excluded revenues are included, the adjusted DSCR improves to 4.22; and

WHEREAS, without the ARPA grant, the indenture-defined DSCR for FY 2022 would have dropped to approximately 1.62, and when the Crane Surcharge, Facility Maintenance Fee, and Marina revenues are included, the adjusted DSCR would have been 2.18, showing the Port still would have met the required 1.25 DSCR using operational revenues alone; and

WHEREAS, in FY 2023, the indenture-defined DSCR was 2.29, and when the Crane Surcharge, Facility Maintenance Fee, and Marina revenues are included, the adjusted DSCR improves to 2.89; this year also included a one-time \$2 million MAWAR revenue reimplementation; and

WHEREAS, in FY 2024, the indenture-defined DSCR was 1.79, and when the Crane Surcharge, Facility Maintenance Fee, and Marina revenues are included, the adjusted DSCR improves to 2.12; and

WHEREAS, in FY 2025, the Port projects a DSCR of 0.85 under the indenture calculation, which falls below the required 1.25, but after the cash defeasance the debt service coverage ratio will be 1.78; and

WHEREAS, this consistent pattern shows that the Port has operated responsibly and generated sufficient operating revenues, and that the DSCR shortfalls are technical in nature and not a reflection of financial instability or operational mismanagement; and

WHEREAS, the Port's adjusted debt service coverage ratio figures are provided for illustrative purposes only to show the Port's true financial capacity, and do not reflect any changes to the pledged revenue sources or payment streams required under the 2018 Revenue Bond indenture; and



WHEREAS, the current debt service coverage ratio formula in the 2018 Revenue Bond indenture excludes key recurring revenue sources such as the Crane Surcharge, Facility Maintenance Fee, and Marina revenues, creating an artificially narrow benchmark that has placed structural limits on how the Port's financial capacity is measured; and

WHEREAS, the inclusion of Crane Surcharge, Facility Maintenance Fee, and Marina revenues in future bond agreements is intended to ensure a more accurate reflection of the Port's financial capacity, and does not mean that these specific revenues will be used to make bond payments, and

WHEREAS, this structure, put in place before the current administration, has now created technical compliance issues that must be corrected through defeasance, representing yet another example of a feel-good approach that only looked good on paper and in theory but ultimately tied the hands of those now charged with keeping the Port strong and operational around the clock; and

WHEREAS, the Port acknowledges and appreciates the assistance of the Guam Economic Development Authority (GEDA), the Bureau of Budget and Management Resources (BBMR), Bank of America Securities, Morgan Stanley & Co. LLC, and the Port's financial advisors assigned by GEDA, in facilitating the bond defeasance transaction, including coordination with legal counsel to ensure proper execution and compliance with all applicable requirements; and

WHEREAS, by executing this defeasance transaction and restoring compliance with the indenture-defined DSCR, the Port will be in a stronger position to access the bond market for immediate future borrowing to support critical infrastructure capital needs; and

WHEREAS, the proposed defeasance involves the deposit of up to \$3,019,862.25 into a restricted escrow account to cover the July 1, 2025 debt service payment, using a mix of available Port cash, other unrestricted funds, and a release from the debt service reserve fund; and

WHEREAS, the Port's General Manager and Chief Financial Officer have also identified estimated legal, financial, and administrative costs of approximately \$50,000 to complete the transaction, including a reimbursement to GEDA for services rendered; and

WHEREAS, to avoid future technical shortfalls in debt service coverage despite strong operational revenues, the Port intends to ensure that any subsequent bond borrowing allows for the inclusion of all recurring revenue sources such as the Crane Surcharge, Facility Maintenance Fee, and Marina revenues in the debt service coverage calculation so that the DSCR more accurately reflects the Port's true financial capacity;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of the Port Authority of Guam authorizes the General Manager to proceed with a bond defeasance transaction in an amount not to exceed \$3,069,862.25 inclusive of associated expenses, which shall include a \$50,000 reimbursement to the Guam Economic Development Authority for costs incurred in connection with this transaction; and

BE IT FURTHER RESOLVED, that the General Manager is authorized to coordinate with the Port's legal counsel, Chief Financial Officer, the government's financial advisors, and other necessary parties to execute the defeasance in full compliance with all applicable legal and financial requirements; and

BE IT FURTHER RESOLVED, that the Board supports this necessary action to protect the Port's financial standing, improve its debt service coverage ratio, and position the Port to pursue future financing opportunities in support of ongoing modernization efforts; and

BE IT FURTHER RESOLVED, that a certified copy of this Resolution shall be transmitted to the Governor of Guam, the Speaker of *I Liheslaturan Guåhan*, Port's Legislative Oversight Chair, GEDA Administrator, and the Director of the Bureau of Budget and Management Research; and

BE IT FURTHER RESOLVED, that the Chairperson certify to, and the Secretary attest to, the adoption hereof.

**PASSED AND ADOPTED UNANIMOUSLY BY THE BOARD OF
DIRECTORS THIS 5th DAY OF JUNE, 2025.**



DOROTHY P. HARRIS
Chairperson, Board of Directors
Port Authority of Guam



FE R. VALENCIA-OVALLES
Secretary, Board of Directors
Port Authority of Guam

