



CARL T. C. GUTIERREZ
GOVERNOR OF GUAM

SEP 26 1997

The Honorable Antonio R. Unpingco
Speaker
Twenty-Fourth Guam Legislature
Guam Legislature Temporary Building
155 Hesler Street
Agana, Guam 96910


OFFICE	OF THE LEGISLATIVE SECRETARY
	KNOWLEDGMENT RECEIPT
Received By	<i>Panning Jacan</i>
Time	<i>3:55 p.m.</i>
Date	<i>9/26/97</i>

Dear Speaker Unpingco:

Enclosed please find a copy of Substitute Bill No. 50 (COR), "AN ACT TO ADD A NEW §8122 TO ARTICLE 1, CHAPTER 8 OF TITLE 12 OF THE GUAM CODE ANNOTATED, RELATIVE TO AUTHORIZING THE GUAM POWER AUTHORITY TO INCUR DEBT THROUGH A TAX EXEMPT COMMERCIAL PAPER PROGRAM.", which I have signed into law today as **Public Law No. 24-65**.

This legislation allows the Guam Power Authority (GPA) to refinance its current debt in order to realize a considerable savings on interest payments. The 7% interest rate that GPA pays currently can be reduced to 3-1/2% with the passage of this legislation. This will result in a savings of \$1.8 Million per annum to the GPA.

Very truly yours,


Carl T. C. Gutierrez
Governor of Guam

Attachment

cc: The Honorable Joanne M. S. Brown
Legislative Secretary

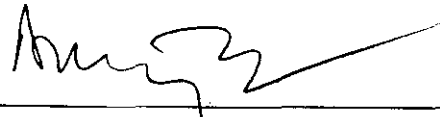
00432

OFFICE OF THE SPEAKER
ANTONIO R. UNPINGCO
Date: *09/26/97*
Time: *1515*
Rec'd by: *[Signature]*
Print Name: *Charlene Mearns*

TWENTY-FOURTH GUAM LEGISLATURE
1997 (FIRST) Regular Session

CERTIFICATION OF PASSAGE OF AN ACT TO THE GOVERNOR

This is to certify that Substitute Bill No. 50 (COR), "AN ACT TO ADD A NEW §8122 TO ARTICLE 1, CHAPTER 8 OF TITLE 12 OF THE GUAM CODE ANNOTATED, RELATIVE TO AUTHORIZING THE GUAM POWER AUTHORITY TO INCUR DEBT THROUGH A TAX EXEMPT COMMERCIAL PAPER PROGRAM," was on the 12th day of September, 1997, duly and regularly passed.



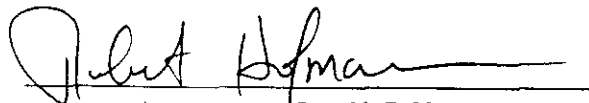
ANTHONY C. BLAZ
Acting Speaker

Attested:



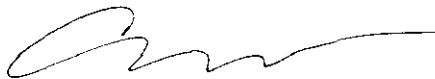
JOANNE M.S. BROWN
Senator and Legislative Secretary

.....
This Act was received by the Governor this 23rd day of September, 1997, at
11:30 o'clock A.M.



Assistant Staff Officer
Governor's Office

APPROVED:



CARL T. C. GUTIERREZ
Governor of Guam

Date: 9-26-97

Public Law No. 24-65

TWENTY-FOURTH GUAM LEGISLATURE
1997 (FIRST) Regular Session

Bill No. 50 (COR)

As substituted by the Committee on
Power, Foreign Affairs and General
Government Services and as
amended on the Floor.

Introduced by:

Committee on Rules,
Government Reform and
Federal Affairs

By Request of the Governor in
Accordance with the Organic
Act of Guam.

Mark Forbes

F. B. Aguon, Jr.

E. Barrett-Anderson

A. C. Blaz

J. M.S. Brown

Felix P. Camacho

Francisco P. Camacho

M. C. Charfauros

E. J. Cruz

W. B.S.M. Flores

L. F. Kasperbauer

A. C. Lamorena, V

C. A. Leon Guerrero

L. Leon Guerrero

V. C. Pangelinan

J. C. Salas

F. E. Santos

A. R. Unpingco

AN ACT TO ADD A NEW §8122 TO ARTICLE 1,
CHAPTER 8 OF TITLE 12 OF THE GUAM CODE
ANNOTATED, RELATIVE TO AUTHORIZING
THE GUAM POWER AUTHORITY TO INCUR

**DEBT THROUGH A TAX EXEMPT COMMERCIAL
PAPER PROGRAM.**

1 **BE IT ENACTED BY THE PEOPLE OF THE TERRITORY OF GUAM:**

2 **Section 1.** A new §8122 is hereby added to Article 1, Chapter 8 of Title
3 12 of the Guam Code Annotated to read as follows:

4 **"Section 8122. (a) Authorization for Tax Exempt Commercial**
5 **Paper Program.** The Public Utilities Commission ('PUC') and the Guam
6 Economic Development Authority ('GEDA') have authorized the Guam
7 Power Authority ('GPA') to enter into a borrowing or financing
8 program referred to as tax exempt commercial paper ('TECP'). GPA is
9 authorized to establish a tax exempt commercial paper program in
10 accordance with the approvals of the PUC and GEDA.

11 **(b) Purposes: Terms of Borrowing GPA is Authorized to Incur**
12 **Debt Under the Tax Exempt Commercial Paper Program up to a Limit**
13 **of Seventy-Five Million Dollars (\$75,000,000).** Up to Thirty Million
14 Dollars (\$30,000,000) of this amount may be used to replace the existing
15 lines of credit. At no time will the total outstanding balance borrowed
16 from TECP and lines of credit arising from operation and maintenance
17 purposes exceed this amount without approval from the Public Utilities
18 Commission. The remaining Forty-five Million Dollars (\$45,000,000)
19 will be dedicated to bondable (greater than \$1 million) capital
20 improvement projects. Proceeds obtained from the TECP program may
21 be used to finance the following listed projects:

- 22 1. Working capital line of credit
- 23 2. Fuel facility

- 1 3. Umatac to Apra 34.5 Kv line
- 2 4. Macheche to Pagat 34.5 Kv line
- 3 5. San Vitores to Tamuning 34.5 Kv line
- 4 6. San Vitores Substation (Formerly OGMH Sub.)
- 5 7. Pulantat 34.5 Kv Transmission Line No. 2
- 6 8. Piti 115 Kv Switchyard Expansion
- 7 9. Cabras to Piti 115 Kv line
- 8 10. Piti to Harmon 115 Kv line (Rt. 8 to Rt. 16)
- 9 11. Harmon 115/34.5 Kv Substation Expansion
- 10 12. Tiyan Substation Upgrade
- 11 13. YFP-10 Switching Station Upgrade
- 12 14. Apra 115 Kv Substation
- 13 15. San Vitores to Agana 34.5 Kv line
- 14 16. Umatac to Talofoyo 34.5 Kv line
- 15 17. 115 Kv Talofoyo Substation
- 16 18. Apra to Talofoyo 115 Kv line
- 17 19. Upgrade Barrigada-Talofoyo 34.5 Kv Line
- 18 20. Yigo Combustion Turbine

19 Such funds as GPA may borrow to implement the requirements of this
20 provision shall be borrowed upon such terms and conditions as shall be
21 authorized by the PUC pursuant to its regulatory authority. The
22 amount and terms for debt authorized by this provision shall be as set
23 forth by the PUC, not to exceed the limit set by this provision."

P.L. 24-65

✓



TWENTY-FOURTH GUAM LEGISLATURE

Office of the Vice-Speaker

ANTHONY C. BLAZ

**LEGISLATIVE
COMMITTEE
MEMBERSHIP**

August 27, 1997

Chairman
Finance & Taxation

The Honorable Speaker Antonio R. Unpingco

Vice-Chairman
Rules,
Government Reform
& Federal Affairs

24th Guam Legislature

155 Hesler Street

Agana, Guam 96910

Education

Natural Resources

Dear Mr. Speaker:

Health &
Human Services

Tourism, Economic
Development & Cultural
Affairs

The Committee on Finance and Taxation now reports its findings on Bill No. 50, An Act to Add a New §8121 to Title 12, GCA, Relative to Authorizing the Guam Power Authority to Incur Debt Through a Tax Exempt Commercial Paper Program, to the full Legislature with the recommendation TO DO PASS.

Judiciary,
Public Safety &
Consumer Protection

Transportation,
Telecommunications, &
Micronesian Affairs

Votes of the committee members are as follows:

MEMBERSHIP

Guam Finance
Commission

To Pass 10

Not To Pass _____

Inactive File _____

Abstained _____

Off-Island _____

Not Available _____

Commission on Self
Determination

Copies of the Committee Report and all pertinent documents are attached for your information.

Anthony C. Blaz

Attachments



TWENTY-FOURTH GUAM LEGISLATURE

Office of the Vice-Speaker

ANTHONY C. BLAZ

**LEGISLATIVE
COMMITTEE
MEMBERSHIP**

Chairman
Finance & Taxation

Vice-Chairman
Rules,
Government Reform
& Federal Affairs

Education

Natural Resources

Health &
Human Services

Tourism, Economic
Development & Cultural
Affairs

Judiciary,
Public Safety &
Consumer Protection

Transportation,
Telecommunications, &
Micronesian Affairs

MEMBERSHIP

Guam Finance
Commission

Commission on Self
Determination

August 27, 1997

To: Senator Mark Forbes, Vice Chairperson
Speaker Antonio R. Unpingco, Ex-Officio Member
Senator Elizabeth Barrett-Anderson, Member
Senator Joanne M.S. Brown, Member
Senator Edwardo J. Cruz, Member
Senator Lawrence F. Kasperbauer, Member
Senator Alberto A.C. Lamorena, V, Member
Senator Carlotta A. Leon Guerrero, Member
Senator John C. Salas, Member
Senator Thomas C. Ada, Member
Senator Mark C. Charfauros, Member
Senator William B.S.M. Flores, Member
Senator Francis E. Santos, Member

From: Vice Speaker Anthony C. Blaz, Chairperson
Committee on Finance and Taxation

Re: Voting Sheet on Bill No. 50

Transmitted herewith are the voting sheet and Committee Report on Bill No. 50 for your review and signature.

Your attention to this matter is greatly appreciated.



Anthony C. Blaz



Committee on Finance & Taxation
Vice Speaker Anthony C. Blaz, Chairman

Committee Report on
Bill No. 50

"AN ACT TO ADD A NEW §8121 TO TITLE 12, GUAM CODE ANNOTATED, RELATIVE TO AUTHORIZING THE GUAM POWER AUTHORITY TO INCUR DEBT THROUGH A TAX EXEMPT COMMERCIAL PAPER PROGRAM."

Committee on Finance and Taxation
Report on Bill No. 50

AN ACT TO ADD A NEW §8121 TO TITLE 12, GUAM CODE ANNOTATED, RELATIVE TO AUTHORIZING THE GUAM POWER AUTHORITY TO INCUR DEBT THROUGH A TAX EXEMPT COMMERCIAL PAPER PROGRAM.

PUBLIC NOTICE:

(see Committee on Power, General Government Services and Foreign Affairs attached committee report)

PUBLIC HEARING:

The Committee on Power, General Government Services and Foreign Affairs conducted a public hearing on Thursday, March 27, 1997 (committee report attached).

The Committee on Finance and Taxation conducted a round table public hearing on Thursday, August 28, 1997 in the Office of Vice Speaker Anthony C. Blaz, Conference Room to hear testimonies on Bill No. 50.

MEMBERS PRESENT:

The hearing was called to order by the Chairperson of the Committee on Finance and Taxation, Vice Speaker Anthony C. Blaz.

Other Senators present were:

Senator Frank B. Aguon, Jr.

Providing Public Testimony on the Bill:

Frank Shimizu – GPA (written/oral)

Ricardo Unpingco – GPA (oral)

Randy Wiengard – GPA (oral)

Lisa Taitano – GEDA (oral)

Carl Gumataotao – GPA (oral)

Joaquin Flores – GPA (oral)

John Guerrero – GEDA (oral)

BACKGROUND OF BILL 50:

The Chairman called on witnesses to provide testimony on Bill 50.

Frank Shimizu, GPA Chairman of the Board, and Rick Unpingco, GPA General Manager, along with support staff and Lisa Taitano and John Guerrero from GEDA, all participated in the public round table discussion and were in full support of Bill 50 with some amendments as outlined in written testimony that was submitted.

Senator Blaz, Committee Chair, applauded the progressive accomplishments of GPA in expanding and stabilizing its power generation capacity and now focusing on improving its transmission and distribution and fuel support systems through sound financing with Tax Exempt Commercial Paper and minimizing rate impact to its customers.

SEE ADDITIONAL INFORMATION IN ATTACHED COMMITTEE REPORT FROM COMMITTEE ON Power, Foreign Affairs and General Government Services.

FINDINGS:

BILL 50 OVERVIEW

- Bill 50, as substituted, will provide much needed capital framework to allow GPA to substantially expand and improve its systems to meet the demands and challenges going into the next century.

COMMITTEE RECOMMENDATION:

The Committee, having conducted a sufficient hearing, does hereby recommend to the Legislature **to pass, as substituted by the Committee, Bill 50-** “AN ACT TO ADD A NEW §8121 TO TITLE 12, GUAM CODE ANNOTATED, RELATIVE TO AUTHORIZING THE GUAM POWER AUTHORITY TO INCUR DEBT THROUGH A TAX EXEMPT COMMERCIAL PAPER PROGRAM.”


Committee on Finance and Taxation

Voting Sheet on

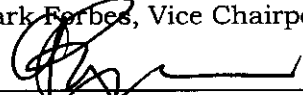
Bill No. 50


AN ACT TO ADD A NEW §8121 TO TITLE 12, GUAM CODE ANNOTATED, RELATIVE TO AUTHORIZING THE GUAM POWER AUTHORITY TO INCUR DEBT THROUGH A TAX EXEMPT COMMERCIAL PAPER PROGRAM.

COMMITTEE MEMBER	TO PASS	NOT TO PASS	ABSTAIN	INACTIVE FILE
------------------	---------	-------------	---------	---------------


 Anthony C. Blaz, Chairperson	✓	_____	_____	_____
---	---	-------	-------	-------

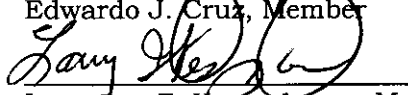
Mark Forbes, Vice Chairperson	_____	_____	_____	_____
-------------------------------	-------	-------	-------	-------

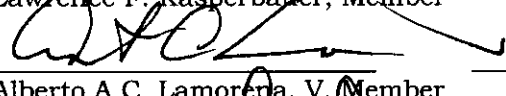
 Antonio R. Tinpingco, Ex-Officio	✓	_____	_____	_____
---	---	-------	-------	-------

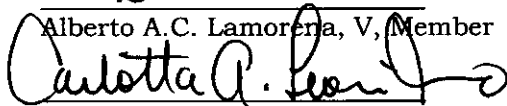
 Elizabeth Barrett-Anderson, Member	✓	_____	_____	_____
---	---	-------	-------	-------

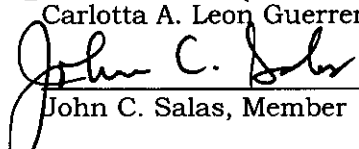
Joanne M.S. Brown, Member	_____	_____	_____	_____
---------------------------	-------	-------	-------	-------

 Edwardo J. Cruz, Member	✓	_____	_____	_____
--	---	-------	-------	-------

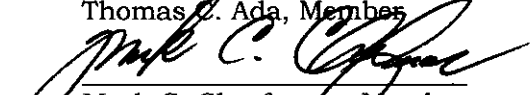
 Lawrence F. Kasperbauer, Member	X	_____	_____	_____
---	---	-------	-------	-------

 Alberto A.C. Lamorena, V, Member	_____	_____	_____	_____
---	-------	-------	-------	-------

 Carlotta A. Leon Guerrero, Member	✓	_____	_____	_____
--	---	-------	-------	-------

 John C. Salas, Member	✓	_____	_____	_____
--	---	-------	-------	-------

Thomas C. Ada, Member	_____	_____	_____	_____
-----------------------	-------	-------	-------	-------

 Mark C. Charfauros, Member	✓	_____	_____	_____
---	---	-------	-------	-------

 William B.S.M. Flores, Member	✓	_____	_____	_____
--	---	-------	-------	-------

Francis E. Santos, Member	_____	_____	_____	_____
---------------------------	-------	-------	-------	-------



24th Guam Legislature
Committee on Rules, Government
Reform and Federal Affairs
Senator Mark Forbes, Chairman

AUG 19 1997

MEMORANDUM

TO: Chairman
Committee on Finance and Taxation ✓

FROM: Chairman ✓
Committee on Rules, Government Reform and Federal Affairs

SUBJECT: Bill No. 50

As you have expressed interest in the above mentioned Bill, I am referring Bill No. 50 to your Committee.

Please be aware that Bill No. 50 has received a public hearing and has been reported out by the Committee on Power, General Government Services and Foreign Affairs. On the basis of having received a public hearing and a valid committee report, Bill No. 50 may be placed on the agenda for an upcoming session.

Thank you for your attention to this matter.

MARK FORBES

Attachment



TWENTY • FOURTH
GUAM LEGISLATURE

Senator Felix P. Camacho

The Honorable Committee on Power, Foreign Affairs and General Government Services

155 Hesler Street
Agana, Guam 96910

Tel: (671)

472-3505 / 6

Fax: (671)

472-9747

April 9, 1997

The Honorable
Antonio R. Unpingco
Speaker, 24th Guam Legislature
Agana, Guam

via: Committee on Rules

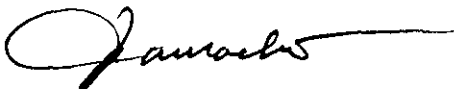
Dear Mr. Speaker:

The Committee on Power, Foreign Affairs & General Government Services, to which was referred Bill No. 50, "An act to add a new §8121 to Title 12, Guam Code Annotated, relative to authority the Guam Power Authority to incur debt through a Tax Exempt Commercial Paper Program" as substituted by the Committee herein reports back with the recommendation **TO DO PASS**.

Votes of committee members are as follows:

<u> 9 </u>	To Pass
<u> </u>	Not To Pass
<u> </u>	To The Inactive File
<u> </u>	Abstained
<u> </u>	Off-Island
<u> 5 </u>	Not Available

Sincerely,


Felix P. Camacho

Attachments

**COMMITTEE ON POWER, FOREIGN AFFAIRS
& GENERAL GOVERNMENT SERVICES
TWENTY-FOURTH GUAM LEGISLATURE
155 Hesler Street, Agana, Guam 96910**

Chairman: Senator Felix P. Camacho Vice Chairman: Senator Lawrence F. Kasperbauer Ex-Officio Member: Speaker Antonio R. Unpingco
--

VOTING SHEET ON:

BILL NO. 50, "AN ACT TO ADD A NEW §8121 TO TITLE 12, GUAM CODE ANNOTATED, RELATIVE TO AUTHORIZING THE GUAM POWER AUTHORITY TO INCUR DEBT THROUGH A TAX EXEMPT COMMERCIAL PAPER PROGRAM"

<u>COMMITTEE MEMBERS</u>	<u>INITIAL</u>	<u>TO PASS</u>	<u>NOT TO PASS</u>	<u>ABSTAIN</u>	<u>TO PLACE IN INACTIVE FILE</u>
Sen. Felix P. Camacho	✓	✓			
Sen. Lawrence F. Kasperbauer	LJK	X			
Sen. Thomas C. Ada	TCA	✓			
Sen. Elizabeth Barrett-Anderson	EBA	✓			
Sen. Francisco P. Camacho	FPC	✓			
Sen. Mark C. Charfauros	MCC	✓			
Sen. Edwardo J. Cruz, MD					
Sen. William B. S.M. Flores					
Sen. Carlotta A. Leon Guerrero	CLG	✓			
Sen. Alberto A.C. Lamorena V					
Sen. Vicente C. Pangelinan	VCP	✓			
Sen. Angel L.G. Santos					
Sen. Francis E. Santos					
Sen. Judith Won Pat-Borja	JWB	✓			

COMMITTEE ON POWER, FOREIGN AFFAIRS
& GENERAL GOVERNMENT SERVICES
TWENTY-FOURTH GUAM LEGISLATURE
155 Hesler Street, Agana, Guam 96910

COMMITTEE REPORT

ON

BILL NO. 50

“An act to add a new §8121 to Title 12, Guam Code Annotated, relative to authorizing the Guam Power Authority to incur debt through a Tax Exempt Commercial Paper Program”

COMMITTEE MEMBERS

Chairman: Felix P. Camacho
Vice Chairman: Senator Lawrence F. Kasperbauer
Ex-Officio Member: Antonio R. Unpingco

Thomas C. Ada
Francisco P. Camacho
Edwardo J. Cruz, MD
Alberto A.C. Lamorena V
Vicente C. Pangelinan
Francis E. Santos

Elizabeth Barrett-Anderson
Mark C. Charfauros
William B. S.M. Flores
Carlotta A. Leon Guerrero
Angel L.G. Santos
Judith Won Pat-Borja

COMMITTEE REPORT
POWER, FOREIGN AFFAIRS & GENERAL GOVERNMENT SERVICES

BILL NO. 50

“An act to add a new §8121 to Title 12, Guam Code Annotated, relative to authorizing the Guam Power Authority to incur debt through a Tax Exempt Commercial Paper Program”

I. PUBLIC HEARING

The Committee on Power, Foreign Affairs & General Government Services (CPFA&GGS) held a public hearing on Thursday, March 27, 1997, at 1:30 p.m. to hear testimony on Bill No. 50, “An act to add a new §8121 to Title 12, Guam Code Annotated, relative to authorizing the Guam Power Authority to incur debt through a Tax Exempt Commercial Paper Program”

The hearing was called to order by Senator Felix P. Camacho, Chairman of CPFA&GGS. Members present included Senators Francisco Camacho, Vicente Pangelinan, Mark Charfauros and Tom Ada, with Senator Frank Aguon as guest.

Present to testify was Mr. Frank S.N. Shimizu, GPA Board Chairman, Mr. Ricardo Unpingco, GPA Manager, Mr. Randall Wiegand, GPA Comptroller, and Mr. Ed Untalan, Acting GEDA Administrator. Their written testimony is attached.

II. BACKGROUND

The Tax Exempt Commercial Paper (TECP) program has been used in the business community for the past 30 years and later restricted to “blue chip” companies in the mainland. Only recently has this financing tool expanded into tax exempt entities. The PUC approved the measure in November 1995 and later by GEDA in January 1996. GPA approved by resolution their intent on pursuing a \$75 million TECP and has forwarded Bill No. 50 for consideration. This bill gives GPA the authority to offer tax exempt commercial paper as a financing tool to raise funds to replace existing lines of credit as well as to fund new bondable capital projects.

III. TESTIMONY

Mr. Frank S.N. Shimizu, GPA Board Chairman, offered written and oral testimony in support of this bill. He explains the TECP as an uncollateralized promise to repay a certain sum within some short term time frame. He states the TECP can save

GPA's rate payers as much as \$1.5 million annually the \$75 million proceeds are used to replace existing lines of credit and fund new capital projects given its relatively lower interest rates.

Mr. Ricardo Unpingco & Mr. Randall Wiegand, GPA General Manager & Comptroller. Respectively, offered written and oral testimony in support of this bill. They appeared to provide information on the TECP program and what benefit it is to GPA. They basically draw the distinction of the TECP and its benefits as a lower cost and flexible financing tool relative to the Bond Anticipation Notes and that the TECP promotes a better creditworthiness position. They state there is no statutory authority to present it before the Legislature, however, they believed it prudent to do so since the TECP will be used to commit GPA to long term capital projects. Although, there are no assurances rates won't increase from the projects funded by the TECP GPA is working hard to reduce its operating expenses to offset anticipated debt service costs of this program and looks forward to new load growth and revenues in the near future.

Mr. Ed Untalan, Acting Administrator of GEDA, offered written testimony supporting the bill. He says the TECP gives GPA the flexibility to raise funds for interim construction financing, flexible cash-flow requirements and working capital at lower rates compared to existing revolving Lines of Credit. This will improve GPA's overall outlook by financial advisors and mainland rating agencies.

Senator Felix Camacho was concerned about the TECP rate volatility and whether such rates ever exceed the rates of BANs. Mr. Wiegand says that although both rates do move positively with the treasury rate, TECP has shown to be less costly. The rates depend on the offer's ability to repay interest and principal at the term end. He also wanted to know how quickly GPA can offer their first TECP upon enactment of this bill into law. Mr. Unpingco says it takes about two months to complete the offering.

Senators Vicente Pangelinan and Tom Ada were concerned about the list of capital projects in the bill, as well as GPA's current line of credit makeup and ceiling. They were told the TECP \$75 million debt ceiling falls within their statutory authority. The PUC will have oversight on all aspects of this offering. An updated list will be forthcoming.

The **Bureau of Budget & Management Research**, in its Fiscal Note, states the overall impact of borrowing \$75 million will affect the people of the Territory in increased power rates.

IV. FINDINGS

The Committee finds that Bill No. 50, offers GPA new financing tool to quickly attract and fund bondable capital projects as well as save money by replacing higher cost debt instruments with the TECP. The bill needs to be updated and include all projects envisioned by GPA and specify limits on amounts for capital projects and to replace existing lines of credit.

V. RECOMMENDATION

The Committee on Power, Foreign Affairs & General Government Services hereby reports out Bill No. 50, as substituted by the Committee with the recommendation **TO DO PASS.**

The Testimony of

**Frank S.N. Shimizu
Board Chairman
Guam Power Authority**

Good afternoon Mr. Chairman, members of the Committee on Power, Foreign Affairs and Governmental Services, ladies and gentlemen.

In August, 1995, the Board of Directors of the Guam Power Authority passed a resolution authorizing management to pursue a \$75 million Tax Exempt Commercial Paper Program (TECP). This resolution has now become Bill #050 which is before the legislature today. TECP is a financing tool which would enable GPA to borrow short term monies at lower rates than GPA is currently paying on its letters of credit. The annual savings to GPA's ratepayers could exceed \$1,500,000.

Commercial Paper is just that - paper. It is an uncollateralized promise to repay a sum certain after an established period of time; usually 30, 60, 90, 120, 180, and 270 days. It has been used in the business community for more than 30 years, however, until recently it has been restricted to only large "blue chip" companies such as General Motors, General Electric and IBM. For the last decade, as investors are looking for more ways to earn a stable return, the use of commercial paper has expanded into a variety of industries including tax exempt entities.

GPA's capital needs are great and our borrowing capacity is near its limit. TECP would provide GPA the ability to initiate its much needed capital programs while the Authority strengthens its financial position at which time GPA would convert up to \$45 million of the funds into a long term bond issuance. The remaining \$30 million may be used to fund GPA's working capital needs on an on-going basis. GPA anticipates the next bond issuance will take place by the year 2000. A list of the most critical projects to be included in the next bond issuance were included in the original bill which was drafted more than one year ago. However, recognizing that GPA operates in a fluid environment, the bill drafted by GPA's legal counsel leaves room for GPA to add or delete projects as the needs of the Authority change.

In summary, GPA is seeking your approval of this TECP program because it provides GPA with the financing flexibility it needs to continue its capital improvement program while achieving the lowest possible interest costs.

The General Manager and Comptroller will now address some of the frequently asked questions we have received regarding TECP.

The Testimony of

**Ricardo S. Unpingco and Randall V. Wiegand
General Manager and Comptroller
Guam Power Authority**

To provide further information regarding the TECP program, we have included below responses to some frequently asked questions that have been posed to us:

Why has GPA chosen to use TECP - a financing concept which is new to the Territory rather than Bond Anticipation Notes (BAN's) which is a more commonly used financing tool?

BAN's require you to set the date of the issuance one year in advance of the offering whereas TECP allows flexibility with regards to the timing of the next bond issuance. Also, with BAN arrangements, all of the funds are received up front whereas with TECP, GPA would only drawdown the amounts needed in the upcoming month. And finally, BAN's would lock the Authority into a project list up front, however, with the dynamic environment of GPA (and Guam), we believe that more flexibility is required. For example, after contracting for new generation to come on line, GPA initiated a study to determine whether or not it is still in the Territory's best interest to purchase the Yigo combustion turbine (currently under lease). Also, GPA is investigating whether or not it would be more cost effective lease the fuel tank as opposed to constructing a new one. Thus, GPA concluded the flexibility of TECP would be the optimal financing program for GPA's situation.

Since TECP is only for periods of less than one year, why is GPA bringing this issue before the Guam Legislature?

Technically, statutory authority may not be required, however, GPA's Board of Directors discussed the issue and determined that because the funds being borrowed are intended to be rolled over for a period of more than one year, and because the majority of the funds will be used to finance large capital projects which will eventually be converted into a bond issuance, it would be prudent to bring this matter before the legislature prior to initiating expenditures with long term ramifications.

Has the PUC approved the TECP program?

Yes. The measure was approved by the PUC in November, 1995 and later by GEDA in January, 1996. Both of these entities have recognized the cost effective benefits of the program.

How certain is GPA that it will be able to issue Commercial Paper after it is approved by the Legislature?

The fact that GPA is near its maximum borrowing limit and the fact that Standard and Poor's has modified our credit outlook to "negative" present challenges to the Authority's ability to issue bonds. GPA is working with the Guam Economic Development Authority to formulate a strategy for approaching the bond markets. S&P has indicated they will review GPA's creditworthiness as early as June, 1997. GPA will need to prove to S&P that our financial condition will improve over the next three years.

Will these projects financed by TECP have an impact on GPA's rates?

One way or another, these projects will increase GPA's costs. These projects are needed to meet the growing demand on the island's power infrastructure. TECP is a tool to spread these costs over a thirty-plus year period. Depending on the rate at which GPA is able to issue bonds, the projects financed by TECP will cost the Authority approximately \$4 million per year beginning in 2001. (If TECP is not available to GPA, the Authority may need to seek rate relief to fund these large capital items. From a ratemaking point of view, it would be much more advantageous to spread these costs over a long period, rather than to recover them over a two or three year period through rates. Recovery of these project costs through rates is the last resort to which GPA would turn; GPA will do everything it can to avoid recovering large capital costs through rates even if TECP is not immediately available).

The good news is that GPA may not have to seek a rate increase in 2001 to pay for this \$4 million cost increase. GPA has indicated that a rate increase of 8-10% will be required after January 1, 1999 to meet its contractual obligations. GPA has testified before this legislative committee that there are several cost cutting programs underway - the fruits of which may not be seen until after 1999. GPA's cost saving measures combined with anticipated load growth will likely negate the need to seek a rate increase to pay for projects funded by TECP.

TECP Savings

Costs of LC Financing

Amount Borrowed	\$45,000,000
Current Interest Rate(3/24/97)	7.91%
Annualized Interest Cost	3,559,500
LC Opening Costs	<u>450,000</u>
Total Costs	<u>\$ 4,009,000</u>

Costs of TECP

Amount Borrowed	\$45,000,000
Current Interest Rate(3/24/97)	3.91%
Annualized Interest Cost	1,759,500
Startup Costs	500,000
Rollover Fees	<u>112,500</u>
Total Costs	<u>\$ 2,372,000</u>
Total Savings	<u>\$ 1,637,000</u>



GUAM

ECONOMIC DEVELOPMENT AUTHORITY

An Autonomous Agency of the Government of Guam, USA



**TESTIMONY ON BILL 50
AN ACT TO ADD SECTION 8121 TO TITLE 12,
GCA, WHICH AUTHORIZES THE GUAM POWER AUTHORITY
TO INCUR DEBT THROUGH A
TAX EXEMPT COMMERCIAL PAPER PROGRAM
MARCH 27, 1997**

Good Afternoon, Mr. Chairman (Senator Felix Camacho), members of the Committee on Power, Foreign Affairs and General Government Services, ladies and gentlemen. I am Ed Untalan, Acting Administrator of the Guam Economic Development Authority.

On behalf of the Authority and its Board of Directors, I thank you for allowing me the opportunity to testify on Bill 50, An Act to add Section 8121 to Title 12, Guam Code Annotated, which Authorizes the Guam Power Authority to Incur Debt Through a Tax Exempt Commercial Paper Program.

Commercial paper consists of short-term unsecured promissory notes that corporations use to raise funds for short-term cash flow purposes. A commercial paper program has historically offered short-term borrowers considerable interest rate savings over bank loans or lines of credit. Tax-exempt commercial paper provides municipal and tax-exempt issuers a similar borrowing tool for short term cash flow needs.

In the case of the Guam Power Authority (GPA), a tax-exempt commercial paper program (TECP) would give GPA a flexible means to raise funds for interim construction financing, flexible cash-flow requirements and working capital. After discussions with GPA and our financial advisors, Alex. Brown we believe the TECP program is valuable to GPA in the following ways:

It enables GPA to manage uneven cash flows and unanticipated short term demands for cash with incurring the high cost of a revolving line of credit.

It allows GPA to meet capital needs as needed with out borrowing in one lump sum such as traditional bond anticipation notes and,

It allows flexible debt redemption and provides "bonding out" flexibility.

*Destination Guam, USA
Tropical Paradise & Island of Opportunities*

A TECP would enable GPA to replace its existing high cost revolving Line of Credit.

As the central financial manager of the Territory and in concert with our financial advisors Alex. Brown, who are here today, we feel that the rating agencies will appreciate GPA's efforts to obtain a lower cost of financing for their short term borrowing needs, eliminate their existing high cost of borrowing, meet their short term capital needs and bring them further toward our mutual goal of eliminating the negative outlook they are currently in with the capital markets. Therefore, we support and urge you to support the passage of this bill.

FISCAL NOTE
BUREAU OF BUDGET AND MANAGEMENT RESEARCH

BBMR-F7

Bill Number: 50
Amendatory Bill: No

Date Received: March 24, 1997
Date Reviewed: March 25, 1997

Department/Agency Affected: Guam Power Authority
Department/Agency Head: Richard Umpingco, General Manager
Total FY Appropriation to Date: Autonomous

Bill Title (preamble): AN ACT TO ADD A NEW §8121 TO TITLE 12, GUAM CODE ANNOTATED, RELATIVE TO AUTHORIZING THE GUAM POWER AUTHORITY TO INCUR DEBT THROUGH A TAX EXEMPT COMMERCIAL PAPER PROGRAM.

Change in Law: §8121 of Title 12, Guam Code Annotated

Bill's Impact on Present Program Funding:

Increase X Decrease _____ Reallocation _____ No Change _____

Bill is for:

Operations _____ Capital Improvement X Other _____

FINANCIAL/PROGRAM IMPACT

ESTIMATED SINGLE-YEAR FUND REQUIREMENTS (Per Bill)			
PROGRAM CATEGORY	GENERAL FUND	OTHER	TOTAL
<i>Autonomous</i>	<u>1/</u>		

ESTIMATED MULTI-YEAR FUND REQUIREMENTS (Per Bill)						
FUND	1st	2nd	3rd	4th	5th	TOTAL
GENERAL						
OTHER	<u>1/</u>					
TOTAL						

FUNDS ADEQUATE TO COVER INTENT OF THE BILL? N/A - IF NO, ADD'L AMOUNT REQUIRED \$ _____
AGENCY/PERSON/DATE CONTACTED: _____

ESTIMATED POTENTIAL MULTI-YEAR REVENUES						
FUND	1st	2nd	3rd	4th	5th	TOTAL
GENERAL FUND						
OTHER	<u>1/</u>					
TOTAL						

ANALYST M. Dizon
M. Dizon

DATE 3/25/97

DIRECTOR Joseph Rivera
Joseph E. Rivera, Acting

DATE MAR 27 1997

FOOTNOTES: See attached.

11

Bill 50 proposes to authorize the Guam Power Authority to borrow \$75,000,000 to finance, among others, various capital projects. Because GPA is autonomous and generates its own revenues, there is no direct fiscal effect on the General Fund. However, the overall impact of borrowing \$75,000,000 will affect the people of the territory in increased power rates.